MATTEL INC /DE/

FORM 10-Q
(Quarterly Report)

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Address	333 CONTINENTAL BLVD
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CIK	0000063276
Industry	Recreational Products
Sector	Consumer Cyclical
Fiscal Year	12/31

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 June 30, 2005

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

Commission File Number 001-05647

MATTEL, INC.
(Exact name of registrant as specified in its charter)

Delaware	**95-1567322**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

333 Continental Blvd.
El Segundo, CA 90245-5012
(Address of principal executive offices)

(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 is an accelerated filer (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 July 29, 2005:

403,701,710 shares

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MATTEL, INC. AND SUBSIDIARIES

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

MATTEL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	June 30, 2005 (Unaudited)	June 30, 2004 (Unaudited)	Dec. 31, 2004
ASSETS			
Current Assets			
Cash and equivalents	$ 361,929	$ 363,520	$1,156,835
Accounts receivable, net	692,408	622,662	759,033
Inventories	579,869	557,537	418,633
Prepaid expenses and other current assets	246,503	266,867	302,649
Total current assets	1,880,709	1,810,586	2,637,150
Property, plant and equipment, net	550,454	603,196	586,526
Goodwill	723,685	723,845	735,680
Other noncurrent assets	756,748	770,369	797,136
Total Assets	$3,911,596	$3,907,996	$4,756,492
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Short-term borrowings	$ 31,268	$ 76,283	$ 28,995
Current portion of long-term debt	218,624	40,988	189,130
Accounts payable	276,237	293,426	349,159
Accrued liabilities	433,079	467,747	880,038
Income taxes payable	269,304	219,390	279,849
Total current liabilities	1,228,512	1,097,834	1,727,171
Noncurrent Liabilities			
Long-term debt	370,000	588,624	400,000
Other	242,069	241,935	243,509
Total noncurrent liabilities	612,069	830,559	643,509
Stockholders' Equity			
Common stock $1.00 par value, 1.0 billion shares authorized; 441.4 million shares issued	441,369	441,369	441,369
Additional paid-in capital	1,590,201	1,600,059	1,594,332
Treasury stock at cost; 37.1 million shares, 27.0 million shares and 26.0 million shares, respectively	(677,194)	(492,655)	(473,349)
Retained earnings	1,005,808	739,975	1,093,288
Accumulated other comprehensive loss	(289,169)	(309,145)	(269,828)
Total stockholders' equity	2,071,015	1,979,603	2,385,812
Total Liabilities and Stockholders' Equity	$3,911,596	$3,907,996	$4,756,492

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

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MATTEL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited; in thousands, except per share amounts)	For the Three Months Ended June 30, 2005	For the Three Months Ended June 30, 2004	For the Six Months Ended June 30, 2005	For the Six Months Ended June 30, 2004
Net Sales	$ 886,823	$ 804,002	$1,669,943	$1,584,946
Cost of sales	500,006	437,654	939,066	866,921
Gross Profit	386,817	366,348	730,877	718,025
Advertising and promotion expenses	93,116	84,421	180,825	171,839
Other selling and administrative expenses	265,176	238,712	515,998	490,261
Operating Income	28,525	43,215	34,054	55,925
Interest expense	19,655	16,388	37,202	31,609
Interest (income)	(12,424)	(4,144)	(24,509)	(9,040)
Other non-operating (income), net	(4,712)	(1,519)	(13,593)	(11,538)
Income Before Income Taxes	26,006	32,490	34,954	44,894
Provision for income taxes	119,993	8,935	122,434	12,346
Net Income (Loss)	$ (93,987)	$ 23,555	$ (87,480)	$ 32,548
Net Income (Loss) Per Common Share – Basic	$ (0.23)	$ 0.06	$ (0.21)	$ 0.08
Weighted average number of common shares	409,769	419,177	412,915	423,673
Net Income (Loss) Per Common Share – Diluted	$ (0.23)	$ 0.06	$ (0.21)	$ 0.08
Weighted average number of common and common equivalent shares	409,769	422,903	412,915	427,622

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

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MATTEL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in thousands)	For the Six Months Ended June 30, 2005	For the Six Months Ended June 30, 2004
Cash Flows From Operating Activities:		
Net income (loss)	$ (87,480)	$ 32,548
Adjustments to reconcile net income (loss) to net cash flows used for operating activities:		
Gain on sale of investments	(17,119)	(12,933)
Net gain on sale of other property, plant and equipment	(244)	(1,055)
Depreciation	86,091	87,595
Amortization	2,237	3,291
Deferred income taxes	13,490	(1,504)
Increase (decrease) from changes in assets and liabilities:		
Accounts receivable	53,320	(84,058)
Inventories	(170,879)	(179,716)
Prepaid expenses and other current assets	53,491	39,960
Accounts payable, accrued liabilities and income taxes payable	(486,362)	(402,323)
Deferred compensation and other retirement plans	(380)	3,485
Other, net	2,755	(3,702)
Net cash flows used for operating activities	(551,080)	(518,412)
Cash Flows From Investing Activities:		
Purchases of tools, dies and molds	(35,319)	(43,417)
Purchases of other property, plant and equipment	(24,064)	(27,645)
Payment for businesses acquired	(995)	(12,955)
Proceeds from sale of investments	27,212	18,718
Proceeds from sale of other property, plant and equipment	1,146	2,437
Net cash flows used for investing activities	(32,020)	(62,862)
Cash Flows From Financing Activities:		
Short-term borrowings, net	1,931	57,047
Purchase of treasury stock	(230,744)	(255,130)
Payment of long-term debt	—	(11,319)
Proceeds from exercise of stock options	28,408	7,319
Other, net	(2,608)	(508)
Net cash flows used for financing activities	(203,013)	(202,591)
Effect of Currency Exchange Rate Changes on Cash	(8,793)	(5,296)
Decrease in Cash and Equivalents	(794,906)	(789,161)
Cash and Equivalents at Beginning of Period	1,156,835	1,152,681
Cash and Equivalents at End of Period	$ 361,929	$ 363,520
Supplemental Cash Flow Information:		
Cash paid during the period for:		
Income taxes	$ 107,384	$ 48,408
Interest	39,730	34,478
Non-cash investing and financing activities:		
Liability for equipment acquired	$ 443	$ —
Asset writedowns	878	—
Liability for businesses acquired	—	1,024

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

MATTEL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL INFORMATION
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements and related disclosures have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. In the opinion of management, all adjustments, consisting of only those of a normal recurring nature, considered necessary for a fair presentation of the financial position and interim results of Mattel, Inc. and its subsidiaries ("Mattel") as of and for the periods presented have been included. 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 financial information included herein should be read in conjunction with Mattel's consolidated financial statements and related notes in its 2004 Annual Report on Form 10-K.

2. Accounts Receivable

Accounts receivable are shown net of allowances for doubtful accounts of $30.2 million (June 30, 2005), $27.2 million (June 30, 2004), and $32.8 million (December 31, 2004).

3. Inventories

Inventories include the following:

(In thousands)	June 30, 2005	June 30, 2004	Dec. 31, 2004
Raw materials and work in process	$ 61,983	$ 60,064	$ 35,546
Finished goods	517,886	497,473	383,087
	$ 579,869	$ 557,537	$ 418,633

4. Property, Plant and Equipment

Property, plant and equipment, net include the following:

(In thousands)	June 30, 2005	June 30, 2004	Dec. 31, 2004
Land	$ 29,158	$ 35,175	$ 29,282
Buildings	251,478	259,862	252,627
Machinery and equipment	711,957	692,597	710,122
Tools, dies and molds	595,754	544,493	585,181
Capitalized leases	23,271	23,271	23,271
Leasehold improvements	107,147	103,857	106,113
	1,718,765	1,659,255	1,706,596
Less: accumulated depreciation	(1,168,311)	(1,056,059)	(1,120,070)
	$ 550,454	$ 603,196	$ 586,526

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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. Mattel's reporting units for purposes of applying the provisions of Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets* , are: Mattel Brands US Girls division, Mattel Brands US Boys division, Fisher-Price Brands US, American Girl Brands and International.

The change in the carrying amount of goodwill by reporting unit for the six-months ended June 30, 2005, 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 to the US reporting units.

(In thousands)	Dec. 31, 2004	Impact of Currency Exchange Rate Changes	June 30, 2005
Mattel Brands US Girls division	$ 37,566	$ (2,325)	$ 35,241
Mattel Brands US Boys division	54,411	(181)	54,230
Fisher-Price Brands US	217,152	(455)	216,697
American Girl Brands	207,571	—	207,571
International	218,980	(9,034)	209,946
	$ 735,680	$ (11,995)	$ 723,685

6. Other Noncurrent Assets

Other noncurrent assets include the following:

(In thousands)	June 30, 2005	June 30, 2004	Dec. 31, 2004
Deferred income taxes	$ 561,266	$ 511,415	$ 572,374
Identifiable intangible assets, net	21,661	24,478	22,926
Other	173,821	234,476	201,836
	$ 756,748	$ 770,369	$ 797,136

7. Long-term Debt

Long-term debt consists of the following:

(In thousands)	June 30, 2005	June 30, 2004	Dec. 31, 2004
6 1/8% senior notes due July 2005	$ 150,000	$ 150,000	$ 150,000
Medium-term notes due 2006 to 2013	400,000	440,000	400,000
10.15% mortgage note due Dec. 2005	38,624	39,612	39,130
	588,624	629,612	589,130
Less: current portion	(218,624)	(40,988)	(189,130)
	$ 370,000	$ 588,624	$ 400,000

In the second half of 2004, Mattel repaid $40.0 million of medium-term notes upon maturity.

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8. Comprehensive Income (Loss)

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

(In thousands)	For the Three Months Ended June 30, 2005	For the Three Months Ended June 30, 2004	For the Six Months Ended June 30, 2005	For the Six Months Ended June 30, 2004
Net income (loss)	$ (93,987)	$ 23,555	$ (87,480)	$ 32,548
Currency translation adjustments	(15,309)	(21,271)	(35,337)	(23,724)
Minimum pension liability adjustments	651	—	651	—
Net unrealized gain on securities:				
Unrealized holding gains (losses)	586	3,031	(1,484)	3,478
Reclassification adjustment for realized (gains) included in net income (loss)	(3,264)	—	(9,009)	(5,991)
	(2,678)	3,031	(10,493)	(2,513)
Net unrealized gain (loss) on derivative instruments:				
Unrealized holding gains (losses)	10,179	(1,049)	18,759	(10,915)
Reclassification adjustment for realized losses included in net income (loss)	3,117	8,693	7,079	15,014
	13,296	7,644	25,838	4,099
	$ (98,027)	$ 12,959	$(106,821)	$ 10,410

The components of accumulated other comprehensive loss are as follows:

(In thousands)	June 30, 2005	June 30, 2004	Dec. 31, 2004
Currency translation adjustments	$ (235,129)	$ (259,896)	$ (199,792)
Minimum pension liability adjustments	(60,821)	(60,042)	(61,472)
Net unrealized gain on securities	5,949	30,288	16,442
Net unrealized gain (loss) on derivative instruments	832	(19,495)	(25,006)
	$ (289,169)	$ (309,145)	$ (269,828)

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. Mattel's primary currency translation exposures are on its net investment in subsidiaries having functional currencies denominated in the Euro, British pound sterling, Mexican peso and Indonesian rupiah. For the six-months ended June 30, 2005, currency translation adjustments resulted in a net loss of $35.3 million, with losses from the weakening of the Euro, and British pound sterling against the US dollar being partially offset by strengthening of the Mexican peso against the US dollar. For the six-months ended June 30, 2004, currency translation adjustments resulted in a net loss of $23.7 million, with losses from the weakening of the Euro, Indonesian rupiah, and Mexican peso against the US dollar being partially offset by strengthening of the British pound sterling against the US dollar.

Marketable Securities

As of June 30, 2005, Mattel had no marketable securities for which cost exceeded the fair market value of the securities. Unrealized pre-tax gains of $9.4 million ($5.9 million net of tax), $48.1 million ($30.3 million net of tax) and $26.1 million ($16.4 million net of tax) as of June 30, 2005 and 2004 and December 31, 2004, respectively, have been deferred in accumulated other comprehensive loss related to these securities.

During the second quarter of 2005, Mattel sold marketable securities for proceeds totaling $8.6 million. Mattel did not sell any marketable securities in the second quarter of 2004. For the six-months ended June 30, 2005 and 2004, proceeds from the sale of marketable securities totaled $24.2 million and $14.5 million, respectively. Gains on sales of these securities totaling $5.2 million, net of transaction costs, were recorded in other non-operating (income), net in the consolidated statement of operations for the three-months ended June 30, 2005. Gains totaling $14.3 million and $9.5 million, net of transaction costs, were recorded in other non-operating (income), net in the consolidated statements of operations for the six-months ended June 30, 2005 and 2004, respectively, from sales of marketable securities.

9. Income Taxes

On October 22, 2004, the American Jobs Creation Act (the "Jobs Act") was signed into law. Among its various provisions, the Jobs Act creates a temporary incentive for US corporations to repatriate accumulated income earned abroad by providing an 85% dividends received deduction for certain qualifying dividends. On December 21, 2004, the Financial Accounting Standards Board ("FASB") issued Staff Position 109-2 ("FSP 109-2"), *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004* . FSP 109-2 allows companies additional time beyond the financial reporting period in which the Jobs Act was enacted to evaluate the effect of the Jobs Act on a company's plan for reinvestment or repatriation of unremitted foreign earnings for the purposes of applying SFAS No. 109, *Accounting For Income Taxes* .

Management's plan for reinvestment and repatriation of foreign earnings under the Jobs Act was completed and approved by Robert A. Eckert, Mattel's chief executive officer, on April 14, 2005. Mattel expects to repatriate up to approximately $2.4 billion in foreign earnings. The statements of operations for the three- and six-months ended June 30, 2005, include a provision for income taxes of $112.9 million for the total amount of earnings expected to be repatriated, which will occur throughout 2005. The computation of the income tax provision includes the favorable effects of guidance issued by the US Internal Revenue Service ("IRS") on May 10, 2005. The tax provision may be further impacted by future law changes enacted by the US Congress or further guidance issued by the IRS. The impact of such future changes will be reflected in the financial reporting period in which any such change in law is enacted or becomes effective.

10. 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 receivable and payable 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 in the consolidated statement of operations. Gains and losses on unhedged intercompany loans and advances are recorded as a component of other non-operating (income), net in the consolidated statement of operations in the period in which the currency exchange rate changes. Inventory purchase transactions denominated in the Euro, British pound sterling, Mexican peso, Hong Kong dollar and Indonesian rupiah are the primary transactions that cause foreign currency transaction exposure for Mattel.

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

	For the Three Months Ended		For the Six Months Ended	
(In thousands)	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Operating income	$ (13,190)	$ (12,348)	$ (26,265)	$ (25,006)
Other non-operating (income), net	861	(1,143)	2,346	(1,144)
Net transaction (gains)	$ (12,329)	$ (13,491)	$ (23,919)	$ (26,150)

11. Other Selling and Administrative Expenses

Other selling and administrative expenses include the following:

	For the Three Months Ended		For the Six Months Ended	
(In thousands)	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Research and development	$ 44,920	$ 43,154	$ 86,124	$ 83,027
Amortization of identifiable intangible assets	493	802	1,070	1,278

12. Earnings (Loss) Per Share

Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during each period.

Diluted net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares and other common equivalent shares outstanding during each period. The calculation of common equivalent shares assumes the exercise of dilutive stock options, net of assumed treasury share repurchases at average market prices, as applicable. Diluted net (loss) per common share for the three- and six-months ended June 30, 2005, is the same as basic net (loss) per common share due to Mattel’s net loss position. Nonqualified stock options totaling 26.3 million and 28.7 million were excluded from the calculation of diluted net income per common share for the three- and six-months ended June 30, 2004, respectively, because they were anti-dilutive.

13. Employee Benefit Plans

Mattel and certain of its subsidiaries have qualified and nonqualified retirement plans covering substantially all employees of these companies, which are more fully described in Note 4 to the Consolidated Financial Statements in Mattel’s 2004 Annual Report on Form 10-K.

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

(In thousands)	For the Three Months Ended June 30, 2005	For the Three Months Ended June 30, 2004	For the Six Months Ended June 30, 2005	For the Six Months Ended June 30, 2004
Service cost	$ 2,538	$ 1,800	$ 4,869	$ 3,689
Interest cost	6,135	4,971	11,552	10,414
Expected return on plan assets	(5,665)	(5,336)	(11,333)	(10,795)
Amortization of:				
Prior service cost	1,110	(129)	961	(261)
Net actuarial loss	2,499	1,885	4,838	3,850
	$ 6,617	$ 3,191	$ 10,887	$ 6,897

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

(In thousands)	For the Three Months Ended June 30, 2005	For the Three Months Ended June 30, 2004	For the Six Months Ended June 30, 2005	For the Six Months Ended June 30, 2004
Service cost	$ 32	$ 70	$ 64	$ 141
Interest cost	803	886	1,606	1,772
Amortization of:				
Net actuarial loss	384	386	768	772
	$ 1,219	$ 1,342	$ 2,438	$ 2,685

During the three- and six-months ended June 30, 2005, Mattel made cash contributions totaling approximately $3 million and $8 million, respectively, to its defined benefit pension and postretirement benefit plans. Mattel expects to make cash contributions totaling approximately $15 million to its defined benefit pension and postretirement benefit plans for the year ending December 31, 2005, including approximately $12 million to cover benefit payments of its unfunded plans.

The Medicare Prescription Drug Improvement and Modernization Act of 2003 (the "Medicare Act") was signed into law on December 8, 2003. On May 19, 2004, the FASB issued Staff Position 106-2 ("FSP 106-2"), *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* , which provides guidance as to how employers who sponsor post-65 prescription drug benefits should recognize the impact of the Medicare Act. Applying the guidance in FSP 106-2, Mattel, with the assistance of its outside actuaries, determined that the prescription drug benefits provided to certain retirees under one of its postretirement benefit plans are actuarially equivalent to the benefits provided under Medicare Part D, and that Mattel will be eligible to receive a federal subsidy beginning in 2006. On July 1, 2004, Mattel adopted the provisions of FSP 106-2 and reduced its accumulated postretirement benefit obligation by $7.6 million in recognition of the actuarial impact of the subsidy on benefits attributed to prior service. Mattel's net periodic benefit cost for fiscal year 2004 was reduced by $1.0 million in the areas of interest cost ($0.5 million) and amortization of net actuarial loss ($0.5 million). On January 21, 2005, the Centers for Medicare and Medicaid Services released final regulations implementing the Medicare Act. Mattel is currently reviewing the final regulations and does not believe that they will have a material impact on its results of operations or financial position for the year ending December 31, 2005.

14. Stock-Based Compensation

Mattel has various stock compensation plans, which are more fully described in Note 7 to the Consolidated Financial Statements in its 2004 Annual Report on Form 10-K. In May 2005, Mattel's stockholders approved the Mattel, Inc. 2005 Equity Compensation Plan (the "2005 Plan"). Upon approval of the 2005 Plan, Mattel terminated the Mattel, Inc. 1996 Stock Option Plan (the "1996 Plan") and the Mattel 1999 Stock Option Plan (the "1999 Plan"), except with regard to grants then outstanding under the 1996 Plan and the 1999 Plan. All equity compensation grants are now being made under the 2005 Plan. Mattel applies the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees* , and related interpretations in accounting for its stock compensation plans. Accordingly, no compensation cost has been recognized in the results of operations for nonqualified stock options granted under Mattel's plans, as such options are granted at not less than the quoted market price of Mattel's common stock on the date of grant.

Mattel has adopted the disclosure-only provisions of SFAS No. 148, *Accounting for Stock-Based Compensation–Transition and Disclosure* , which amended SFAS No. 123, *Accounting for Stock-Based Compensation* . Had compensation cost for nonqualified stock options been determined based on their fair value at the date of grant, consistent with the method of accounting prescribed by SFAS No. 123, Mattel's net income (loss) and net income (loss) per common share would have been adjusted as follows:

	For the Three Months Ended		For the Six Months Ended	
(In millions, except per share amounts)	**June 30, 2005**	**June 30, 2004**	**June 30, 2005**	**June 30, 2004**
Net income (loss)				
As reported	$ (94.0)	$ 23.5	$ (87.5)	$ 32.5
Pro forma compensation cost, net of tax	(5.8)	(8.6)	(12.5)	(15.1)
Pro forma net income (loss)	$ (99.8)	$ 14.9	$ (100.0)	$ 17.4
Income (loss) per share				
Basic				
As reported	$ (0.23)	$ 0.06	$ (0.21)	$ 0.08
Pro forma compensation cost, net of tax	(0.01)	(0.02)	(0.03)	(0.04)
Pro forma net income (loss) per common share – basic	$ (0.24)	$ 0.04	$ (0.24)	$ 0.04
Diluted				
As reported	$ (0.23)	$ 0.06	$ (0.21)	$ 0.08
Pro forma compensation cost, net of tax	(0.01)	(0.02)	(0.03)	(0.04)
Pro forma net income (loss) per common share-diluted	$ (0.24)	$ 0.04	$ (0.24)	$ 0.04

The pro forma amounts shown above are not indicative of the pro forma effect in future periods primarily because the estimated fair value of options is amortized to expense over the vesting period, and the number of options granted varies from period to period.

15. Contingencies

Litigation Related to The Learning Company, Inc. ("Learning Company")

Following Mattel's announcement in October 1999 of the expected results of its Learning Company division for the third quarter of 1999, various Mattel stockholders filed purported class action complaints naming Mattel and certain of its present and former officers and directors as defendants.

These shareholder complaints were consolidated into two lead cases, one under §10(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), and the other under §14(a) of the Exchange Act. In November 2002, the United States District Court for the Central District of California permitted the actions to proceed as class actions.

Several stockholders filed related derivative complaints purportedly on behalf of Mattel. Some of the derivative suits were consolidated into one lawsuit in Los Angeles County Superior Court in California, which was dismissed for the plaintiff's failure to make pre-suit demand on the board of directors. An appeal from that decision was dismissed in July 2003 by stipulation of the parties. Another derivative suit was filed in the Delaware Court of Chancery, and was dismissed without prejudice in August 2002 in deference to the then-ongoing California derivative case. A third derivative suit, filed in federal court in the Central District of California, was dismissed in July 2002, and re-filed in November 2002 as part of the settlement described below.

In November 2002, the parties to the federal cases negotiated and thereafter memorialized in a final settlement agreement a settlement of all the federal lawsuits in exchange for payment of $122.0 million and Mattel's agreement to adopt certain corporate governance procedures. The court granted final approval to the settlement in September 2003, and judgments were entered accordingly. On October 9, 2003, a group of persons purporting to be members of the §14(a) class filed a notice of appeal, challenging the manner in which the $122.0 million was allocated between the §10(b) class and the §14(a) class. On July 29, 2005, the United States Court of Appeals for the Ninth Circuit affirmed the District Court's approval of the settlement.

Litigation Related to LeapFrog Enterprises, Inc.

Fisher-Price, Inc. ("Fisher-Price"), a subsidiary of Mattel, was sued for patent infringement by LeapFrog Enterprises, Inc. in a lawsuit filed in October 2003 in the United States District Court for the District of Delaware, and in September 2004, Mattel was joined to the lawsuit as a defendant. The lawsuit alleges that Fisher-Price's PowerTouch ™ system infringes a LeapFrog patent relating to an electronic learning device for teaching phonics. A 10-day trial commenced on May 16, 2005, which resulted in a deadlocked jury. As an alternative to retrying the case, the parties agreed to submit the case for decision, based on the current trial record, to the presiding judge. The parties are in the process of filing post-trial briefs, and the Court has not yet rendered a decision. The plaintiff in this lawsuit asserted a total damages claim of up to approximately $90 million, which has been reduced to approximately $58 million pursuant to rulings by the Court, and seeks an injunction preventing the further sale of the PowerTouch ™ system; the damages could possibly be trebled if the infringement is found to be willful. Mattel and its subsidiary Fisher-Price believe the action is without merit and intend to continue to vigorously defend themselves.

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 seeks, as a putative class action representative, to invalidate Mattel's Confidential Information and Propriety Inventions Agreements with its employees. Mattel has moved to dismiss Bryant's counterclaims, which motion remains pending.

In December 2004, MGA intervened as a party-defendant in Mattel's action against Bryant, asserting that its rights to the "Bratz" property are at stake in the litigation. Mattel's suit has been removed to the United States District Court for the Central District of California, where it is currently pending.

Separately, in November 2004, Bryant filed an action against Mattel in the United States District Court for the Central District of California. The action seeks 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." Mattel has filed a motion to dismiss, which remains pending.

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. Mattel believes the claims by Bryant and MGA are without merit and intends to vigorously defend against them.

Litigation Related to Cunningham

This suit was filed in September 1999 in the Circuit Court of Madison County, Illinois. The two named plaintiffs, who purchased "limited edition" Barbie ® dolls, contended that Mattel's use of the term "limited edition" on Barbie ® dolls was deceptive and fraudulent to consumers (and that it constituted a breach of contract and breach of express warranty) on the grounds that the dolls were not "true" limited editions and thus are not as valuable as they would be otherwise. Originally, the plaintiffs claimed that use of the terms "special edition," "collector's edition" and "exclusive" on Barbie ® dolls was also deceptive and fraudulent to consumers and constituted a breach of contract and breach of express warranty, but these claims were dismissed during motion practice.

In 2003, a nationwide class of "all persons who have purchased limited edition Barbie ® dolls or Barbie ® dolls which were described, promoted or packaged as available only in small, limited amounts" was certified based on California Business and Professions Code sections 17200 and 17500 et seq. Plaintiffs' claims under the Illinois Consumer Fraud Act, as well as their breach of contract and breach of express warranty claims, were not certified for class action treatment. The plaintiffs claimed that the class suffered compensatory damages of at least between $100 million and $200 million, and sought punitive damages, attorneys' fees and injunctive relief.

In January 2005, the Court issued an order decertifying the nationwide class in its entirety, without prejudice to the two named plaintiffs attempting to re-certify the class at a later date. On July 14, 2005, as a result of a settlement between Mattel and the two named plaintiffs, the Court dismissed the action with prejudice. The lawsuit was settled for an amount that was not material to Mattel's consolidated financial information for the three- and six-months ended June 30, 2005.

16. Segment Information

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 Brands US, Fisher-Price Brands US and American Girl Brands.

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

Mattel Brands — including Barbie ® fashion dolls and accessories ("Barbie ® "), Polly Pocket! ™ and Disney Classics (collectively "Other Girls Brands"), Hot Wheels ® , Matchbox ® and Tyco ® R/C vehicles and playsets (collectively "Wheels") and Harry Potter ™ , Yu-Gi-Oh! ™ , Batman ™ , Justice League ™ , MegaMan ™ and games and puzzles (collectively "Entertainment").

Fisher-Price Brands — including Fisher-Price ® , Little People ® , Rescue Heroes ® , BabyGear and View-Master ® (collectively "Core Fisher-Price ® "), Sesame Street ® , Barney ™ , Dora the Explorer ™ , Winnie the Pooh, InteracTV ™ and See 'N Say ® (collectively "Fisher-Price ® Friends") and Power Wheels ® .

American Girl Brands — including American Girl Today ® , The American Girls Collection ® and Bitty Baby ® . American Girl Brands products are sold directly to consumers and its children's publications are also sold to certain retailers.

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

The tables below 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 (hereinafter 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 (as defined in SFAS No. 131, *Disclosures about Segments of an*

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Enterprise and Related Information) uses gross sales by segment as one of the metrics to measure segment performance. Such sales adjustments are included in the determination of segment income (loss) from operations based on the adjustments recorded in the financial accounting systems. Segment income (loss) from operations represents operating income, while consolidated income from operations represents income 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 and corporate headquarters functions managed on a worldwide basis. Segment assets are comprised of accounts receivable and inventories, net of applicable reserves and allowances.

	For the Three Months Ended		For the Six Months Ended	
(In thousands)	**June 30, 2005**	**June 30, 2004**	**June 30, 2005**	**June 30, 2004**
Revenues				
Domestic:				
Mattel Brands US	$ 249,048	$ 224,540	$ 486,985	$ 487,189
Fisher-Price Brands US	223,725	215,874	392,943	398,693
American Girl Brands	58,803	49,142	126,433	103,269
Total Domestic	531,576	489,556	1,006,361	989,151
International	433,090	389,793	808,557	743,765
Gross sales	964,666	879,349	1,814,918	1,732,916
Sales adjustments	(77,843)	(75,347)	(144,975)	(147,970)
Net sales	$ 886,823	$ 804,002	$1,669,943	$1,584,946
Segment Income (Loss)				
Domestic:				
Mattel Brands US	$ 27,717	$ 33,227	$ 44,110	$ 73,599
Fisher-Price Brands US	8,244	2,924	6,552	3,829
American Girl Brands	4,030	(2,623)	11,817	(2,908)
Total Domestic	39,991	33,528	62,479	74,520
International	13,372	15,473	23,073	22,260
	53,363	49,001	85,552	96,780
Corporate and other expense	24,838	5,786	51,498	40,855
Operating income	28,525	43,215	34,054	55,925
Interest expense	19,655	16,388	37,202	31,609
Interest (income)	(12,424)	(4,144)	(24,509)	(9,040)
Other non-operating (income), net	(4,712)	(1,519)	(13,593)	(11,538)
Income before income taxes	$ 26,006	$ 32,490	$ 34,954	$ 44,894

(In thousands)	**June 30, 2005**	**June 30, 2004**	**Dec. 31, 2004**
Assets			
Domestic:			
Mattel Brands US	$ 288,539	$ 313,797	$ 319,351
Fisher-Price Brands US	239,431	231,565	177,508
American Girl Brands	63,288	71,571	48,128
Total Domestic	591,258	616,933	544,987
International	586,160	502,614	588,144
	1,177,418	1,119,547	1,133,131
Corporate and other	94,859	60,652	44,535
Accounts receivable and inventories, net	$ 1,272,277	$ 1,180,199	$ 1,177,666

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

	For the Three Months Ended		For the Six Months Ended	
(In thousands)	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Worldwide Revenues				
Mattel Brands	$ 563,796	$ 513,299	$1,078,185	$1,045,400
Fisher-Price Brands	337,270	314,614	601,654	578,612
American Girl Brands	58,803	49,142	126,433	103,269
Other	4,797	2,294	8,646	5,635
Gross sales	964,666	879,349	1,814,918	1,732,916
Sales adjustments	(77,843)	(75,347)	(144,975)	(147,970)
Net sales	$ 886,823	$ 804,002	$1,669,943	$1,584,946

17. New Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004) (“SFAS No. 123(R)”), *Share-Based Payment* , which replaced SFAS No. 123 and superseded APB Opinion No. 25. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. The pro forma disclosures previously permitted under SFAS No. 123 will no longer be an alternative to financial statement recognition. Under SFAS No. 123(R), Mattel must determine the appropriate fair value method to be used for valuing share-based payments, the amortization method of compensation cost and the transition method to be used at the date of adoption. The transition methods include prospective and retroactive adoption options. The prospective method requires that compensation cost be recorded for all unvested stock options and nonvested stock at the beginning of the first quarter of adoption of SFAS No. 123(R), whereas the retroactive method requires recording compensation cost for all unvested stock options and nonvested stock beginning with the first period restated.

In April 2005, the US Securities and Exchange Commission amended Rule S-X to delay the effective date for compliance with SFAS No. 123(R). Based on the amended rule, Mattel is required to adopt SFAS No. 123(R) on January 1, 2006. Mattel is evaluating the requirements of SFAS No. 123(R) and expects that the adoption of SFAS No. 123(R) will have a material adverse effect on its results of operations and earnings per share. Mattel has not yet determined the method of adoption of SFAS No. 123(R), or whether the amounts recorded in the consolidated statements of operations in future periods will be similar to the current pro forma disclosures under SFAS No. 123.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs – An Amendment of ARB No. 43, Chapter 4* . SFAS No. 151 amends the guidance in Chapter 4, “Inventory Pricing,” of Accounting Research Bulletin (“ARB”) No. 43, *Restatement and Revision of Accounting Research Bulletins* , to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (“spoilage”). Among other provisions, the statement requires that items such as idle facility expense, excessive spoilage, double freight, and rehandling costs be recognized as current-period charges regardless of whether they meet the criterion of “so abnormal” as stated in ARB No. 43. Additionally, SFAS No. 151 requires that the allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for fiscal years beginning after June 15, 2005. Mattel is currently evaluating the effect that the adoption of SFAS No. 151 will have on its results of operations and financial position, but does not expect it to have a material impact.

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

MATTEL, INC. AND SUBSIDIARIES
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 of this Quarterly Report. Mattel's business is seasonal, and, therefore, results of operations are comparable only with corresponding periods.

Overview

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

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

Mattel Brands — including Barbie ® fashion dolls and accessories ("Barbie ® "), Polly Pocket! ™ and Disney Classics (collectively "Other Girls Brands"), Hot Wheels ® , Matchbox ® and Tyco ® R/C vehicles and playsets (collectively "Wheels") and Harry Potter ™ , Yu-Gi-Oh! ™ , Batman ™ , Justice League ™ , MegaMan ™ and games and puzzles (collectively "Entertainment").

Fisher-Price Brands — including Fisher-Price ® , Little People ® , Rescue Heroes ® , BabyGear and View-Master ® (collectively "Core Fisher-Price ® "), Sesame Street ® , Barney ™ , Dora the Explorer ™ , Winnie the Pooh, InteracTV ™ and See 'N Say ® (collectively "Fisher-Price ® Friends") and Power Wheels ® .

American Girl Brands — including American Girl Today ® , The American Girls Collection ® and Bitty Baby ® . American Girl Brands products are sold directly to consumers and its children's publications are also sold to certain retailers.

Management believes that the business environment for Mattel in 2005 will be similar to that of 2004. Mattel expects to continue facing challenges both domestically and internationally as retailers continue to rationalize stores and tightly manage inventory. In the first half of 2005, Mattel has experienced cost pressures in the areas of product costs, including oil-based resin, transportation costs, and employee-related costs, and management believes Mattel will continue to encounter cost pressures in these areas for at least the remainder of 2005. The recent revaluation of the Chinese yuan is not expected to have a significant impact on Mattel's results of operations.

Management has established three overarching goals for 2005. The first goal is to drive sales growth by continuing the invigoration of the Barbie ® brand, while maintaining growth in all of its core brands by continuing to develop innovative toys. Management's principal strategies for driving sales growth are as follows: (i) focusing on its core brands and core markets; (ii) aligning more effectively with growing retail customers by building closer partnerships with these customers around the world; and (iii) investing in developing markets, expanding its presence in categories in which Mattel does not currently have an extensive presence, and growing alternative channels. Additionally, Mattel plans to pursue additional licensing arrangements and strategic partnerships to extend its portfolio of brands into areas outside of traditional toys.

The second goal is to continue rationalizing manufacturing and vendor sourcing to reduce the cost of manufacturing, purchasing and distributing Mattel's products, and improve Mattel's cost structure by gaining further efficiencies in the supply chain through implementation of new spend management and e-procurement policies, procedures and information systems.

The third goal is to continue to create long-term shareholder value by generating strong cash flow and deploying it in a disciplined and opportunistic manner as outlined in Mattel's capital and investment framework.

Results of Operations

Second Quarter

Consolidated Results

Net sales for the second quarter of 2005 were $886.8 million, a 10% increase as compared to $804.0 million in 2004, including a benefit from changes in currency exchange rates of 2 percentage points. Net loss for the second quarter of 2005 was $94.0 million, or $0.23 per diluted share, as compared to net income of $23.5 million, or $0.06 per diluted share, for the second quarter of 2004. The net loss for the second quarter of 2005 included income tax expense of $112.9 million related to the repatriation of unremitted foreign earnings under the American Jobs Creation Act (the "Jobs Act"). See "Income Taxes" for further discussion.

Gross profit, as a percentage of net sales, declined from 45.6% in 2004 to 43.6% in 2005. External cost pressures, including higher transportation and raw material costs, and higher sales of lower margin products were the primary causes of the decline in gross profit. These costs were partially offset by a modest price increase implemented in January 2005 and a benefit from changes in currency exchange rates. The net loss in the second quarter of 2005 was impacted by the aforementioned income tax expense and lower gross profit margins, partially offset by higher sales volume. Net income in the second quarter of 2004 was impacted by a $4.4 million charge from the integration of the Matchbox® and Tyco® R/C business located in New Jersey into the Hot Wheels® business in California and external cost pressures in areas such as employee-related costs and insurance, which were partially offset by net favorable legal settlements totaling $10.1 million.

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The following table provides a summary of Mattel's consolidated results for the second quarter of 2005 and 2004:

(In millions, except percentage and basis point information)	For the Three Months Ended June 30, 2005 Amount	% of Net Sales	June 30, 2004 Amount	% of Net Sales	Year/Year Change %	Basis Points of Net Sales
Net sales	$886.8	100.0%	$804.0	100.0%	10%	
Gross profit	$386.8	43.6%	$366.3	45.6%	6%	(200)
Advertising and promotion expenses	93.1	10.5	84.4	10.5	10%	—
Other selling and administrative expenses	265.2	29.9	238.7	29.7	11%	20
Operating income	28.5	3.2	43.2	5.4	-34%	(220)
Interest expense	19.6	2.2	16.4	2.0	20%	20
Interest (income)	(12.4)	(1.4)	(4.1)	(0.5)		
Other non-operating (income), net	(4.7)	(0.5)	(1.5)	(0.1)		
Income before income taxes	$ 26.0	2.9%	$ 32.4	4.0%	-20%	(110)

Sales

Net sales for the second quarter of 2005 increased 10% to $886.8 million, including a benefit from changes in currency exchange rates of 2 percentage points. Gross sales within the US increased 9% as compared to 2004 and accounted for 55% of consolidated gross sales in 2005 compared to 56% in 2004. In 2005, gross sales in international markets increased 11% compared to 2004, including a benefit from changes in currency exchange rates of 5 percentage points.

Worldwide gross sales of Mattel Brands increased 10% in the second quarter of 2005 to $563.8 million, including a 3 percentage point benefit from changes in currency exchange rates. Domestic gross sales increased 10%, and international gross sales increased 10%, including a 5 percentage point benefit from changes in currency exchange rates. Worldwide gross sales for Barbie ® declined 4% from 2004, including a 2 percentage point benefit from changes in currency exchange rates. Domestic gross sales of Barbie ® declined 6%, and international gross sales of Barbie ® declined 3%, including a 4 percentage point benefit from changes in currency exchange rates. Worldwide gross sales of Other Girls Brands increased double-digits driven by new product introductions, including Disney Princesses, Winx Club ™, Furryville ™ and Pound Puppies ®. Worldwide gross sales in the Wheels category increased 4%, including a 3 percentage point benefit from changes in currency exchange rates. Worldwide gross sales of the Hot Wheels ® product line increased 5%, including a 3 percentage point benefit from changes in currency exchange rates. Worldwide gross sales in the Entertainment category increased 27%, including a 4 percentage point benefit from changes in currency exchange rates. Growth in the Entertainment category was primarily driven by strong sales of Batman ™ products due to the movie release in June 2005 and the Scene It? ® game, partially offset by declines in sales of the Yu-Gi-Oh! ™ and Harry Potter ™ properties.

Worldwide gross sales of Fisher-Price Brands increased 7% in the second quarter of 2005 to $337.3 million, including a 1 percentage point benefit from changes in currency exchange rates. Worldwide sales of Core Fisher-Price ® increased 5%, including a 2 percentage point benefit from changes in currency exchange rates, reflecting strong growth in international sales driven by continued success in the Infant and BabyGear product lines.

Worldwide gross sales of Fisher-Price ® Friends increased 22%, including a 1 percentage point benefit from changes in currency exchange rates, due to continued strength of the Dora the Explorer ™ property.

American Girl Brands gross sales increased 20% in the second quarter of 2005 to $58.8 million, reflecting continued success of the new American Girl Today ® doll, Marisol ™ , which was launched in January, and continued strong performance of the American Girl Place ® retail stores.

Gross Profit

Gross profit, as a percentage of net sales, was 43.6% in the second quarter of 2005, compared to 45.6% in the second quarter of 2004. External cost pressures, including higher transportation and raw material costs, and higher sales of lower margin products were the primary causes of the decline in gross profit. These costs were partially offset by a modest price increase implemented in January 2005 and a benefit from changes in currency exchange rates. Mattel expects the cost pressures to continue through 2005, and this may adversely affect Mattel’s gross profit. Management remains committed to at least partially offsetting the cost pressures through continuous improvement initiatives aimed at driving costs out of the sourcing and distribution networks.

Advertising and Promotion Expenses

Advertising and promotion expenses remained flat at 10.5% of net sales in the second quarter of 2005 compared to 2004. Mattel expects advertising spending levels for 2005, as a percentage of net sales, to be fairly consistent with 2004 to support its plan to invest in the business to drive long-term performance.

Other Selling and Administrative Expenses

Other selling and administrative expenses were $265.2 million, or 29.9% of net sales, in the second quarter of 2005 compared to $238.7 million, or 29.7% of net sales, in the second quarter of 2004. Other selling and administrative expenses benefited from lower severance charges in the second quarter of 2005 as compared to 2004. However, this benefit was offset in 2005 by higher employee-related costs and the negative effect of changes in currency exchange rates on overhead costs, and net favorable legal settlements in 2004, which were not repeated in 2005.

Non-Operating Items

Interest expense increased from $16.4 million in the second quarter of 2004 to $19.6 million in the second quarter of 2005, mainly due to higher average short-term borrowing rates, partially offset by lower long-term debt as a result of the repayment of $40.0 million of medium-term notes during 2004. Interest (income) increased $8.3 million from second quarter 2004 to $12.4 million in the second quarter of 2005, mainly due to higher returns earned on short-term investments and higher invested cash balances. Other non-operating (income), net was $4.7 million in the second quarter of 2005, compared to $1.5 million in the second quarter of 2004, and was mainly comprised of gains from the sale of marketable securities.

As of June 30, 2005, the pre-tax unrealized gains on marketable securities held by Mattel were $9.4 million ($5.9 million after-tax). Prospectively, management expects to periodically sell additional marketable securities.

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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 Brands US, Fisher-Price Brands US and American Girl Brands.

Domestic Segment

Mattel Brands US gross sales increased 10% in the second quarter of 2005 compared to the second quarter of 2004. Within this segment, Barbie ® gross sales declined 6% and sales of Other Girls Brands increased double-digits as a result of several new brand introductions, including Disney Princesses, Furryville ™ and Pound Puppies ® . Gross sales in the Wheels category increased 4%. Gross sales in the Entertainment category increased double-digits driven by strong sales of Batman ™ products due to the movie release in June 2005 and the Scene It? ® game, partially offset by sales declines in the Yu-Gi-Oh! ™ and Harry Potter ™ properties. Mattel Brands US segment income decreased 17% to $27.7 million in the second quarter of 2005, primarily due to lower gross profit margins, caused by external cost pressures and higher royalty costs, which were partially offset by the modest price increase implemented in January 2005, and higher employee-related costs.

Fisher-Price Brands US gross sales increased 4% in the second quarter of 2005 compared to the second quarter of 2004, mainly due to increased sales of Fisher-Price ® Friends, driven by continued success of the Dora the Explorer ™ property. Fisher-Price Brands US segment income increased to $8.2 million in the second quarter of 2005, compared to $2.9 million in the second quarter of 2004, driven by increased sales volume and improved gross profit.

American Girl Brands gross sales increased 20% in the second quarter of 2005 to $58.8 million, reflecting continued success of the new American Girl Today ® doll, Marisol ™ , and continued strong performance of the American Girl Place ® retail stores. American Girl Brands segment income increased from a loss of $2.6 million in the second quarter of 2004 to income of $4.0 million in the second quarter of 2005, primarily due to increased sales volume and improved gross profit.

International Segment

The following table provides a summary of percentage changes in gross sales within the International segment for the second quarter of 2005 versus 2004:

Non-US Regions:	% Change in Gross Sales	Impact of Change in Currency (in % pts)
Europe	8	3
Latin America	32	8
Canada	2	6
Asia Pacific	6	6
Total International	11	5

International gross sales increased 11% in the second quarter of 2005 compared to the second quarter of 2004, including a benefit from changes in currency exchange rates of 5 percentage points. Gross sales of Barbie ®

decreased 3%, including a 4 percentage point benefit from changes in currency exchange rates. Gross sales of Other Girls Brands increased double-digits due to several new product introductions, including Winx Club ™, Pound Puppies ® and Disney Princesses. Gross sales increased in the Wheels category, reflecting growth in Hot Wheels ®, partially offset by declines in sales of Tyco ® R/C and Matchbox ® vehicles. Gross sales in the Entertainment category increased double-digits, driven by strong sales of Batman ™ products due to the movie release in June 2005, partially offset by sales declines in the Harry Potter ™ and Yu-Gi-Oh! ™ properties. Fisher-Price Brands gross sales increased double-digits, resulting from strong sales of Core Fisher-Price ® products, including Infant and BabyGear product lines, and Fisher-Price ® Friends, mainly due to the Dora the Explorer ™ property. International segment income decreased 14% to $13.4 million in the second quarter of 2005 due to reduced gross profit margins and higher employee-related costs, partially offset by an increase in sales volume.

Results of Operations - First Half

Consolidated Results

Net sales for the first half of 2005 were $1.67 billion, a 5% increase compared to $1.58 billion in the first half of 2004, including a benefit from changes in currency exchange rates of 2 percentage points. Net loss for the first half of 2005 was $87.5 million, or $0.21 per diluted share, as compared to net income of $32.5 million, or $0.08 per diluted share, for the first half of 2004. The net loss for the first half of 2005 included income tax expense of $112.9 million related to the repatriation of unremitted foreign earnings under the Jobs Act. See "Income Taxes" for further discussion.

Gross profit, as a percentage of net sales, declined from 45.3% in 2004 to 43.8% in 2005. External cost pressures in transportation and raw materials costs, sales of lower margin products, and higher obsolescence and royalty costs were the primary causes of the decline in gross profit, as a percentage of net sales. These costs were partially offset by a modest price increase implemented in January 2005 and a benefit from changes in currency exchange rates. For the first half of 2004, profitability was negatively impacted by a pre-tax charge of $15.2 million, primarily related to the elimination of approximately 260 positions as a result of headcount reductions at certain domestic and international locations, and integration of the Matchbox ® and Tyco ® R/C business located in New Jersey into the Hot Wheels ® business in California, partially offset by net favorable legal settlements totaling $10.1 million and gains on the sale of investments.

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The following table provides a summary of the consolidated results for the first half of 2005 and 2004:

(In millions, except percentage and basis point information)	For the Six Months Ended June 30, 2005 Amount	% of Net Sales	June 30, 2004 Amount	% of Net Sales	Year/Year Change %	Basis Points of Net Sales
Net sales	$1,669.9	100.0%	$1,584.9	100.0%	5%	
Gross profit	$ 730.8	43.8%	$ 718.0	45.3%	2%	(150)
Advertising and promotion expenses	180.8	10.8	171.8	10.9	5%	(10)
Other selling and administrative expenses	516.0	30.9	490.3	30.9	5%	—
Operating income	34.0	2.1	55.9	3.5	-39%	(140)
Interest expense	37.2	2.2	31.6	2.0	18%	20
Interest (income)	(24.5)	(1.4)	(9.0)	(0.6)		
Other non-operating (income), net	(13.6)	(0.8)	(11.5)	(0.7)		
Income before income taxes	$ 34.9	2.1%	$ 44.8	2.8%	-22%	(70)

Sales

Worldwide gross sales for the first half of 2005 increased 5% compared to the first half of 2004, including a 2 percentage point benefit from changes in currency exchange rates. Gross sales in the US increased 2% and accounted for 55% of consolidated gross sales in 2005 compared to 57% in 2004. Gross sales for the first half of 2005 in international markets increased 9% compared to 2004, including a 5 percentage point benefit from changes in currency exchange rates.

Worldwide gross sales of Mattel Brands in the first half of 2005 increased 3% to $1.08 billion, including a 2 percentage point benefit from changes in currency exchange rates. Domestic gross sales were flat and international gross sales increased 6%, including a benefit from changes in currency exchange rates of 4 percentage points. Worldwide gross sales of Barbie ® declined 10% from 2004, including a 2 percentage point benefit from changes in currency exchange rates. Domestic gross sales of Barbie ® decreased 16% and international gross sales of Barbie ® decreased 5%, including a 4 percentage point benefit from changes in currency exchange rates. Worldwide gross sales of Other Girls Brands increased double-digits as a result of new product introductions, including Disney Princesses, Winx Club ™, Pound Puppies ®, Doggie Daycare ™ and Furryville ™. Worldwide gross sales in the Wheels category decreased 1% compared to 2004, including a 2 percentage point benefit from changes in currency exchange rates. Worldwide gross sales of the Hot Wheels ® product line increased 2%, including a 3 percentage point benefit from changes in currency exchange rates. Worldwide gross sales in the Entertainment category increased 23% compared to 2004, primarily driven by continued strength in male-action properties, including Batman ™, Robots ™ and MegaMan ™, partially offset by sales declines of the Yu-Gi-Oh! ™ and Harry Potter ™ properties.

Worldwide gross sales of Fisher-Price Brands in the first half of 2005 compared to the first half of 2004 increased 4% to $601.7 million, including a benefit of 2 percentage points from changes in currency exchange rates. International gross sales grew double-digits, while sales in the US decreased in the low single-digits. The increase in international sales over 2004 was mainly attributable to sales growth in Infant and BabyGear lines and double-digit growth in Fisher-Price ® Friends, including continued strength of the Dora the Explorer ™ property.

American Girl Brands gross sales increased 22% in the first half of 2005 over the first half of 2004 to $126.4 million, reflecting increased sales from the January 2005 launch of the new American Girl Today ® doll, Marisol ™, and continued strong performance by the American Girl Place ® retail stores.

Gross Profit

Gross profit, as a percentage of net sales, was 43.8% in the first half of 2005, compared to 45.3% in the first half of 2004. External cost pressures in transportation and raw materials costs, sales of lower margin products, and higher obsolescence and royalty costs were the primary causes of the decline in gross profit, as a percentage of net sales. These costs were partially offset by a modest price increase implemented in January 2005 and a benefit from changes in currency exchange rates.

Advertising and Promotion Expenses

Advertising and promotion expense was 10.8% of net sales in the first half of 2005 compared to 10.9% in the first half of 2004.

Other Selling and Administrative Expenses

Other selling and administrative expenses were $516.0 million, or 30.9% of net sales, in the first half of 2005, compared to $490.3 million, or 30.9% of net sales, in the first half of 2004. Other selling and administrative expenses benefited in the first half of 2005 from lower severance charges as compared to 2004. However, this benefit was offset by higher employee-related costs, the negative effect of changes in currency exchange rates on overhead costs, the timing of charitable contributions and net favorable legal settlements in 2004, which were not repeated in 2005.

Non-Operating Items

Interest expense increased from $31.6 million in the first half of 2004 to $37.2 million in the first half of 2005, due to higher average short-term borrowing rates, partially offset by lower long-term debt as a result of the repayment of $40.0 million of medium-term notes during 2004. Interest (income) for the first half of 2005 totaled $24.5 million, an increase of $15.5 million over the first half of 2004, primarily due to higher returns earned on short-term investments and higher invested cash balances

Business Segment Results

Domestic Segment

Mattel Brands US gross sales were flat in the first half of 2005 compared to the first half of 2004. Within this segment, gross sales of Barbie ® declined 16%, and sales of Other Girls Brands increased double-digits as a result of several new brand introductions, including Disney Princesses, Furryville ™, Pound Puppies ® and Doggie Daycare ™. Gross sales in the Wheels category decreased 6%. Gross sales in the Entertainment category increased double-digits reflecting strength in the male-action entertainment properties, including Batman ™, and Robots ™, partially offset by declines in sales of the Yu-Gi-Oh! ™ and Harry Potter ™ properties. Mattel Brands US segment income decreased 40% to $44.1 million in the first half of 2005, primarily due to a decline in gross profit caused by external cost pressures, higher royalty and obsolescence costs, and higher employee-related costs.

Fisher-Price Brands US gross sales decreased 2% in the first half of 2005 compared to 2004 due to a decrease in sales of Core Fisher-Price ® products, offset by an increase in Fisher-Price ® Friends, mainly Dora the Explorer ™ products. Fisher-Price Brands US segment income increased from $3.8 million in the first half of 2004 to $6.6 million in the first half of 2005, primarily due to improved gross profit.

Gross sales of American Girl Brands increased 22% in the first half of 2005 over the first half of 2004 to $126.4 million, reflecting increased sales from the January 2005 launch of the new American Girl Today ® doll, Marisol ™ , and continued strength of the American Girl Place ® retail stores. American Girl Brands segment income improved from a loss of $2.9 million in the first half of 2004 to income of $11.8 million in the first half of 2005, driven by increased sales volume and improved gross profit.

International Segment

The following table provides a summary of percentage changes in gross sales within the International segment for the first half of 2005 versus the first half of 2004:

Non-US Regions:	% Change in Gross Sales	Impact of Change in Currency (in % pts)
Europe	6	4
Latin America	31	6
Canada	(7)	5
Asia Pacific	8	4
Total International	9	5

International segment gross sales increased 9% in the first half of 2005 compared to the first half of 2004, which included a benefit from changes in currency exchange rates of 5 percentage points. Gross sales of Barbie ® decreased 5%, including a benefit from changes in currency exchange rates of 4 percentage points. Gross sales in the Other Girls Brands increased double-digits driven by new product introductions, including Winx Club ™ , Pound Puppies ® , Doggie Daycare ™ and Disney Princesses. Gross sales in the Wheels category increased single-digits in the first half of 2005 compared to the first half of 2004, mainly due to double-digit growth in Hot Wheels ® products. Gross sales in the Entertainment category increased double-digits in the first half of 2005 compared to the first half of 2004, primarily due to strong sales in male-action properties including Batman ™ , Robots ™ and Megaman ™ , and the Scene It? ® game, partially offset by sales declines in the Harry Potter ™ and Yu-Gi-Oh! ™ properties. Fisher-Price Brands gross sales increased 16%, including a benefit from changes in currency exchange rates of 4 percentage points, due to strong growth in Core Fisher-Price ® products, including BabyGear and Fisher-Price ® Friends. International segment income increased 4% in the first half of 2005 compared to the first half of 2004 as result of increased sales volume, partially offset by an increase in external cost pressures and higher employee-related costs.

Income Taxes

On October 22, 2004, the Jobs Act was signed into law. Among its various provisions, the Jobs Act creates a temporary incentive for US corporations to repatriate accumulated income earned abroad by providing an 85% dividends received deduction for certain qualifying dividends. On December 21, 2004, the Financial Accounting Standards Board ("FASB") issued Staff Position 109-2 ("FSP 109-2"), *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004* . FSP 109-2 allows companies additional time beyond the financial reporting period in which the Jobs Act was enacted to evaluate the effect of the Jobs Act on a company's plan for reinvestment or repatriation of unremitted foreign earnings for the purposes of applying SFAS No. 109, *Accounting For Income Taxes* .

Management's plan for reinvestment and repatriation of foreign earnings under the Jobs Act was completed and approved by Robert A. Eckert, Mattel's chief executive officer, on April 14, 2005. Mattel expects to repatriate up to approximately $2.4 billion in foreign earnings. Management has identified several qualified uses for reinvestment of the foreign earnings repatriated under the Jobs Act, including employee compensation, hiring and training, research and development costs, and advertising and promotion expenses. Management believes that Mattel's aggregate spending in these areas will satisfy the reinvestment spending requirements outlined in the safe harbor provision of the Jobs Act.

The statements of operations for the three- and six-months ended June 30, 2005, include a provision for income taxes of $112.9 million for the total amount of earnings expected to be repatriated, which will occur throughout 2005. The computation of the income tax provision includes the favorable effects of guidance issued by the US Internal Revenue Service ("IRS") on May 10, 2005. The tax provision may be further impacted by future law changes enacted by the US Congress or further guidance issued by the IRS. The impact of such future changes will be reflected in the financial reporting period in which any such change in law is enacted or becomes effective.

Liquidity and Capital Resources

Mattel's primary sources of liquidity for the first half of 2005 were cash on hand at the beginning of the year and short-term borrowings. Cash flows from operations 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 an inability to meet its debt covenant requirements, which include maintaining consolidated debt-to-capital 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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Capital and Investment Framework

To guide future capital deployment decisions, with a goal of maximizing shareholder 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-total capital ratio of approximately 25%;
- To invest approximately $180 million to $200 million in capital expenditures annually to maintain and grow the business;
- To make strategic acquisitions consistent with Mattel's vision of providing "the world's premier toy brands - today and tomorrow"; and
- To return excess funds to shareholders 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 shareholders through cash dividends and, depending on market conditions, share repurchases. However, 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 from investing activities.

The repatriation of foreign earnings under the Jobs Act does not change management's view of Mattel's capital and investment framework. The movement of cash into the US from offshore may allow Mattel to reduce its seasonal working capital borrowings in the US and will provide Mattel with greater flexibility to fund activities in other areas in accordance with its capital and investment framework.

Operating Activities

Cash flows used for operating activities was $551.1 million in the first half of 2005, an increase of $32.7 million compared to the first half of 2004.

Investing Activities

Cash flows used for investing activities in the first half of 2005 was $32.0 million compared to $62.9 million in the first half of 2004. The decrease in cash flows used for investing activities in 2005 was mainly due to reduced payment for businesses acquired compared to 2004, the timing of capital expenditures year-over-year and increased proceeds from the sale of investments in 2005.

Financing Activities

Cash flows used for financing activities in the first half of 2005 and 2004 were substantially unchanged at $203.0 million and $202.6 million, respectively. As compared to the first half of 2004, Mattel reduced its short-term borrowings and spent less on share repurchases in 2005, which were partially offset by increased cash received from the exercise of employee stock options. Mattel repaid its $150.0 million of 6 $^{1}/_{8}$% senior notes in July 2005 upon maturity, and intends to repay a $38.6 million mortgage note in December 2005 upon maturity.

Seasonal Financing

Mattel's financing of seasonal working capital typically grows throughout the first half of the year and peaks in the third or fourth quarter, when inventories are at their highest levels in anticipation of expected second half sales volume and when accounts receivable are at their highest levels due to increased sales volume, consistent with the industry taken as a whole. Mattel maintains and periodically amends or replaces a domestic unsecured committed revolving credit facility with a commercial bank group that is used as the primary source of financing for the seasonal working capital requirements of its domestic subsidiaries. The agreement in effect was amended and restated in March 2005 and the expiration date of the facility was extended to March 23, 2010. All other terms and conditions of the amended facility are substantially similar to the previous facility, including the consolidated debt-to-capital and interest coverage ratios. Interest is charged at various rates selected by Mattel, ranging from market commercial paper rates to the bank reference rate. The domestic unsecured committed revolving credit facility contains a variety of covenants, including financial covenants that require Mattel to maintain certain consolidated debt-to-capital and interest coverage ratios. Specifically, Mattel is required to meet these financial covenant ratios at the end of each fiscal quarter and fiscal year, using the formulae specified in the credit agreement to calculate the ratios. Mattel was in compliance with such covenants at the end of the second quarter of 2005. As of June 30, 2005, Mattel's consolidated debt-to-capital ratio, as calculated per the terms of the credit agreement, was 0.25 to 1 (compared to a maximum allowed of 0.60 to 1) and Mattel's interest coverage ratio was 11.39 to 1 (compared to a minimum allowed 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 utilizes individual short-term credit lines with a number of banks. Mattel expects to extend these credit lines throughout 2005.

Mattel believes its cash on hand at the beginning of 2005, amounts available under its domestic unsecured committed revolving credit facility, its uncommitted money market facility, and its foreign credit lines will be adequate to meet its seasonal financing requirements in 2005.

Mattel has a $300.0 million domestic receivables sales facility that is a sub-facility of Mattel's domestic unsecured committed revolving credit facility. The outstanding amount of receivables sold under the domestic receivables facility may not exceed $300.0 million at any given time, and the amount available to be borrowed under the credit facility is reduced to the extent of any such outstanding receivables sold. Under the domestic receivables facility, certain trade receivables are sold to a group of banks, which currently include, among others, Bank of America, N.A., as administrative agent, Citicorp USA, Inc. and Barclays Bank PLC, as co-syndication agents, and Societe Generale and BNP Paribas, as co-documentation agents. Pursuant to the domestic receivables facility, Mattel Sales Corp. and Fisher-Price, Inc. (which are wholly-owned subsidiaries of Mattel) can sell eligible trade receivables from

Wal-Mart and Target to Mattel Factoring, Inc. ("Mattel Factoring"), a Delaware corporation and wholly-owned, consolidated subsidiary of Mattel. Mattel Factoring is a special purpose entity whose activities are limited to purchasing and selling receivables under this facility. Pursuant to the terms of the domestic receivables facility and simultaneous with each receivables purchase, Mattel Factoring sells those receivables to the bank group. Mattel records the transaction, reflecting cash proceeds and sale of accounts receivable on its consolidated balance sheet, at the time of the sale of the receivables to the bank group.

Mattel International Holdings B.V., a company incorporated in the Netherlands, Mattel France S.A.S., a company incorporated in France, and Mattel GmbH, a company incorporated in Germany, each of which is a subsidiary of Mattel, and Societe Generale Bank Nederland N.V. are parties to a Master Agreement for the Transfer of Receivables establishing a Euro 150 million European trade receivables facility, pursuant to which Mattel France S.A.S. and Mattel GmbH may sell trade receivables to Societe Generale Bank Nederland N.V. As with the domestic receivables facility, each sale of accounts receivable is recorded on Mattel's consolidated balance sheet at the time of such sale. No Mattel subsidiary is used as a special purpose entity in connection with these transactions. Under the European trade receivables facility, the outstanding amount of receivables sold may not exceed Euro 60 million from February 1 through July 31 of each year and may not exceed Euro 150 million at all other times. Pursuant to a letter agreement between Societe Generale Bank Nederland N.V. and Mattel International Holdings B.V., Mattel France S.A.S. and Mattel GmbH effective June 24, 2005, the commitment termination date for the European trade receivables facility was extended to June 23, 2006.

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

(In millions)	June 30, 2005	June 30, 2004	Dec. 31, 2004
Receivables sold pursuant to the:			
Domestic receivables facility	$ 59.2	$ 58.9	$ 253.4
European receivables facility	50.4	56.2	93.8
Other factoring arrangements	10.7	12.5	99.1
	$ 120.3	$ 127.6	$ 446.3

Financial Position

Mattel's cash and equivalents at June 30, 2005 decreased $794.9 million to $361.9 million compared to year end 2004, primarily due to cash flows used for operating, investing and financing activities, including the repurchase of shares of its common stock at a cost of $230.7 million. Accounts receivable, net decreased $66.6 million to $692.4 million at June 30, 2005 compared to year end 2004 due to the seasonality of collections.

Accounts payable and accrued liabilities decreased $519.9 million to $709.3 million at June 30, 2005 compared to year end 2004 due to payment of year end 2004 accounts payable and various accrued liability balances, including receivables collections due to bank related to the European trade receivables facility, incentive compensation, advertising and royalties. The current portion of long-term debt increased $177.6 million to $218.6 million at June 30, 2005 compared to $41.0 million at June 30, 2004, primarily due to the reclassification of the following items from long-term debt to current portion of long-term debt: $150.0 million of 6 1/8% senior notes, which were due and repaid upon maturity in July 2005, a $38.6 million mortgage note maturing in the fourth quarter of 2005, and $30.0 million of medium-term notes maturing in May 2006, partially offset by repayment of $40.0 million of medium-term notes in the fourth quarter of 2004.

A summary of Mattel's capitalization is as follows:

(In millions, except percentage information)	June 30, 2005		June 30, 2004		Dec. 31, 2004	
Medium-term notes	$ 370.0	14%	$ 400.0	14%	$ 400.0	13%
Senior notes	—	—	150.0	5	—	—
Other long-term debt obligations	—	—	38.6	1	—	—
Long-term debt	370.0	14	588.6	20	400.0	13
Other noncurrent liabilities	242.1	9	241.9	9	243.5	8
Stockholders' equity	2,071.0	77	1,979.6	71	2,385.8	79
	$2,683.1	100%	$2,810.1	100%	$3,029.3	100%

Long-term debt decreased $218.6 million at June 30, 2005 compared to June 30, 2004 due to the aforementioned reclassification of debt maturing in the next twelve months from long-term debt to current portion of long-term debt. Mattel expects to satisfy its future long-term capital needs through the generation of corporate earnings and issuance of long-term debt instruments. Stockholders' equity increased $91.4 million since June 30, 2004, primarily as a result of income from operations, partially offset by the purchase of $236.5 million of treasury stock during 2005 and payment of the annual dividend on common stock in the fourth quarter of 2004. Stockholders' equity decreased $314.8 million since year end 2004, primarily due to share repurchases, net loss and the impact of currency translation adjustments, partially offset by cash received from exercise of employee stock options and improvements in other comprehensive (loss).

Mattel's debt-to-total capital ratio, including short-term borrowings and current portion of long-term debt, improved from 26.3% at June 30, 2004 to 23.0% at June 30, 2005, mainly due to cash flows generated from operating activities combined with the repayment of medium-term notes, partially offset by share repurchases and the payment of the annual dividend on common stock. Mattel's objective is to continue to maintain a year-end debt-to-total capital ratio of approximately 25%.

Litigation

See Part II, Item 1 "Legal Proceedings."

New Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004) ("SFAS No. 123(R)"), *Share-Based Payment* , which replaced SFAS No. 123, *Accounting for Stock-Based Compensation* , and superseded Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* . SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. The pro forma disclosures previously permitted under SFAS No. 123 will no longer be an alternative to financial statement recognition. Under SFAS No. 123(R), Mattel must determine the appropriate fair value method to be used for valuing share-based payments, the amortization method of compensation cost and the transition method to be used at the date of adoption. The transition methods include prospective and retroactive adoption options. The prospective method requires that compensation cost be recorded for all unvested stock options and nonvested stock at the beginning of the first quarter of adoption of SFAS No. 123(R), whereas the retroactive method requires recording compensation cost for all unvested stock options and nonvested stock beginning with the first period restated.

In April 2005, the US Securities and Exchange Commission ("SEC") amended Rule S-X to delay the effective date for compliance with SFAS No. 123(R). Based on the amended rule, Mattel is required to adopt SFAS No. 123(R) on January 1, 2006. Mattel is evaluating the requirements of SFAS No. 123(R) and expects that the adoption of SFAS No. 123(R) will have a material adverse effect on its results of operations and earnings per share. Mattel has not yet determined the method of adoption of SFAS No. 123(R), or whether the amounts recorded in the consolidated statements of operations in future periods will be similar to the current pro forma disclosures under SFAS No. 123.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs – An Amendment of ARB No. 43*, *Chapter 4* . SFAS No. 151 amends the guidance in Chapter 4, "Inventory Pricing," of Accounting Research Bulletin ("ARB") No. 43, *Restatement and Revision of Accounting Research Bulletins* , to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material ("spoilage"). Among other provisions, the statement requires that items such as idle facility expense, excessive spoilage, double freight, and rehandling costs be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. Additionally, SFAS No. 151 requires that the allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for fiscal years beginning after June 15, 2005. Mattel is currently evaluating the effect that the adoption of SFAS No. 151 will have on its results of operations and financial position, but does not expect it to have a material impact.

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:

(In thousands)	For the Three Months Ended June 30, 2005	For the Three Months Ended June 30, 2004	For the Six Months Ended June 30, 2005	For the Six Months Ended June 30, 2004
Revenues				
Domestic:				
Mattel Brands US	$ 249,048	$ 224,540	$ 486,985	$ 487,189
Fisher-Price Brands US	223,725	215,874	392,943	398,693
American Girl Brands	58,803	49,142	126,433	103,269
Total Domestic	531,576	489,556	1,006,361	989,151
International	433,090	389,793	808,557	743,765
Gross sales	964,666	879,349	1,814,918	1,732,916
Sales adjustments	(77,843)	(75,347)	(144,975)	(147,970)
Net sales	$ 886,823	$ 804,002	$1,669,943	$1,584,946

Factors That May Affect Future Results
(Cautionary Statement Under the Private Securities Litigation Reform Act of 1995)

Certain written and oral statements made or incorporated by reference from time to time by Mattel or its representatives in this Quarterly Report on Form 10-Q, other filings or reports filed with the SEC, press releases, conferences, or otherwise, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and may include, but are not limited to, statements about: sales and inventory levels; brand and customer management programs; increased competition; initiatives to promote revenue growth; globalization initiatives; restructuring and financial realignment plans; special charges and other non-recurring charges; initiatives aimed at anticipated cost savings; operating efficiencies; capital and investment framework (including statements about free cash flow, seasonal working capital, debt-to-total capital ratios, capital expenditures, strategic acquisitions, dividends and share repurchases); cost increases; advertising and promotion spending; and profitability. 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 for any such forward-looking statements. Forward-looking statements include any statement that may predict, forecast, indicate, or imply future results, performance, or achievements. Forward-looking statements can be identified by the use of terminology such as “believe,” “anticipate,” “expect,” “estimate,” “may,” “will,” “should,” “project,” “continue,” “plans,” “aims,” “intends,” “likely,” or other similar words or phrases. Except for historical matters, the matters discussed in this Quarterly Report on Form 10-Q and other statements or filings made by Mattel from time-to-time may be forward-looking statements. Management cautions you that forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from the forward-looking statements. In addition to the important factors detailed herein and from time-to-time in other reports filed by Mattel with the SEC, including Forms 8-K, 10-Q and 10-K, the following important factors could cause actual results to differ materially from past results or those suggested by any forward-looking statements.

Competition and New Product Introductions

Mattel’s business and operating results depend largely upon the appeal of its toy products. Consumer preferences, particularly among end users of Mattel’s products – children – are continuously changing. The toy industry experiences significant, sudden shifts in demand caused by “hit” toys and trends, which are often unpredictable. In recent years there have been trends towards shorter life cycles for individual toy products, the phenomenon of children outgrowing toys at younger ages and an increasing use of high technology in toys. In addition, Mattel competes with many other companies, both large and small, which means that Mattel's market position is always at risk. Mattel's ability to maintain its current category share, and increase its category share or establish category share in new product categories, will depend on Mattel's ability to satisfy consumer preferences, enhance existing products, develop and introduce new products, and achieve market acceptance of such products. If Mattel does not successfully meet the challenges outlined above in a timely and cost-effective manner, demand for its products could decrease and Mattel's results of operations may be adversely affected.

Seasonality, Managing Production and Predictability of Orders

Mattel's business is subject to risks associated with the underproduction of popular toys and the overproduction of toys that do not match consumer demand. Sales of toy products at retail are seasonal, with a majority of retail sales occurring during the period from September through December. As a result, Mattel's annual operating results will depend, in large part, on sales during the relatively brief traditional holiday season. Retailers are attempting to manage their inventories better, requiring Mattel to ship products closer to the time the retailers expect to sell the products to consumers. This in turn results in shorter lead times for production. Management believes that the increase in "last minute" shopping during the holiday season and the popularity of gift cards (which often result in purchases after the holiday season) may negatively impact customer re-orders during the holiday season. Shipping disruptions limiting the availability of ships or containers in Asia during peak demand times may affect Mattel's ability to deliver its products in time to meet retailer demand. These factors may decrease sales or increase the risk that Mattel may not be able to meet demand for certain products at peak demand times, or that Mattel's own inventory levels may be adversely impacted by the need to pre-build products before orders are placed.

Uncertain and Adverse General Economic Conditions

Current conditions in the domestic and global economies have a certain level of uncertainty. As a result, it is difficult to estimate the level of growth or contraction for the economy as a whole. It is even more difficult to estimate growth or contraction in various parts of the economy, including the markets in which Mattel participates. Because all components of Mattel's budgeting and forecasting are dependent upon estimates of growth or contraction in the markets it serves and demand for its products, the prevailing economic uncertainties render estimates of future income and expenditures even more difficult than usual to make. Adverse changes may occur as a result of soft global economies, rising oil prices, wavering consumer confidence, or other factors affecting economic conditions generally. Such changes may negatively affect the sales of Mattel's products, increase exposure to losses from bad debts, or increase costs associated with manufacturing and distributing these products.

Customer Concentration

A small number of customers account for a large share of Mattel's net sales. In 2004, Mattel's three largest customers, Wal-Mart, Toys "R" Us and Target, in the aggregate, accounted for approximately 46% of net sales, and its ten largest customers, in the aggregate, accounted for approximately 56% of net sales. The concentration of Mattel's business with a relatively small number of customers may expose Mattel to a material adverse effect if one or more of Mattel's large customers were to significantly reduce purchases for any reason. Customers make no binding long-term commitments to Mattel regarding purchase volumes and make all purchases by delivering one-time purchase orders. Any customer could reduce its overall purchases of Mattel's products, reduce the number and variety of Mattel's products that it carries and the shelf space allotted for Mattel's products, or otherwise seek to materially change the terms of the business relationship at any time. Any such change could significantly harm Mattel's business and operating results.

Competition from Private-Label Toys

In recent years, consumer goods companies generally, including those in the toy business, have experienced the phenomenon of retail customers developing their own private-label products that directly compete with the products of traditional manufacturers. Some retail chains that are customers of Mattel sell private-label toys designed, manufactured and branded by the retailers themselves. Such toys may be sold at prices lower than comparable toys sold by Mattel, and may result in lower purchases of Mattel-branded products by such retailers. In some cases, retailers who sell such private-label toys are larger than Mattel and may have substantially more resources than Mattel.

Rationalization of Mass-Market Retail Channel and Bankruptcy of Key Customers

Many of Mattel's key customers are mass-market retailers. The mass-market retail channel in the US has experienced significant shifts in market share among competitors in recent years, causing some large retailers to experience liquidity problems. From 2001 through early 2004, four large customers of Mattel filed for bankruptcy. In addition, Mattel's sales to customers are typically made on credit without collateral. There is a risk that customers will not pay, or that payment may be delayed, because of bankruptcy or other factors beyond the control of Mattel, which could increase Mattel's exposure to losses from bad debts. In addition, if these or other customers were to cease doing business as a result of bankruptcy, or significantly reduce the number of stores operated, it could have a material adverse effect on Mattel's business, financial condition and results of operations.

Adequate Supplies; Cost Increases

Mattel's ability to meet customer demand depends, in part, on its ability to obtain timely and adequate delivery of materials, parts and components from its suppliers and internal manufacturing capacity. Mattel has experienced shortages in the past, including raw materials and components. Although Mattel works closely with suppliers to avoid these types of shortages, there can be no assurance that Mattel will not encounter these problems in the future. A reduction or interruption in supplies or a significant increase in the price of one or more supplies, such as fuel and resin (which is an oil-based product) expenses, could have a material adverse effect on Mattel's business. Cost increases, whether resulting from shortages of materials or otherwise, including but not limited to rising costs of materials, transportation, services and labor (including but not limited to wages, expenses related to employee health plans and insurance policies) could impact the gross profit margins realized by Mattel on the sale of its products. Because of market conditions, timing of pricing decisions and other factors, there can be no assurance that Mattel will be able to offset any such increased costs by adjusting the prices of its products. Increases in prices of Mattel's products could result in lower sales.

Litigation and Disputes

Mattel is involved in a number of litigation matters. An unfavorable resolution of pending litigation could have a material adverse effect on Mattel's financial condition. Litigation may result in substantial costs and expenses and significantly divert the attention of Mattel's management regardless of the outcome. There can be no assurance that Mattel will be able to achieve a favorable settlement of pending litigation or obtain a favorable resolution of litigation if it is not settled. In addition, current and future litigation, governmental proceedings, labor disputes or environmental matters could lead to increased costs or interruption of the normal business operations of Mattel.

Recalls

Mattel is subject to regulation by the Consumer Product Safety Commission and similar state and international regulatory authorities, and its products could be subject to involuntary recalls and other actions by such authorities. Concerns about product safety may lead Mattel to voluntarily recall selected products. Mattel has experienced, and in the future may experience, defects or errors in products after their production and sale to customers. Such defects or errors could result in the rejection of Mattel's products by customers, damage to its reputation, lost sales, diverted development resources and increased customer service and support costs, any of which could harm Mattel's business. Individuals could sustain injuries from Mattel's products, and Mattel may be subject to claims or lawsuits resulting from such injuries. There is a risk that these claims or liabilities may exceed, or fall outside the scope of, Mattel's insurance coverage. Moreover, Mattel may be unable to obtain adequate liability insurance in the future. Recalls, post-manufacture repairs of Mattel products, absence or cost of insurance, and administrative costs associated with recalls could harm Mattel's reputation, increase costs or reduce sales.

Protection of Intellectual Property Rights

The value of Mattel's business depends to a large degree on its ability to protect its intellectual property, including its trademarks, trade names, copyrights, patents and trade secrets in the US and around the world. Any failure by Mattel to protect its proprietary intellectual property and information, including any successful challenge to Mattel's ownership of its intellectual property or material infringements of such property, could have a material adverse effect on Mattel's business, financial condition and results of operations.

Political Developments, including Trade Relations, and the Threat or Occurrence of War or Terrorist Activities

Mattel's business is worldwide in scope, including operations in 42 countries. The deterioration of the political situation in a country in which Mattel has significant sales or operations, or the breakdown of trade relations between the US and a foreign country in which Mattel has significant manufacturing facilities or other operations, could adversely affect Mattel's business, financial condition and results of operations. For example, a change in trade status for China could result in a substantial increase in the import duty of toys manufactured in China and imported into the US. In addition, the occurrence of war or hostilities between countries or threat of terrorist activities, and the responses to and results of such activities, could materially impact Mattel, its personnel and facilities, its customers and suppliers, retail and financial markets, and general economic conditions.

Manufacturing Risk; Severe Acute Respiratory Syndrome (“SARS”) or Other Diseases

Mattel owns and operates manufacturing facilities and utilizes third-party manufacturers throughout Asia, primarily in China, Indonesia, Malaysia and Thailand. The risk of political instability and civil unrest exists in certain of these countries, which could temporarily or permanently damage Mattel’s manufacturing operations located there. In the past, outbreaks of SARS have been significantly concentrated in Asia, particularly in Hong Kong, and in the Guangdong province of China, where many of Mattel’s manufacturing facilities and third-party manufacturers are located. The design, development and manufacture of Mattel’s products could suffer if a significant number of Mattel’s employees or the employees of its third-party manufacturers or their suppliers contract SARS or other communicable diseases, or otherwise are unable to fulfill their responsibilities. Mattel has developed contingency plans designed to help mitigate the impact of disruptions in its manufacturing operations. Mattel’s business, financial position and results of operations could be negatively impacted by a significant disruption to its manufacturing operations or suppliers.

Earthquakes or Other Catastrophic Events

Mattel has significant operations, including its corporate headquarters, near major earthquake faults in Southern California. Southern California has experienced earthquakes, wildfires and other natural disasters in recent years. A catastrophic event where Mattel has important operations, such as an earthquake, tsunami, flood, typhoon, fire or other natural or manmade disaster, could disrupt Mattel’s operations or those of its contractors and impair production or distribution of its products, damage inventory, interrupt critical functions or otherwise affect business negatively, harming Mattel’s results of operations.

Changes in Currency Exchange Rates

Mattel’s net investment in its foreign subsidiaries and its results of operations and cash flows are subject to changes in currency exchange rates and regulations. Mattel seeks to mitigate the exposure of its results of operations to fluctuations in currency exchange rates by partially hedging such exposure using foreign currency forward exchange and option contracts. Such contracts are primarily used to hedge Mattel’s purchase and sale of inventory, and other intercompany transactions denominated in foreign currencies. Government action may restrict Mattel’s ability to transfer capital across borders and may also impact the fluctuation of currencies in the countries where Mattel conducts business or has invested capital. Significant changes in currency exchange rates, reductions in Mattel’s ability to transfer its capital across borders, and changes in government-fixed currency exchange rates, including the Chinese yuan, could have a material adverse effect on Mattel’s business and results of operations.

Financing Matters

Increases in interest rates, both domestically and internationally, could negatively affect Mattel’s cost of financing both its operations and investments. Any reduction in Mattel’s credit ratings could increase the cost of obtaining financing. Additionally, Mattel’s ability to issue long-term debt and obtain seasonal financing could be adversely affected by factors such as an inability to meet its debt covenant requirements, which include maintaining consolidated debt-to-capital and interest coverage ratios. Mattel’s ability to conduct its operations could be negatively impacted should these or other adverse conditions affect its primary sources of liquidity.

Advertising and Promotion

Mattel's products are marketed worldwide through a diverse spectrum of advertising and promotional programs. Mattel's ability to sell products is dependent in part upon the success of such programs. If Mattel does not successfully market its products or if media or other advertising or promotional costs increase, these factors could have a material adverse effect on Mattel's business, financial condition and results of operations.

Success of New Initiatives

Mattel has announced initiatives to improve the execution of its core business, globalize and extend Mattel's brands, catch new trends, create new brands and enter new categories, develop people, and improve productivity, simplify processes and maintain customer service levels, as well as new initiatives designed to drive sales growth, manage costs and improve its supply chain. Such initiatives involve complex decision making as well as extensive and intensive execution, and the success of such initiatives is not assured. Failure to successfully implement any of these initiatives could have a material adverse effect on Mattel's business, financial condition and results of operations.

Changes in Laws and Regulations

Mattel operates in a highly regulated environment in the US and international markets. US federal, state and local governmental entities and foreign governments regulate many aspects of Mattel's business, including its products and the importation and exportation of its products. Such regulations may include accounting standards, taxation requirements (including changes in applicable income tax rates, new tax laws and revised tax law interpretations), trade restrictions, regulations regarding financial matters, environmental regulations, advertising directed toward children, safety and other administrative and regulatory restrictions. Changes in laws or regulations may lead to increased costs, changes in Mattel's effective tax rate, or the interruption of normal business operations that would negatively impact its financial condition and results of operations.

Acquisitions, Dispositions and Takeover Defenses

Mattel may engage in acquisitions, mergers or dispositions, which may affect the profit, revenues, profit margins, debt-to-capital ratio, capital expenditures, or other aspects of Mattel's business. There can be no assurance that Mattel will be able to identify suitable acquisition targets or merger partners or that, if identified, it will be able to acquire such targets on acceptable terms or agree to terms with merger partners. Additionally, there can be no assurance that Mattel will be successful in integrating any acquired company into its overall operations, or that any such acquired company will operate profitably or will not otherwise adversely impact Mattel's results of operations. In addition, Mattel has certain anti-takeover provisions in its by-laws that may make it more difficult for a third party to acquire Mattel without its consent, which may adversely affect Mattel's stock price.

If any of the risks and uncertainties described in the cautionary factors listed above actually occurs, Mattel's business, financial condition and results of operations could be materially and adversely affected. The factors listed above are not exhaustive. Other sections of this Quarterly Report on Form 10-Q include additional factors that could materially and adversely impact Mattel's business, financial condition and results of operations. Moreover, Mattel operates in a very competitive and rapidly changing environment. New factors emerge from time-to-time and it is not possible for management to predict the impact of all such factors on Mattel's business, financial condition or results of operations or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not rely on forward-looking statements as a prediction of actual results. Any or all of the forward-looking statements contained in this Quarterly Report on Form 10-Q and any other public statement made by Mattel or its representatives may turn out to be wrong. Mattel expressly disclaims any obligation to update or revise any forward-looking statements, whether as a result of new developments or otherwise.

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 transactions denominated in the Euro, British pound sterling, Mexican peso, Hong Kong dollar and Indonesian rupiah are the primary transactions that cause 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 and option 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 through the selection of currencies used for international borrowings. Mattel does not trade in financial instruments for speculative purposes.

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

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of June 30, 2005, Mattel's disclosure controls and procedures were evaluated. 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 June 30, 2005, in timely alerting them to material information relating to Mattel required to be included in Mattel's periodic reports.

Changes in Internal Control Over Financial Reporting

Mattel made no change 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 June 30, 2005.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

Litigation Related to The Learning Company, Inc. ("Learning Company")

Following Mattel's announcement in October 1999 of the expected results of its Learning Company division for the third quarter of 1999, various Mattel stockholders filed purported class action complaints naming Mattel and certain of its present and former officers and directors as defendants.

These shareholder complaints were consolidated into two lead cases, one under §10(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), and the other under §14(a) of the Exchange Act. In November 2002, the United States District Court for the Central District of California permitted the actions to proceed as class actions.

Several stockholders filed related derivative complaints purportedly on behalf of Mattel. Some of the derivative suits were consolidated into one lawsuit in Los Angeles County Superior Court in California, which was dismissed for the plaintiff's failure to make pre-suit demand on the board of directors. An appeal from that decision was dismissed in July 2003 by stipulation of the parties. Another derivative suit was filed in the Delaware Court of Chancery, and was dismissed without prejudice in August 2002 in deference to the then-ongoing California derivative case. A third derivative suit, filed in federal court in the Central District of California, was dismissed in July 2002, and re-filed in November 2002 as part of the settlement described below.

In November 2002, the parties to the federal cases negotiated and thereafter memorialized in a final settlement agreement a settlement of all the federal lawsuits in exchange for payment of $122.0 million and Mattel's agreement to adopt certain corporate governance procedures. The court granted final approval to the settlement in September 2003, and judgments were entered accordingly. On October 9, 2003, a group of persons purporting to be members of the §14(a) class filed a notice of appeal, challenging the manner in which the $122.0 million was allocated between the §10(b) class and the §14(a) class. On July 29, 2005, the United States Court of Appeals for the Ninth Circuit affirmed the District Court's approval of the settlement.

Litigation Related to LeapFrog Enterprises, Inc.

Fisher-Price, Inc. ("Fisher-Price"), a subsidiary of Mattel, was sued for patent infringement by LeapFrog Enterprises, Inc. in a lawsuit filed in October 2003 in the United States District Court for the District of Delaware, and in September 2004, Mattel was joined to the lawsuit as a defendant. The lawsuit alleges that Fisher-Price's PowerTouch ™ system infringes a LeapFrog patent relating to an electronic learning device for teaching phonics. A 10-day trial commenced on May 16, 2005, which resulted in a deadlocked jury. As an alternative to retrying the case, the parties agreed to submit the case for decision, based on the current trial record, to the presiding judge. The parties are in the process of filing post-trial briefs, and the Court has not yet rendered a decision. The plaintiff in this lawsuit asserted a total damages claim of up to approximately $90 million, which has been reduced to approximately $58 million pursuant to rulings by the Court, and seeks an injunction preventing the further sale of the PowerTouch ™ system; the damages could possibly be trebled if the infringement is found to be willful. Mattel and its subsidiary Fisher-Price believe the action is without merit and intend to continue to vigorously defend themselves.

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 seeks, as a putative class action representative, to invalidate Mattel's Confidential Information and Propriety Inventions Agreements with its employees. Mattel has moved to dismiss Bryant's counterclaims, which motion remains pending.

In December 2004, MGA intervened as a party-defendant in Mattel's action against Bryant, asserting that its rights to the "Bratz" property are at stake in the litigation. Mattel's suit has been removed to the United States District Court for the Central District of California, where it is currently pending.

Separately, in November 2004, Bryant filed an action against Mattel in the United States District Court for the Central District of California. The action seeks 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." Mattel has filed a motion to dismiss, which remains pending.

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. Mattel believes the claims by Bryant and MGA are without merit and intends to vigorously defend against them.

Litigation Related to Cunningham

This suit was filed in September 1999 in the Circuit Court of Madison County, Illinois. The two named plaintiffs, who purchased "limited edition" Barbie ® dolls, contended that Mattel's use of the term "limited edition" on Barbie ® dolls was deceptive and fraudulent to consumers (and that it constituted a breach of contract and breach of express warranty) on the grounds that the dolls were not "true" limited editions and thus are not as valuable as they would be otherwise. Originally, the plaintiffs claimed that use of the terms "special edition," "collector's edition" and "exclusive" on Barbie ® dolls was also deceptive and fraudulent to consumers and constituted a breach of contract and breach of express warranty, but these claims were dismissed during motion practice.

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In 2003, a nationwide class of “all persons who have purchased limited edition Barbie ® dolls or Barbie ® dolls which were described, promoted or packaged as available only in small, limited amounts” was certified based on California Business and Professions Code sections 17200 and 17500 et seq. Plaintiffs’ claims under the Illinois Consumer Fraud Act, as well as their breach of contract and breach of express warranty claims, were not certified for class action treatment. The plaintiffs claimed that the class suffered compensatory damages of at least between $100 million and $200 million, and sought punitive damages, attorneys’ fees and injunctive relief.

In January 2005, the Court issued an order decertifying the nationwide class in its entirety, without prejudice to the two named plaintiffs attempting to re-certify the class at a later date. On July 14, 2005, as a result of a settlement between Mattel and the two named plaintiffs, the Court dismissed the action with prejudice. The lawsuit was settled for an amount that was not material to Mattel’s consolidated financial information for the three- and six-months ended June 30, 2005.

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

Recent Sales of Unregistered Securities

During the second quarter of 2005, Mattel did not sell any unregistered securities.

Issuer Purchases of Equity Securities

In 2003, Mattel’s board of directors initiated a share repurchase program. The amount authorized for repurchase is approved by the board of directors based on the guidelines outlined in Mattel’s capital and investment framework. From the inception of its share repurchase program through year end 2004, Mattel had repurchased 27.4 million shares of its common stock at a cost of $499.5 million.

In March 2005, the board of directors approved the repurchase of an additional $250.0 million of Mattel’s common stock. During the second quarter of 2005, Mattel repurchased 12.9 million common shares at a cost of $236.5 million. As of June 30, 2005, $13.8 million was available under the current authorization for share repurchase. Repurchases will take place from time to time, depending on market conditions. Mattel’s share repurchase program has no expiration date.

During the second quarter of 2005, Mattel repurchased its common stock in the open market as follows:

ISSUER PURCHASES OF EQUITY SECURITIES

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
April 1 – April 30	5,341,700	$ 18.46	5,341,700	$ 151,782,438
May 1 – May 31	5,120,100	18.16	5,120,100	$ 58,825,270
June 1 – June 30	2,465,700	18.24	2,465,700	$ 13,845,350
Total	12,927,500	$ 18.30	12,927,500	$ 13,845,350

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Item 4. Submission of Matters to a Vote of Security Holders.

The Annual Meeting of Stockholders of Mattel was held on May 19, 2005. Proxies for the meeting were solicited pursuant to Regulation 14A of the Securities Exchange Act of 1934 and there was no solicitation in opposition to that of management. All of management's nominees for directors as listed in the proxy statement were elected pursuant to the process described in the proxy statement, with the number of votes cast as follows:

Name of Nominee	Votes "FOR"	Votes Withheld From This Nominee	Votes Withheld From All Nominees
Eugene P. Beard	311,058,999	43,702,850	3,212,068
Michael J. Dolan	353,133,984	1,627,865	3,212,068
Robert A. Eckert	352,801,012	1,960,837	3,212,068
Tully M. Friedman	351,534,671	3,227,179	3,212,068
Dr. Andrea L. Rich	311,205,034	43,556,816	3,212,068
Ronald L. Sargent	306,528,173	48,233,676	3,212,068
Christopher A. Sinclair	353,111,283	1,650,566	3,212,068
G. Craig Sullivan	311,214,748	43,547,101	3,212,068
John L. Vogelstein	310,289,203	44,472,646	3,212,068
Kathy Brittain White	354,436,723	352,126	3,212,068

The proposal to ratify the selection of PricewaterhouseCoopers LLP as Mattel's independent registered public accounting firm for the year ending December 31, 2005, was approved by the following vote:

Shares Voted "FOR"	Shares Voted "AGAINST"	Shares "ABSTAINING"	Broker "NON-VOTE"
350,048,548	5,782,617	2,142,753	—

The proposal to approve the Mattel, Inc. 2005 Equity Compensation Plan was approved by the following vote:

Shares Voted "FOR"	Shares Voted "AGAINST"	Shares "ABSTAINING"	Broker "NON-VOTE"
199,596,797	110,676,879	7,292,541	40,407,701

A stockholder proposal regarding "golden parachute vote provision" was approved by the following vote:

Shares Voted "FOR"	Shares Voted "AGAINST"	Shares "ABSTAINING"	Broker "NON-VOTE"
220,981,937	89,347,886	7,236,393	40,407,701

A stockholder proposal regarding certain reports by the board of directors was defeated by the following vote:

Shares Voted "FOR"	Shares Voted "AGAINST"	Shares "ABSTAINING"	Broker "NON-VOTE"
18,941,445	230,597,021	68,027,751	40,407,701

Item 5. Other Information.

None.

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Item 6. Exhibits.

Exhibit No.	Exhibit Description
11.0*	Computation of Income per Common and Common Equivalent Share
31.0*	Certification of Principal Executive Officer dated August 3, 2005 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.1*	Certification of Principal Financial Officer dated August 3, 2005 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.0**	Certification of Principal Executive Officer and Principal Financial Officer dated August 3, 2005 pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 [1]
99.0*	Form of Grant Agreement for Annual Grants to Outside Directors of Non-Qualified Stock Options under the 2005 Equity Compensation Plan
99.1*	Form of Grant Agreement for Annual Grants to Outside Directors of Restricted Stock Units with Dividend Equivalents under the 2005 Equity Compensation Plan

* *Filed herewith.*

** *Furnished herewith.*

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

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SIGNATURES

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

Date: As of August 3, 2005

By: Douglas E. Kerner

Douglas E. Kerner
Senior Vice President and
Corporate Controller (Duly authorized
officer and chief accounting officer)

EXHIBIT 11.0
(Page 1 of 2)

MATTEL, INC. AND SUBSIDIARIES
COMPUTATION OF INCOME PER COMMON AND COMMON EQUIVALENT SHARE
(In thousands, except per share amounts)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
	(Unaudited)		(Unaudited)	
BASIC				
Net income (loss)	$ (93,987)	$ 23,555	$ (87,480)	$ 32,548
Applicable Shares for Computation of Income (Loss) per Share:				
Weighted average common shares outstanding	409,769	419,177	412,915	423,673
Basic Income (Loss) Per Common Share:				
Net income (loss) per common share	$ (0.23)	$ 0.06	$ (0.21)	$ 0.08

MATTEL, INC. AND SUBSIDIARIES

COMPUTATION OF INCOME PER COMMON AND COMMON EQUIVALENT SHARE

(In thousands, except per share amounts)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
DILUTED	(Unaudited)		(Unaudited)	
Net income (loss)	$ (93,987)	$ 23,555	$ (87,480)	$ 32,548
Applicable Shares for Computation of Income (Loss) per Share:				
Weighted average common shares outstanding	409,769	419,177	412,915	423,673
Weighted average common equivalent shares arising from:				
Dilutive stock options	—	3,726	—	3,949
Weighted average number of common and common equivalent shares	409,769	422,903	412,915	427,622
Diluted Income (Loss) Per Common Share:				
Net income (loss) per common share	$ (0.23)	$ 0.06	$ (0.21)	$ 0.08

EXHIBIT 31.0

CERTIFICATIONS

I, Robert A. Eckert, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mattel, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: As of August 3, 2005

By: Robert A. Eckert

Robert A. Eckert
Chairman and Chief Executive Officer
(Principal executive officer)

EXHIBIT 31.1

CERTIFICATIONS

I, Kevin M. Farr, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mattel, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: As of August 3, 2005

By: Kevin M. Farr

Kevin M. Farr
Chief Financial Officer
(Principal financial officer)

EXHIBIT 32.0

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Each of the undersigned officers of Mattel, Inc., a Delaware corporation (the "Company"), does hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005 (the "Periodic Report"), which this statement accompanies, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) Information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certificate is being furnished solely for purposes of Section 906 and is not being filed as part of the Periodic Report.

Date: As of August 3, 2005

By:

Robert A. Eckert
Chairman and Chief Executive Officer, Mattel, Inc.

Kevin M. Farr
Chief Financial Officer, Mattel, Inc.

Exhibit 99.0

GRANT AGREEMENT
FOR
NON-EMPLOYEE DIRECTOR
ANNUAL STOCK OPTION GRANT
UNDER 2005 PLAN
WITH 3-YEAR 33%-33%-34% VESTING

Grant Agreement for a
Non-Qualified Stock Option
under the Mattel, Inc. 2005 Equity Compensation Plan

This is a Grant Agreement between Mattel, Inc. (“Mattel”) and the individual (the “Holder”) named in the Notice of Grant of Stock Option (the “Notice”) attached hereto as the cover page of this Grant Agreement.

Recitals

Mattel has adopted the 2005 Equity Compensation Plan (the “Plan”) for the granting to selected service providers of awards based upon shares of Common Stock of Mattel. This Grant Agreement is being executed pursuant to Section 13(b) of the Plan. Capitalized terms used herein without definition shall have the meanings assigned to such terms in the Plan.

Option

1. Terms . Mattel grants to the Holder a Non-Qualified Stock Option (this “Option”) to purchase, on the terms and conditions set forth below in this Grant Agreement, all or any part of the aggregate number of shares of Common Stock set forth in the Notice, which shall remain outstanding during the period (the “Term”) expiring on the tenth anniversary of the effective date of the grant (the “Grant Date”), as specified in the Notice, unless and to the extent this Option is terminated or forfeited before the end of the Term pursuant to Section 5 below. The per-share exercise price of this Option equals the Fair Market Value of a share of Common Stock on the Grant Date, and is set forth in the Notice.

2. Vesting and Exercisability . Except as otherwise provided in Section 5, this Option shall vest and become exercisable with regard to the following percentages of the aggregate number of shares of Common Stock subject to this Option, rounded to the nearest whole number of shares, on the vesting dates set forth below, unless the Holder’s Severance has occurred prior to the applicable vesting date:

Vesting Date	Cumulative Percent of Shares Subject to this Option Vested on Such Date
One year after the Grant Date	33%
Two years after the Grant Date	66%
Three years the Grant Date	100%

3. Method of Exercising . In order to exercise this Option in whole or in part, the Holder shall follow such procedures as may be established by the Company from time to time. In order for such exercise to be considered effective, the Holder must satisfy the withholding obligations of Section 4 below, if applicable, and make full payment of the exercise price for the shares being purchased in accordance with such methods as the Committee may approve from time to time. As of the Grant Date, the following forms of payment are available:

i. cash;

ii. by the withholding of shares that would otherwise be issued upon the exercise of the Option; and

iii. by the delivery to Mattel or its designated agent of an irrevocable written notice of exercise form together with irrevocable instructions to a broker-dealer to sell or margin a sufficient portion of the shares of Common Stock and to deliver the sale or margin loan proceeds directly to Mattel to pay the exercise price of the Option.

4. Withholding . As a condition to exercising this Option in whole or in part, the Holder shall pay, or make provisions satisfactory to the Company for payment of, any income tax, social tax, or other taxes required to be withheld in connection with such exercise, if any, including by delivery of Common Stock and/or the withholding of Common Stock being purchased in the exercise in question, having a Fair Market Value, on the date of exercise, equal to the minimum amount required to be withheld.

5. Consequences of Severance . The consequences of the Holder’s Severance for this Option shall be as follows:

i. in the case of a Severance for Cause, this Option (whether vested or unvested) shall terminate immediately;

ii. in the case of a Retirement at least six months after the Grant Date, this Option shall become fully vested and exercisable immediately, to the extent not previously vested and exercisable, and shall remain exercisable until the earlier of (A) the fifth anniversary of the date of Retirement and (B) the end of the Term;

iii. in the case of the Holder’s death or Disability, (A) any portion of this Option that has previously vested shall remain exercisable until the earlier of (I) the first anniversary of the date of Severance and (II) the end of the Term, and (B) any portion of this Option that has not previously vested shall terminate immediately; and

iv. in the case of a Severance for any other reason, (A) any portion of this Option that has previously vested shall remain exercisable until the earlier of (I) the 90th day after the date of the Severance and (II) the end of the Term, and (B) any portion of this Option that has not previously vested shall terminate immediately.

Notwithstanding the foregoing, the 90-day period referred to in clause (iv) above shall be extended to a two-year period if the Severance occurs during the 18-month period following a Change in Control.

6. Compliance with Law .

i. No shares issuable upon the exercise of this Option shall be issued and delivered unless and until all applicable registration requirements of the Securities Act of 1933, as amended, all applicable listing requirements of any national securities exchange on which the Common Stock is then listed, and all other requirements of law or of any regulatory bodies having jurisdiction over such issuance and delivery, shall have been complied with. In particular, the Committee may require certain investment (or other) representations and undertakings in connection with the issuance of securities in connection with the Plan in order to comply with applicable law.

ii. If any provision of this Grant Agreement is determined to be unenforceable or invalid under any applicable law, such provision will be applied to the maximum extent permitted by applicable law, and shall automatically be deemed amended in a manner consistent with its objectives to the extent necessary to conform to any limitations required under applicable law. Furthermore, if any provision of this Grant Agreement is determined to be illegal under any applicable law, such provision shall be null and void to the extent necessary to comply with applicable law, but the other provisions of this Grant Agreement shall remain in full force and effect.

7. Assignability . This Option shall not be transferable by the Holder, other than upon the death of the Holder, in accordance with such beneficiary designation procedures or other procedures as the Company may prescribe from time to time. This Option shall be exercisable, subject to the terms of the Plan and this Grant Agreement, only by the Holder, the guardian or legal representative of the Holder as provided in Section 9(c) of the Plan, or any person to whom this Option is permissibly transferred pursuant to this Section 7 and Section 15(a) of the Plan, it being understood that the term "Holder" includes such guardian, legal representative and other transferee; provided, that references to employment or other provision of services to the Company (such as the terms "Disability, "Retirement" and "Severance") shall continue to refer to the employment of, or provision of services by, the original Holder named above.

8. Certain Corporate Transactions . In the event of certain corporate transactions, this Option shall be subject to adjustment as provided in Section 16 of the Plan. In the event of a Change in Control, this Option shall be subject to the provisions of Section 17 of the Plan.

9. No Additional Rights .

i. Neither the granting of this Option nor its exercise shall (a) affect or restrict in any way the power of the Company to undertake any corporate action otherwise permitted under applicable law, (b) confer upon the Holder the right to continue performing services for the Company or (c) interfere in any way with the right of the Company to terminate the services of the Holder at any time, with or without Cause.

ii. The Holder acknowledges that (a) the making of this grant does not mean that the Holder will receive any similar grant or grants in the future, or any future grants at all, and (b) this grant does not in any way entitle the Holder to future grants under the Plan.

iii. Without limiting the generality of subsections i. and ii. immediately above, if the Holder's service to the Company terminates, the Holder shall not be entitled to any compensation for any loss of any right or benefit or prospective right or benefit under this Option or the Plan which he or she might otherwise have enjoyed, whether such compensation is claimed by way of damages for wrongful termination of services or other breach of contract or by way of compensation for loss of office or otherwise.

10. Rights as a Stockholder . Neither the Holder nor any other person legally entitled to exercise this Option shall have any rights as a stockholder with respect to any shares covered by this Option until such shares have been issued to the Holder following the exercise of this Option.

11. Compliance with Plan . This Option is subject to, and the Company and the Holder agree to be bound by, all of the terms and conditions of the Plan as it shall be amended from time to time, which are incorporated herein by reference. No amendment to the Plan shall adversely affect this Option without the consent of the Holder. In the case of a conflict between the terms of the Plan and this Option, the terms of the Plan shall govern.

12. Data Privacy Waiver. By accepting the grant of this Option, the Holder hereby agrees and consents to:

i. the collection, use, processing and transfer by Mattel and its Subsidiaries (collectively, the “Group”) of certain personal information about the Holder (the “Data”);

ii. any members of the Group transferring Data amongst themselves for the purposes of implementing, administering and managing the Plan;

iii. the use of such Data by any such person for such purposes; and

iv. the transfer to and retention of such Data by third parties in connection with such purposes.

For the purposes of clause (i) above, “Data” means the Holder ‘s name, home address and telephone number, date of birth, any tax or other identification number, details of all rights to acquire Common Stock granted to the Holder and of Common Stock issued or transferred to the Holder pursuant to the Plan.

13. Governing Law . The interpretation, performance and enforcement of this Option shall be governed by the laws of the State of Delaware without regard to principles of conflicts of laws.

Exhibit 99.1

GRANT AGREEMENT FOR ANNUAL NON-EMPLOYEE DIRECTOR RESTRICTED STOCK UNIT GRANT UNDER 2005 PLAN: 3-YEAR VESTING STARTING YEAR TWO

Grant Agreement for
Restricted Stock Units
under the Mattel, Inc. 2005 Equity Compensation Plan

This is a Grant Agreement between Mattel, Inc. ("Mattel") and the individual (the "Holder") named in the Notice of Grant of Restricted Stock Units (the "Notice") attached hereto as the cover page of this Grant Agreement.

Recitals

Mattel has adopted the 2005 Equity Compensation Plan (the "Plan") for the granting to selected service providers of awards based upon shares of Common Stock of Mattel. This Grant Agreement is being executed pursuant to Section 13(b) of the Plan. Capitalized terms used herein without definition shall have the meanings assigned to such terms in the Plan.

Restricted Stock Units

1. **Grant** . Mattel grants to the Holder the number of restricted stock units based on shares of Common Stock set forth in the Notice (the "Units"), subject to adjustment, forfeiture and the other terms and conditions set forth below, as of the effective date of the grant (the "Grant Date") specified in the Notice. The Company and the Holder acknowledge that the Units (a) are being granted hereunder in exchange for the Holder's agreement to provide services to the Company after the Grant Date, for which the Holder will otherwise not be fully compensated, and which the Company deems to have a value at least equal to the aggregate par value of the Shares, if any, that the Holder may become entitled to receive under this Agreement, and (b) will, except as provided in Section 4 hereof, be forfeited by the Holder if the Holder's Severance occurs before they vest, as more fully set forth in this Grant Agreement and the Plan.

2. **Reinvestment of Dividend Equivalents** . The Units are granted with Dividend Equivalent rights, as set forth in this Section 2. As of the payment date for any cash dividend or distribution with respect to the Common Stock with a record date on or after the Grant Date and before all of the Units are settled or forfeited as set forth below, the number of Units covered by this Grant Agreement shall be automatically increased by a number of Units (including fractional Units) equal to (i) the aggregate value of the cash dividend or distribution that would have been paid or distributed to the Holder, had the Units covered by this Grant Agreement been actual shares of Common Stock outstanding on the applicable record date, divided by (ii) the Fair Market Value of a share of Common Stock on the date the actual cash dividend or distribution is made to Mattel stockholders; provided, that the Committee shall determine whether an increase shall be made with respect to a dividend or distribution made in connection with an event described in Section

18 of the Plan (whether or not an adjustment under Section 18 of the Plan is made to the Units in connection with that event), and the amount of any such increase; and the Committee shall determine whether an increase shall be made with respect to a dividend or distribution with respect to the Common Stock in the form of Common Stock or other property other than cash, and the amount of any such increase.

3. **Normal Vesting** . One-half of the Units shall vest on the second anniversary of the Grant Date, and the remainder of the Units shall vest on the third anniversary of the Grant Date, in each case unless the Holder's Severance has occurred before the applicable anniversary. In the event of a Change in Control prior to the Holder's Severance, all unvested Units shall vest in full.

4. **Consequences of Severance** . The consequences of the Holder's Severance before the third anniversary of the Grant Date shall be as follows:

i. In the case of a Severance as a result of the Holder's death, Disability, or Retirement after the first anniversary and before the second anniversary of the Grant Date, one-half of the Units shall vest and the remainder shall be forfeited as of the date of the Severance;

ii. In the case of a Severance as a result of the Holder's death, Disability, or Retirement after the second anniversary and before the third anniversary of the Grant Date, the Units that have not yet vested shall vest as of the date of the Severance; and

iii. In all other cases, the Units that have not yet vested shall be forfeited as of the date of the Severance.

5. **Consequences of Vesting.**

Subject to the final sentence of Section 6, upon the applicable Settlement Date (as defined in Section 6) of a vested Unit, the Company shall settle such Unit by delivering to the Holder one share of Common Stock or a cash payment equal to the Fair Market Value of a share of Common Stock as of such Settlement Date, as the Company may in its sole discretion determine (and the Company may settle some Units in Common Stock and some in cash), subject to Section 7 below. In the case of Units settled by delivery of Common Stock, the Company shall (a) issue or cause to be delivered to the Holder (or the Holder's Heir, as defined below, if applicable) one or more unlegended stock certificates representing such shares, or (b) cause a book entry for such shares to be made in the name of the Holder (or the Holder's Heir, if applicable). In the case of the Holder's death, the cash and/or Common Stock to be delivered in settlement of vested Units as described above shall be delivered to the Holder's beneficiary or beneficiaries (as designated in the manner determined by the Committee), or if no beneficiary is so designated or if no beneficiary survives the Holder, then the Holder's administrator, executor, personal representative, or other person to whom the Units are transferred by means of the Holder's will or the laws of descent and distribution (such beneficiary, beneficiaries or other person(s), the "Holder's Heir").

6. **Code Section 409A** . In view of uncertainty surrounding the recently enacted Section 409A of the Code, the Company believes that the Units may constitute "deferred compensation" within the meaning of Section 409A of the Code, and it is the intention and belief of Mattel that the Units comply in all respects with Section 409A of the Code. If Mattel determines after the Grant Date that an amendment to this Grant Agreement is necessary or advisable to ensure the foregoing, it may make such amendment, effective as of the Grant Date or at any later date, without the consent of the Holder. Consistent with the aim of compliance with Section 409A, the Settlement Date with respect to any Unit shall be the first to occur of (i) the scheduled vesting date of such Unit pursuant to Section 3, (ii) (x) if the Holder is not a "specified employee" (within the meaning of Section 409A(a)(2)(B)(i) of the Code) (a "Specified Employee"), the date of the Holder's Severance, or (y) if the Holder is a Specified Employee, the date which is six months after the date of such Severance, (iii) the date of the Holder's death, (iv) the date of the Holder's Disability (but only if such Disability qualifies the Holder as "disabled" with the meaning of Section 409A(a)(2)(A)(ii) of the Code), and (v) the date of a Change in Control (but only if such Change in Control qualifies as an event described in Section 409A(a)(2)(A)(v) of the Code and the regulations thereunder). In the event that there occurs a Change in Control that does not qualify as an event described in Section 409A(a)(2)(A)(v) of the Code and the regulations thereunder, the amount that shall be provided on the applicable Settlement Date (if such Settlement Date occurs following such Change in Control) in settlement of any Unit that vested as a result of such Change in Control shall be a cash amount that equals the Fair Market Value of a share of Common Stock as of the date of such Change in Control, plus interest thereon through the Settlement Date at the federal funds rate (as reported in the Wall Street Journal or any other information source reasonably selected by the Committee), compounded daily.

7. **Tax Withholding .** The Company shall withhold from the cash and/or Common Stock delivered in settlement of vesting Units shares of Common Stock having a Fair Market Value, on the date of vesting, and/or cash, equal to the amount necessary to satisfy the minimum required withholding, if any, of any income tax, social tax, or other taxes (but rounding up to the nearest whole number of shares).

8. **Compliance with Law.**

i. No shares of Common Stock shall be issued and delivered pursuant to a vested Unit unless and until all applicable registration requirements of the Securities Act of 1933, as amended, all applicable listing requirements of any national securities exchange on which the Common Stock is then listed, and all other requirements of law or of any regulatory bodies having jurisdiction over such issuance and delivery, shall have been complied with. In particular, the Committee may require certain investment (or other) representations and undertakings in connection with the issuance of securities in connection with the Plan in order to comply with applicable law.

ii. If any provision of this Grant Agreement is determined to be unenforceable or invalid under any applicable law, such provision will be applied to the maximum extent permitted by applicable law, and shall automatically be deemed amended in a manner consistent with its objectives to the extent necessary to conform to any limitations required under applicable law. Furthermore, if any provision of this Grant Agreement is determined to be illegal under any applicable law, such provision shall be null and void to the extent necessary to comply with applicable law, but the other provisions of this Grant Agreement shall remain in full force and effect.

9. **Assignability**. Except as may be effected by designation of a beneficiary or beneficiaries in such manner as may be determined by the Committee, or as may be effected by will or other testamentary disposition or by the laws of descent and distribution, any attempt to assign the Units before they vest and are settled shall be of no effect.

10. **Certain Corporate Transactions**. In the event of certain corporate transactions, the Units shall be subject to adjustment as provided in Section 16 of the Plan.

11. **No Additional Rights.**

i. Neither the granting of the Units nor their vesting or settlement shall (a) affect or restrict in any way the power of the Company to undertake any corporate action otherwise permitted under applicable law, (b) confer upon the Holder the right to continue performing services for the Company, or (c) interfere in any way with the right of the Company to terminate the services of the Holder at any time, with or without Cause.

ii. The Holder acknowledges that (a) the making of this grant does not mean that the Holder will receive any similar grant or grants in the future, or any future grants at all, and (b) this grant does not in any way entitle the Holder to future grants under the Plan.

iii. Without limiting the generality of subsections i. and ii. immediately above, if the Holder's service to the Company terminates, the Holder shall not be entitled to any compensation for any loss of any right or benefit or prospective right or benefit relating to the Units or under the Plan which he or she might otherwise have enjoyed, whether such compensation is claimed by way of damages for wrongful termination of services or other breach of contract or by way of compensation for loss of office or otherwise.

12. Rights as a Stockholder . Neither the Holder nor the Holder's Heir shall have any rights as a stockholder with respect to any shares represented by the Units unless and until shares of Common Stock are been issued in settlement thereof.

13. Data Privacy Waiver. By accepting the grant of the Units, the Holder hereby agrees and consents to:

i. the collection, use, processing and transfer by Mattel and its Subsidiaries (collectively, the "Group") of certain personal information about the Holder (the "Data");

ii. any members of the Group transferring Data amongst themselves for the purposes of implementing, administering and managing the Plan;

iii. the use of such Data by any such person for such purposes; and

iv. the transfer to and retention of such Data by third parties in connection with such purposes.

For the purposes of clause (i) above, "Data" means the Holder 's name, home address and telephone number, date of birth, any tax or other identification number, details of all rights to acquire Common Stock granted to the Holder and of Common Stock issued or transferred to the Holder pursuant to the Plan.

14. Compliance with Plan . The Units and this Grant Agreement are subject to, and the Company and the Holder agree to be bound by, all of the terms and conditions of the Plan as it shall be amended from time to time, which are incorporated herein by reference. No amendment to the Plan shall adversely affect the Units or this Grant Agreement without the consent of the Holder. In the case of a conflict between the terms of the Plan and this Grant Agreement, the terms of the Plan shall govern.

15. Governing Law . The interpretation, performance and enforcement of this Option shall be governed by the laws of the State of Delaware without regard to principles of conflicts of laws.