

MATTEL INC /DE/

FORM 10-Q (Quarterly Report)

Filed 07/25/12 for the Period Ending 06/30/12

Address	333 CONTINENTAL BLVD EL SEGUNDO, CA 90245
Telephone	3102522000
CIK	0000063276
Symbol	MAT
SIC Code	3942 - Dolls and Stuffed Toys
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, 2012

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
(State or other jurisdiction of incorporation or organization)

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

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

90245-5012
(Zip Code)

(310) 252-2000
(Registrant's telephone number, including area code)

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

NONE

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Number of shares outstanding of registrant's common stock, \$1.00 par value, as of July 20, 2012:

340,929,117 shares

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

MATTEL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30, 2012	June 30, 2011	December 31, 2011
		(Unaudited; in thousands, except share data)	
ASSETS			
Current Assets			
Cash and equivalents	\$ 372,281	\$ 418,476	\$ 1,369,113
Accounts receivable, net	981,705	1,012,000	1,246,687
Inventories	746,707	783,533	487,000
Prepaid expenses and other current assets	418,349	317,093	340,907
Total current assets	<u>2,519,042</u>	<u>2,531,102</u>	<u>3,443,707</u>
Noncurrent Assets			
Property, plant, and equipment, net	562,260	513,792	523,941
Goodwill	1,065,998	828,525	822,139
Other noncurrent assets	1,432,321	924,279	881,851
Total Assets	<u>\$ 5,579,621</u>	<u>\$ 4,797,698</u>	<u>\$ 5,671,638</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Short-term borrowings	\$ 42,272	\$ —	\$ 8,018
Current portion of long-term debt	400,000	10,000	50,000
Accounts payable	313,935	371,862	334,999
Accrued liabilities	463,851	499,190	618,801
Income taxes payable	16,105	17,513	27,110
Total current liabilities	<u>1,236,163</u>	<u>898,565</u>	<u>1,038,928</u>
Noncurrent Liabilities			
Long-term debt	1,150,000	950,000	1,500,000
Other noncurrent liabilities	602,642	482,248	522,107
Total noncurrent liabilities	<u>1,752,642</u>	<u>1,432,248</u>	<u>2,022,107</u>
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	1,713,429	1,686,716	1,690,405
Treasury stock at cost; 100.5 million shares, 97.1 million shares, and 104.4 million shares, respectively	(2,162,713)	(2,028,757)	(2,242,522)
Retained earnings	3,057,962	2,655,469	3,167,996
Accumulated other comprehensive loss	(459,231)	(287,912)	(446,645)
Total stockholders' equity	<u>2,590,816</u>	<u>2,466,885</u>	<u>2,610,603</u>
Total Liabilities and Stockholders' Equity	<u>\$ 5,579,621</u>	<u>\$ 4,797,698</u>	<u>\$ 5,671,638</u>

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

MATTEL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(Unaudited; in thousands, except per share amounts)			
Net Sales	\$1,158,711	\$1,161,667	\$2,087,160	\$2,113,523
Cost of sales	564,189	605,426	1,019,267	1,084,135
Gross Profit	594,522	556,241	1,067,893	1,029,388
Advertising and promotion expenses	112,395	116,167	210,254	218,016
Other selling and administrative expenses	350,694	330,807	697,470	665,347
Operating Income	131,433	109,267	160,169	146,025
Interest expense	21,524	17,642	42,629	36,458
Interest (income)	(1,941)	(2,451)	(3,686)	(5,614)
Other non-operating expense (income), net	489	(812)	(303)	(968)
Income Before Income Taxes	111,361	94,888	121,529	116,149
Provision for income taxes	15,143	14,359	17,482	19,013
Net Income	<u>\$ 96,218</u>	<u>\$ 80,529</u>	<u>\$ 104,047</u>	<u>\$ 97,136</u>
Net Income Per Common Share—Basic	<u>\$ 0.28</u>	<u>\$ 0.23</u>	<u>\$ 0.30</u>	<u>\$ 0.27</u>
Weighted average number of common shares	341,256	347,133	340,197	348,094
Net Income Per Common Share—Diluted	<u>\$ 0.28</u>	<u>\$ 0.23</u>	<u>\$ 0.30</u>	<u>\$ 0.27</u>
Weighted average number of common and potential common shares	345,554	350,944	344,614	351,744
Dividends Declared Per Common Share	<u>\$ 0.31</u>	<u>\$ 0.23</u>	<u>\$ 0.62</u>	<u>\$ 0.46</u>

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

MATTEL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	<u>For the Three Months Ended</u>		<u>For the Six Months Ended</u>	
	<u>June 30,</u> <u>2012</u>	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2012</u>	<u>June 30,</u> <u>2011</u>
	(Unaudited, in thousands)			
Net Income	\$ 96,218	\$ 80,529	\$104,047	\$ 97,136
Other Comprehensive (Loss) Income, Net of Tax:				
Currency translation adjustments	(73,654)	35,236	(18,351)	88,414
Defined benefit pension plans net prior service cost and net actuarial loss	2,328	2,533	3,851	5,066
Net unrealized gain (loss) on derivative instruments:				
Unrealized holding gains (losses)	11,968	(8,604)	10,780	(22,957)
Reclassification adjustment for realized (gains) losses included in net income	(4,328)	1,504	(8,866)	764
	<u>7,640</u>	<u>(7,100)</u>	<u>1,914</u>	<u>(22,193)</u>
Other Comprehensive (Loss) Income, Net of Tax	(63,686)	30,669	(12,586)	71,287
Comprehensive Income	\$ <u>32,532</u>	\$ <u>111,198</u>	\$ <u>91,461</u>	\$ <u>168,423</u>

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

MATTEL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Six Months Ended	
	June 30, 2012	June 30, 2011
(Unaudited; in thousands)		
Cash Flows From Operating Activities:		
Net income	\$ 104,047	\$ 97,136
Adjustments to reconcile net income to net cash flows used for operating activities:		
Depreciation	74,958	71,918
Amortization	8,181	7,337
Deferred income taxes	(31,629)	(38,752)
Share-based compensation	25,193	19,870
Increase (decrease) from changes in assets and liabilities, net of acquired assets and liabilities:		
Accounts receivable	295,412	158,941
Inventories	(261,268)	(298,794)
Prepaid expenses and other current assets	(48,449)	29,118
Accounts payable, accrued liabilities, and income taxes payable	(236,113)	(206,022)
Other, net	8,617	(67,530)
Net cash flows used for operating activities	<u>(61,051)</u>	<u>(226,778)</u>
Cash Flows From Investing Activities:		
Purchases of tools, dies, and molds	(49,720)	(54,830)
Purchases of other property, plant, and equipment	(56,921)	(47,588)
Payments for acquisition, net of cash acquired	(685,370)	—
Proceeds from sale of other property, plant, and equipment	385	489
(Payments for) proceeds from foreign currency forward exchange contracts	(23,914)	57,576
Net cash flows used for investing activities	<u>(815,540)</u>	<u>(44,353)</u>
Cash Flows From Financing Activities:		
Proceeds from short-term borrowings	42,272	—
Payments of short-term borrowings	(8,018)	—
Payment of credit facility renewal costs	—	(6,917)
Payment of long-term borrowings	—	(240,000)
Share repurchases	(34,374)	(251,865)
Payment of dividends on common stock	(210,801)	(159,906)
Proceeds from exercise of stock options	82,105	67,400
Other, net	9,194	(9,465)
Net cash flows used for financing activities	<u>(119,622)</u>	<u>(600,753)</u>
Effect of Currency Exchange Rate Changes on Cash	<u>(619)</u>	<u>9,237</u>
Decrease in Cash and Equivalents	<u>(996,832)</u>	<u>(862,647)</u>
Cash and Equivalents at Beginning of Period	<u>1,369,113</u>	<u>1,281,123</u>
Cash and Equivalents at End of Period	<u>\$ 372,281</u>	<u>\$ 418,476</u>

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

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

1. Basis of Presentation

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

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

The financial information included herein should be read in conjunction with Mattel’s consolidated financial statements and related notes in its 2011 Annual Report on Form 10-K.

2. Accounts Receivable

Accounts receivable are net of allowances for doubtful accounts of \$19.5 million, \$20.5 million, and \$26.3 million as of June 30, 2012, June 30, 2011, and December 31, 2011, respectively.

3. Inventories

Inventories include the following:

	June 30, 2012	June 30, 2011 (In thousands)	December 31, 2011
Raw materials and work in process	\$ 141,036	\$ 121,760	\$ 88,489
Finished goods	605,671	661,773	398,511
	<u>\$ 746,707</u>	<u>\$ 783,533</u>	<u>\$ 487,000</u>

4. Property, Plant, and Equipment

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

	June 30, 2012	June 30, 2011 (In thousands)	December 31, 2011
Land	\$ 26,637	\$ 26,767	\$ 26,616
Buildings	264,612	259,877	262,537
Machinery and equipment	892,933	836,527	851,833
Tools, dies, and molds	654,267	618,579	633,818
Capital leases	23,271	23,271	23,271
Leasehold improvements	197,505	192,820	187,545
	<u>2,059,225</u>	<u>1,957,841</u>	<u>1,985,620</u>
Less: accumulated depreciation	<u>(1,496,965)</u>	<u>(1,444,049)</u>	<u>(1,461,679)</u>
	<u>\$ 562,260</u>	<u>\$ 513,792</u>	<u>\$ 523,941</u>

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5. Goodwill

Goodwill is allocated to various reporting units, which are at the operating segment level, for purposes of evaluating whether goodwill is impaired. As more fully described in Note 20 – Segment Information, on January 1, 2012, Mattel changed its operating segments to align with its new organizational structure, which resulted in changes to its reporting units. The new reporting units are: (i) North America, (ii) International, and (iii) American Girl. Components of the operating segments have been aggregated into a single reporting unit as the components have similar economic characteristics. The similar economic characteristics include the nature of the products, the nature of the production processes, the customers, and the manner in which the products are distributed. Mattel reassigned goodwill to the new reporting units based on a relative fair value approach. Mattel tests its goodwill for impairment annually in the third quarter, and whenever events or changes in circumstances indicate that the carrying amount may exceed its fair value. The change in reporting units did not result in a triggering event as the change, more likely than not, would not have reduced the fair value of goodwill for the reporting units below its carrying value since the fair value of each of the reporting units exceeded its carrying value by more than two times.

The change in the carrying amount of goodwill by reporting unit for the six months ended June 30, 2012 is shown below. Brand-specific goodwill held by foreign subsidiaries is allocated to the North America and American Girl reporting units selling those brands, thereby causing a foreign currency translation impact for these reporting units. Prior period amounts have been reclassified to conform to the current year presentation.

	December 31,	Acquisition	Impact of Currency Exchange Rate Changes	June 30, 2012
	2011	(In thousands)		
North America	\$ 393,905	\$145,540	\$ 584	\$ 540,029
International	214,612	96,919	953	312,484
American Girl	213,622	—	(137)	213,485
Total goodwill	<u>\$ 822,139</u>	<u>\$242,459</u>	<u>\$ 1,400</u>	<u>\$1,065,998</u>

Acquisition of HIT Entertainment

On February 1, 2012, Mattel acquired Helium Holdings 1A Ltd, a private limited company existing under the laws of Jersey (“HIT Entertainment”), pursuant to the Stock Purchase Agreement dated as of October 23, 2011, between the Company’s wholly owned subsidiary, Mattel Entertainment Holdings Limited, a private limited company existing under the laws of England and Wales (the “Purchasing Sub”), HIT Entertainment’s parent company, HIT Entertainment Scottish Limited Partnership, a limited partnership existing under the laws of Scotland and majority owned by a consortium of funds led by Apax Partners, LLP and its affiliates (the “Selling Stockholder”) and, with respect to certain provisions thereof, the Company (the “Purchase Agreement”). Pursuant to the terms set forth in the Purchase Agreement, the Company indirectly acquired, through the Purchasing Sub, 100% of the issued and outstanding shares of HIT Entertainment from the Selling Stockholder for a total cash consideration of \$714.3 million, including payment for acquired cash, subject to customary adjustments. HIT Entertainment owns and licenses a diverse portfolio of pre-school entertainment brands, including Thomas & Friends®.

The total consideration was allocated to the assets acquired and liabilities assumed based on their estimated fair values. As a result of the acquisition, Mattel recognized \$510.7 million of identifiable intangible assets (primarily related to intellectual property rights), \$38.9 million of net liabilities assumed (primarily related to deferred tax liabilities), and \$242.5 million of goodwill, which is not deductible for tax purposes. The fair value of the identifiable intangible assets were estimated based on the multi-period excess earnings method, using Level 3 inputs within the fair value hierarchy, which included forecasted future cash flows, long-term revenue growth rates, and the weighted average cost of capital. Goodwill relates to a number of factors built into the purchase price, including the future earnings and cash flow potential of the business, as well as the complementary strategic fit and the resulting synergies it brings to Mattel’s existing operations. Mattel is in the

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process of finalizing the valuation of the assets acquired and liabilities assumed. The determination of the final values of assets acquired and liabilities assumed may result in adjustments to the values presented and a corresponding adjustment to goodwill.

During the three and six months ended June 30, 2012, Mattel recognized approximately \$1 million and \$11 million of integration costs, respectively. Mattel also recognized approximately \$6 million of transaction costs during the six months ended June 30, 2012. No transaction costs were incurred during the three months ended June 30, 2012. Integration and transaction costs are recorded within other selling and administrative expenses in the consolidated statements of operations. The pro forma and actual results of operations for this acquisition have not been presented because they are not material.

6. Other Noncurrent Assets

Other noncurrent assets include the following:

	June 30, 2012	June 30, 2011 (In thousands)	December 31, 2011
Nonamortizable identifiable intangibles	\$ 617,223	\$122,223	\$ 122,223
Deferred income taxes	506,598	512,566	473,832
Identifiable intangibles (net of amortization of \$58.7 million, \$51.2 million, and \$55.5 million, respectively)	94,450	86,811	84,486
Other	214,050	202,679	201,310
	<u>\$1,432,321</u>	<u>\$924,279</u>	<u>\$ 881,851</u>

In connection with the acquisition of HIT Entertainment, as more fully described in Note 5—Goodwill, Mattel recognized \$495.0 million of nonamortizable identifiable intangible assets and \$15.7 million of amortizable identifiable intangible assets, primarily related to intellectual property rights.

7. Accrued Liabilities

Accrued liabilities include the following:

	June 30, 2012	June 30, 2011 (In thousands)	December 31, 2011
Royalties	\$ 50,243	\$ 71,160	\$ 85,637
Taxes other than income taxes	48,573	28,409	59,861
Advertising and promotion	44,978	38,463	75,508
Other	320,057	361,158	397,795
	<u>\$463,851</u>	<u>\$499,190</u>	<u>\$ 618,801</u>

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8. Long-term Debt

Long-term debt includes the following:

	June 30, 2012	June 30, 2011 (In thousands)	December 31, 2011
Medium-term notes due July 2012 to November 2013	\$ 100,000	\$110,000	\$ 100,000
2008 Senior Notes due March 2013	350,000	350,000	350,000
2010 Senior Notes due October 2020 and October 2040	500,000	500,000	500,000
2011 Senior Notes due November 2016 and November 2041	600,000	—	600,000
	<u>1,550,000</u>	<u>960,000</u>	<u>1,550,000</u>
Less: current portion	(400,000)	(10,000)	(50,000)
Total long-term debt	<u>\$1,150,000</u>	<u>\$950,000</u>	<u>\$1,500,000</u>

In November 2011, Mattel issued \$300.0 million of unsecured 2.50% senior notes (“2.50% Senior Notes”) due November 1, 2016 and \$300.0 million of unsecured 5.45% senior notes (“5.45% Senior Notes”) due November 1, 2041 (collectively, “2011 Senior Notes”). Interest on the 2011 Senior Notes is payable semi-annually on May 1 and November 1 of each year, which began May 1, 2012. Mattel may redeem all or part of the 2.50% Senior Notes at any time or from time to time at its option, at a redemption price equal to the greater of (i) 100% of the principal amount of the notes being redeemed plus accrued and unpaid interest to but excluding the redemption date, and (ii) a “make-whole” amount based on the yield of a comparable US Treasury security plus 25 basis points. Mattel may redeem all or part of the 5.45% Senior Notes at any time or from time to time at its option prior to May 1, 2041 (six months prior to the maturity date of the 5.45% Senior Notes), at a redemption price equal to the greater of (i) 100% of the principal amount of the notes being redeemed plus accrued and unpaid interest to but excluding the redemption date, and (ii) a “make-whole” amount based on the yield of a comparable US Treasury security plus 35 basis points. Mattel may redeem all or part of the 5.45% Senior Notes at any time or from time to time at its option on or after May 1, 2041 (six months prior to the maturity date for the 5.45% Senior Notes), at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest to but excluding the redemption date.

During the fourth quarter of 2011, Mattel repaid \$10.0 million of its Medium-term notes in connection with their scheduled maturities.

9. Other Noncurrent Liabilities

Other noncurrent liabilities include the following:

	June 30, 2012	June 30, 2011 (In thousands)	December 31, 2011
Benefit plan liabilities	\$265,085	\$224,346	\$ 278,354
Noncurrent tax liabilities	193,704	113,351	103,938
Other	143,853	144,551	139,815
	<u>\$602,642</u>	<u>\$482,248</u>	<u>\$ 522,107</u>

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10. Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss are as follows:

	<u>June 30,</u> <u>2012</u>	<u>June 30,</u> <u>2011</u> (In thousands)	<u>December 31,</u> <u>2011</u>
Currency translation adjustments	\$(317,214)	\$(133,344)	\$ (298,863)
Defined benefit pension and other postretirement plans, net of tax	(168,547)	(129,248)	(172,398)
Net unrealized gain (loss) on derivative instruments, net of tax	26,530	(25,320)	24,616
	<u>\$(459,231)</u>	<u>\$(287,912)</u>	<u>\$ (446,645)</u>

Currency Translation Adjustments

Mattel's reporting currency is the US dollar. The translation of its net investment in subsidiaries with non-US dollar functional currencies subjects Mattel to currency exchange rate fluctuations in its results of operations and financial position. Assets and liabilities of subsidiaries with non-US dollar functional currencies are translated into US dollars at fiscal period-end exchange rates. Income, expense, and cash flow items are translated at weighted average exchange rates prevailing during the fiscal period. The resulting currency translation adjustments are recorded as a component of accumulated other comprehensive loss within stockholders' equity. For the six months ended June 30, 2012, currency translation adjustments resulted in a net loss of \$18.4 million, with losses primarily from the weakening of the Euro and Brazilian real against the US dollar. For the six months ended June 30, 2011, currency translation adjustments resulted in a net gain of \$88.4 million, with gains primarily from the strengthening of the Euro, Mexican peso, Brazilian real, and British pound sterling against the US dollar.

11. Derivative Instruments

Mattel seeks to mitigate its exposure to foreign currency transaction risk by monitoring its foreign currency transaction exposure for the year and partially hedging such exposure using foreign currency forward exchange contracts. Mattel uses foreign currency forward exchange contracts as cash flow hedges primarily to hedge its purchases and sales of inventory denominated in foreign currencies. These contracts generally have maturity dates of up to 18 months. These derivative instruments have been designated as effective cash flow hedges, whereby the unsettled hedges are reported in Mattel's consolidated balance sheets at fair value, with changes in the fair value of the hedges reflected in other comprehensive income ("OCI"). Realized gains and losses for these contracts are recorded in the consolidated statements of operations in the period in which the inventory is sold to customers. Additionally, Mattel uses foreign currency forward exchange contracts to hedge intercompany loans and advances denominated in foreign currencies. Due to the short-term nature of the contracts involved, Mattel does not use hedge accounting for these contracts, and as such, changes in fair value are recorded in the period of change in the consolidated statements of operations. As of June 30, 2012, June 30, 2011, and December 31, 2011, Mattel held foreign currency forward exchange contracts with notional amounts of approximately \$1.34 billion, \$1.45 billion, and \$1.14 billion, respectively.

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

		Asset Derivatives		
		Balance Sheet Classification	Fair Value	
		June 30, 2012	June 30, 2011	2011
		(In thousands)		
Derivatives designated as hedging instruments:				
Foreign currency forward exchange contracts	Prepaid expenses and			
	other current assets	\$32,277	\$ 7,833	\$ 29,043
Foreign currency forward exchange contracts	Other noncurrent assets	564	1,101	2,853
Total derivatives designated as hedging instruments		<u>\$32,841</u>	<u>\$ 8,934</u>	<u>\$ 31,896</u>
Derivatives not designated as hedging instruments:				
Foreign currency forward exchange contracts	Prepaid expenses and			
	other current assets	\$12,342	\$ 6,529	\$ —
Total		<u>\$45,183</u>	<u>\$ 15,463</u>	<u>\$ 31,896</u>
		Liability Derivatives		
		Balance Sheet Classification	Fair Value	
		June 30, 2012	June 30, 2011	2011
		(In thousands)		
Derivatives designated as hedging instruments:				
Foreign currency forward exchange contracts	Accrued liabilities	\$ 2,980	\$ 30,770	\$ 1,347
Foreign currency forward exchange contracts	Other noncurrent liabilities	19	1,209	35
Total derivatives designated as hedging instruments		<u>\$ 2,999</u>	<u>\$ 31,979</u>	<u>\$ 1,382</u>
Derivatives not designated as hedging instruments				
Foreign currency forward exchange contracts	Accrued liabilities	\$ —	\$ —	\$ 2,930
Total		<u>\$ 2,999</u>	<u>\$ 31,979</u>	<u>\$ 4,312</u>

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

	For the Three Months Ended June 30, 2012		For the Three Months Ended June 30, 2011		Statements of Operations Classification
	Amount of Gain (Loss) Recognized in OCI	Amount of Gain (Loss) Reclassified from Accumulated OCI to Statements of Operations	Amount of Gain (Loss) Recognized in OCI	Amount of Gain (Loss) Reclassified from Accumulated OCI to Statements of Operations	
(In thousands)					
Derivatives designated as hedging instruments					
Foreign currency forward exchange contracts	\$ 11,968	\$ 4,328	\$ (8,604)	\$ (1,504)	Cost of sales
	For the Six Months Ended June 30, 2012		For the Six Months Ended June 30, 2011		Statements of Operations Classification
	Amount of Gain (Loss) Recognized in OCI	Amount of Gain (Loss) Reclassified from Accumulated OCI to Statements of Operations	Amount of Gain (Loss) Recognized in OCI	Amount of Gain (Loss) Reclassified from Accumulated OCI to Statements of Operations	
(In thousands)					
Derivatives designated as hedging instruments					
Foreign currency forward exchange contracts	\$ 10,780	\$ 8,866	\$ (22,957)	\$ (764)	Cost of sales

The net gain of \$4.3 million and \$8.9 million reclassified from accumulated OCI to the statements of operations for the three and six months ended June 30, 2012, respectively, and the net loss of \$1.5 million and \$0.8 million reclassified from accumulated OCI to the statements of operations for the three and six months ended June 30, 2011, respectively, are offset by the changes in cash flows associated with the underlying hedged transactions.

	Amount of Gain (Loss) Recognized in the Statements of Operations		Statements of Operations Classification
	For the Three Months Ended	For the Three Months Ended	
	June 30, 2012	June 30, 2011	
(In thousands)			
Derivatives not designated as hedging instruments			
Foreign currency forward exchange contracts	\$ (28,555)	\$ 23,388	Non-operating income/expense
Foreign currency forward exchange contracts	(782)	1,036	Cost of sales
Total	<u>\$ (29,337)</u>	<u>\$ 24,424</u>	

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	Amount of Gain (Loss) Recognized in the Statements of Operations		Statements of Operations Classification
	For the Six Months Ended	For the Six Months Ended	
	June 30, 2012	June 30, 2011	
	(In thousands)		
Derivatives not designated as hedging instruments			
Foreign currency forward exchange contracts	\$ (8,107)	\$ 52,570	Non-operating income/expense
Foreign currency forward exchange contracts	(535)	2,736	Cost of sales
Total	<u>\$ (8,642)</u>	<u>\$ 55,306</u>	

The net loss of \$29.3 million and \$8.6 million recognized in the statements of operations for the three and six months ended June 30, 2012, respectively, and the net gain of \$24.4 million and \$55.3 million recognized in the statements of operations for the three and six months ended June 30, 2011, respectively, are offset by foreign currency transaction gains and losses on the related hedged balances.

12. Fair Value Measurements

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

- Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.
- Level 2 – Valuations based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.
- Level 3 – Valuations based on inputs that are unobservable, supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Mattel's financial assets and liabilities measured and reported at fair value on a recurring basis include the following:

	June 30, 2012			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Foreign currency forward exchange contracts (a)	\$ —	\$45,183	\$ —	\$45,183
Auction rate securities (b)	—	—	14,460	14,460
Total assets	<u>\$ —</u>	<u>\$45,183</u>	<u>\$14,460</u>	<u>\$59,643</u>
Liabilities:				
Foreign currency forward exchange contracts (a)	—	\$ 2,999	\$ —	\$ 2,999
	<u>\$ —</u>	<u>\$ 2,999</u>	<u>\$ —</u>	<u>\$ 2,999</u>
	June 30, 2011			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Foreign currency forward exchange contracts (a)	\$ —	\$15,463	\$ —	\$15,463
Auction rate securities (b)	—	—	21,000	21,000
Total assets	<u>\$ —</u>	<u>\$15,463</u>	<u>\$21,000</u>	<u>\$36,463</u>
Liabilities:				
Foreign currency forward exchange contracts (a)	\$ —	\$31,979	\$ —	\$31,979
	<u>\$ —</u>	<u>\$31,979</u>	<u>\$ —</u>	<u>\$31,979</u>

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	December 31, 2011			Total
	Level 1	Level 2	Level 3	
(In thousands)				
Assets:				
Foreign currency forward exchange contracts (a)	—	\$ 31,896	\$ —	\$ 31,896
Auction rate securities (b)	—	—	15,630	15,630
Total assets	<u>\$ —</u>	<u>\$ 31,896</u>	<u>\$ 15,630</u>	<u>\$ 47,526</u>
Liabilities:				
Foreign currency forward exchange contracts (a)	<u>\$ —</u>	<u>\$ 4,312</u>	<u>\$ —</u>	<u>\$ 4,312</u>

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

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

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

	Level 3 (In thousands)
Balance at December 31, 2011	\$ 15,630
Net unrealized loss	(1,170)
Balance at June 30, 2012	\$ 14,460

Other Financial Instruments

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

The estimated fair value of Mattel's long-term debt, including the current portion, was \$1.67 billion (compared to a carrying amount of \$1.55 billion) as of June 30, 2012, \$997.3 million (compared to a carrying amount of \$960.0 million) as of June 30, 2011, and \$1.63 billion (compared to a carrying amount of \$1.55 billion) as of December 31, 2011. The estimated fair values have been calculated based on broker quotes or rates for the same or similar instruments, and are classified as Level 2 within the fair value hierarchy.

13. Earnings Per Share

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

Under the two-class method, net income is reduced by the amount of dividends declared in the period for each class of common stock and participating securities. The remaining undistributed earnings are then allocated to common stock and participating securities as if all of the net income for the period had been distributed. Basic earnings per common share excludes dilution and is calculated by dividing net income allocable to common shares by the weighted average number of common shares outstanding for the period. Diluted earnings per common share is calculated by dividing net income allocable to common shares by the

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weighted average number of common shares for the period, as adjusted for the potential dilutive effect of non-participating share-based awards. The following table reconciles earnings per common share for the three and six months ended June 30, 2012 and 2011:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(In thousands, except per share amounts)			
Basic:				
Net income	\$ 96,218	\$ 80,529	\$ 104,047	\$ 97,136
Less net income allocable to participating RSUs (a)	(1,051)	(1,190)	(1,153)	(1,419)
Net income available for basic common shares	<u>\$ 95,167</u>	<u>\$ 79,339</u>	<u>\$ 102,894</u>	<u>\$ 95,717</u>
Weighted average common shares outstanding	<u>341,256</u>	<u>347,133</u>	<u>340,197</u>	<u>348,094</u>
Basic net income per common share	<u>\$ 0.28</u>	<u>\$ 0.23</u>	<u>\$ 0.30</u>	<u>\$ 0.27</u>
Diluted:				
Net income	\$ 96,218	\$ 80,529	\$ 104,047	\$ 97,136
Less net income allocable to participating RSUs (a)	(1,052)	(1,190)	(1,168)	(1,427)
Net income available for diluted common shares	<u>\$ 95,166</u>	<u>\$ 79,339</u>	<u>\$ 102,879</u>	<u>\$ 95,709</u>
Weighted average common shares outstanding	<u>341,256</u>	<u>347,133</u>	<u>340,197</u>	<u>348,094</u>
Weighted average common equivalent shares arising from:				
Dilutive stock options and non-participating RSUs	<u>4,298</u>	<u>3,811</u>	<u>4,417</u>	<u>3,650</u>
Weighted average number of common and potential common shares	<u>345,554</u>	<u>350,944</u>	<u>344,614</u>	<u>351,744</u>
Diluted net income per common share	<u>\$ 0.28</u>	<u>\$ 0.23</u>	<u>\$ 0.30</u>	<u>\$ 0.27</u>

(a) During the three and six months ended June 30, 2012 and 2011, Mattel allocated a proportionate share of both dividends and undistributed earnings to participating RSUs.

The calculation of potential common shares assumes the exercise of dilutive stock options and vesting of non-participating RSUs, net of assumed treasury share repurchases at average market prices. Nonqualified stock options and non-participating RSUs totaling 0.1 million shares were excluded from the calculation of diluted net income per common share for both the three months ended June 30, 2012 and 2011 because they were antidilutive. Nonqualified stock options and non-participating RSUs totaling 0.1 million shares were excluded from the calculation of diluted net income per common share for both the six months ended June 30, 2012 and 2011 because they were antidilutive.

14. Employee Benefit Plans

Mattel and certain of its subsidiaries have qualified and nonqualified retirement plans covering substantially all employees of these companies, which are more fully described in Note 6 to the Consolidated Financial Statements in its 2011 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:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(In thousands)			
Service cost	\$ 3,182	\$ 2,992	\$ 6,501	\$ 6,205
Interest cost	7,479	7,324	14,971	14,653
Expected return on plan assets	(7,764)	(6,300)	(15,524)	(12,602)
Amortization of prior service cost	11	496	21	957
Recognized actuarial loss	5,742	3,632	11,480	7,268
	<u>\$ 8,650</u>	<u>\$ 8,144</u>	<u>\$ 17,449</u>	<u>\$ 16,481</u>

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(In thousands)			
Service cost	\$ 19	\$ 20	\$ 38	\$ 40
Interest cost	345	438	690	875
Recognized actuarial loss	30	35	60	71
	<u>\$ 394</u>	<u>\$ 493</u>	<u>\$ 788</u>	<u>\$ 986</u>

During the six months ended June 30, 2012, Mattel made cash contributions totaling approximately \$19 million and \$2 million to its defined benefit pension and postretirement benefit plans, respectively.

15. Share-Based Payments

Mattel has various stock compensation plans, which are more fully described in Note 9 to the Consolidated Financial Statements in its 2011 Annual Report on Form 10-K. Under the Mattel, Inc. 2010 Equity and Long-Term Compensation Plan, Mattel has the ability to grant nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, RSUs, performance awards, dividend equivalent rights, and shares of common stock to officers, employees, and other persons providing services to Mattel. Stock options are granted with exercise prices at the fair market value of Mattel's common stock on the applicable grant date and expire no later than ten years from the date of grant. Both stock options and time-vesting RSUs generally provide for vesting over a period of three years from the date of grant.

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(In thousands)			
Stock option compensation expense	\$ 2,236	\$ 2,118	\$ 5,491	\$ 5,207
RSU compensation expense	11,104	6,780	19,702	14,663
	<u>\$ 13,340</u>	<u>\$ 8,898</u>	<u>\$ 25,193</u>	<u>\$ 19,870</u>

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As of June 30, 2012, total unrecognized compensation cost related to unvested share-based payments totaled \$62.8 million and is expected to be recognized over a weighted-average period of 1.7 years.

Mattel uses treasury shares purchased under its share repurchase program to satisfy stock option exercises and the vesting of RSUs. Cash received for stock option exercises for the six months ended June 30, 2012 and 2011 was \$82.1 million and \$67.4 million, respectively.

16. Other Selling and Administrative Expenses

Other selling and administrative expenses include the following:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(In thousands)			
Design and development	\$ 47,537	\$ 45,105	\$ 94,161	\$ 88,251
Identifiable intangible asset amortization	3,082	2,383	5,716	4,550

17. Foreign Currency Transaction Gains and Losses

Currency exchange rate fluctuations may impact Mattel's results of operations and cash flows. Mattel's currency transaction exposures include gains and losses realized on unhedged inventory purchases and unhedged receivables and payables balances that are denominated in a currency other than the applicable functional currency. Gains and losses on unhedged inventory purchases and other transactions associated with operating activities are recorded in the components of operating income to which they relate in the consolidated statements of operations. For hedges of intercompany loans and advances, which do not qualify for hedge accounting treatment, the gains or losses on the hedges resulting from changes in fair value as well as the offsetting transaction gains or losses on the related hedged items, along with unhedged items, are recognized in non-operating income (expense), net in the consolidated statements of operations. Inventory purchase and sale transactions denominated in the Mexican peso, Brazilian real, Euro, British pound sterling, 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	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(In thousands)			
Operating income	\$ 8,892	\$ 7,504	\$ 22,473	\$ 19,059
Other non-operating income, net	303	337	405	362
Net transaction gains	<u>\$ 9,195</u>	<u>\$ 7,841</u>	<u>\$ 22,878</u>	<u>\$ 19,421</u>

18. Income Taxes

Mattel's provision for income taxes was \$17.5 million and \$19.0 million for the six months ended June 30, 2012 and 2011, respectively. Mattel recognized discrete tax benefits of \$10.5 million during the three and six months ended June 30, 2012, primarily related to reassessments of prior years' tax liabilities based on the status of current audits and tax filings in various jurisdictions, settlements, and enacted tax law changes. Mattel recognized discrete tax benefits of \$6.4 million during the three and six months ended June 30, 2011, primarily related to reassessments of prior years' tax liabilities based on the status of audits and tax filings in various jurisdictions, settlements, and enacted tax laws changes.

In the normal course of business, Mattel is regularly audited by federal, state, local and foreign tax authorities. In the fourth quarter of 2011, the IRS issued several Notices of Proposed Adjustments ("NOPA")

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related to its examination of the 2008 and 2009 federal income tax returns. In the first quarter of 2012, the IRS issued a Revenue Agent's Report ("RAR") related to the examination. In the second quarter of 2012, Mattel submitted written protests for all unresolved issues to the IRS Office of Appeals. Mattel believes it is more likely than not that ultimate resolution of these issues will not result in any significant changes to unrecognized tax benefits in the next twelve months. Based on the current status of state and foreign audits, Mattel may recognize a benefit of up to approximately \$8 million related to the settlement of tax audits and/or the expiration of statutes of limitations in the next twelve months. The ultimate settlement of any particular issue with the applicable taxing authority could have a material impact on Mattel's consolidated financial statements.

19. Contingencies

With regards to the claims against Mattel described below, Mattel intends to defend itself vigorously. Management cannot reasonably determine the scope or amount of possible liabilities that could result from an unfavorable settlement or resolution of these claims, and no reserves for these claims have been established as of June 30, 2012. However, it is possible that an unfavorable resolution of these claims could have a material adverse effect on Mattel's financial condition and results of operations, and there can be no assurance that Mattel will be able to achieve a favorable settlement or resolution of these claims.

Litigation Related to Carter Bryant and MGA Entertainment, Inc.

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

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

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

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

In November 2006, Mattel asked the Court for leave to file an Amended Complaint that included not only additional claims against Bryant, but also included claims for copyright infringement, RICO violations, misappropriation of trade secrets, intentional interference with contract, aiding and abetting breach of fiduciary

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duty and breach of duty of loyalty, and unfair competition, among others, against MGA, its CEO Isaac Larian, certain MGA affiliates and an MGA employee. The RICO claim alleged that MGA stole Bratz and then, by recruiting and hiring key Mattel employees and directing them to bring with them Mattel confidential and proprietary information, unfairly competed against Mattel using Mattel's trade secrets, confidential information, and key employees to build their business. On January 12, 2007, the Court granted Mattel leave to file these claims as counterclaims in the consolidated cases, which Mattel did that same day.

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

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

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

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

In its opinion, the Ninth Circuit found that the District Court erred in concluding that Mattel's Invention agreement unambiguously applied to "ideas;" that it should have considered extrinsic evidence in determining the application of the agreement; and if the conclusion turns on conflicting evidence, it should have been up to the jury to decide. The Ninth Circuit also concluded that the District Judge erred in transferring the entire brand to Mattel based on misappropriated names and that the Court should have submitted to the jury, rather than deciding itself, whether Bryant's agreement assigned works created outside the scope of his employment and whether Bryant's creation of the Bratz designs and sculpt was outside of his employment. The Court then went

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on to address copyright issues which would be raised after a retrial, since Mattel “might well convince a properly instructed jury” that it owns Bryant’s designs and sculpt. The Ninth Circuit stated that the sculpt itself was entitled only to “thin” copyright protection against virtually identical works, while the Bratz sketches were entitled to “broad” protection against substantially similar works; in applying the broad protection, however, the Ninth Circuit found that the lower court had erred in failing to filter out all of the unprotectable elements of Bryant’s sketches. This mistake, the Court said, caused the lower court to conclude that all Bratz dolls were substantially similar to Bryant’s original sketches.

Judge Stephen Larson, who presided over the first trial, retired from the bench during the course of the appeal, and the case was transferred to Judge David O. Carter. After the transfer, Judge Carter granted Mattel leave to file a Fourth Amended Answer and Counterclaims which focused on RICO, trade secret and other claims, and added additional parties, and subsequently granted in part and denied in part a defense motion to dismiss those counterclaims. Later, on August 16, 2010, MGA asserted several new claims against Mattel in response to Mattel’s Fourth Amended Answer and Counterclaims, including claims for alleged trade secret misappropriation, an alleged violation of RICO, and wrongful injunction. Mattel moved to strike and/or dismiss these claims, as well as certain MGA allegations regarding Mattel’s motives for filing suit. The Court granted that motion as to the wrongful injunction claim, which it dismissed with prejudice, and as to the allegations about Mattel’s motives, which it struck. The Court denied the motion as to MGA’s trade secret misappropriation claim and its claim for violations of RICO.

The Court resolved summary judgment motions in late 2010. Among other rulings, the Court dismissed both parties’ RICO claims; dismissed Mattel’s claim for breach of fiduciary duty and portions of other claims as “preempted” by the trade secrets act; dismissed MGA’s trade dress infringement claims; dismissed MGA’s unjust enrichment claim; dismissed MGA’s common law unfair competition claim; and dismissed portions of Mattel’s copyright infringement claim as to “later generation” Bratz dolls.

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

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

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

Mattel has appealed the judgment and the appeal is now fully briefed. Mattel’s appeal challenges the entirety of the district court’s monetary award in favor of MGA, including both the award of \$170 million in damages for alleged trade secret misappropriation and approximately \$140 million in attorney’s fees and costs. Mattel does not believe that it is probable that any of the damages awarded to MGA will be sustained based on the evidence presented at trial and, accordingly, a liability has not been accrued for this matter.

20. Segment Information

Mattel sells a broad variety of toy products which are grouped into three major brand categories:

Mattel Girls & Boys Brands —including Barbie[®] fashion dolls and accessories (“Barbie[®]”), Polly Pocket[®], Little Mommy[®], Disney Classics[®], and Monster High[®] (collectively “Other Girls Brands”), Hot Wheels[®], Matchbox[®], and Tyco R/C[®] vehicles and play sets (collectively “Wheels”), and CARS[®], Radica[®], Toy Story[®], Max Steel[®], WWE[®] Wrestling, and Batman[®], and games and puzzles (collectively “Entertainment”).

Fisher-Price Brands —including Fisher-Price[®], Little People[®], BabyGear™, Imaginext[®], and View-Master[®] (collectively “Core Fisher-Price[®]”), Dora the Explorer[®], Go Diego Go![®], Thomas and Friends[®], Mickey Mouse[®] Clubhouse, Sing-a-ma-jigs[®], Disney’s Jake and the Never Land Pirates, and See ‘N Say[®] (collectively “Fisher-Price[®] Friends”), and Power Wheels[®].

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

Prior to 2012, Mattel’s operating segments were divided on a geographic basis between domestic and international. The domestic segment was further divided into Mattel Girls & Boys Brands US, Fisher-Price Brands US, and American Girl Brands. Effective January 1, 2012, Mattel modified its organizational structure into North America, International, and American Girl divisions. This reorganization was implemented in order to simplify the organization and to move decision-making for the North America business closer to its retail customers and its toy consumers. Prior to the reorganization, the functions of the US operations were divided between the Mattel Girls & Boys Brands US and Fisher-Price Brands US operating segments. Both of these segments had distinct and separate reporting structures. The reorganization consolidated functions within the US into a single reporting structure that is no longer structured around brands, including the US sales, customer marketing, customer forecasting, customer service, and finance teams. The new structure is primarily organized based on customer-focused teams that are designated to specific retail customers. As a result, the reorganization changed the way the US business is being operated, and combined the US business with Canada under one leadership team, to form the North America division. As part of the reorganization, new executive positions were created and prior executive positions within the US operations were eliminated or restructured to align to the North America division. Mattel’s strategic goals and internal reporting of financial information have also been changed consistent with this reorganization into the North America division.

The change to Mattel’s organizational structure and formation of the North America division resulted in changes to Mattel’s operating segments. The new operating segments are: (i) North America, which consists of the US and Canada, (ii) International, and (iii) American Girl. The North America and International segments sell products in the Mattel Girls & Boys Brands and Fisher-Price Brands categories, although some are developed and adapted for particular international markets. Factors considered in determining the new operating segments include the nature of business activities, the management structure directly accountable to the Chief Operating Decision Maker (“CODM”) for operating and administrative activities, availability of discrete financial information, and strategic priorities within the new organizational structure. These factors correspond to the manner in which the CODM currently reviews and evaluates operating performance to make decisions about resources to be allocated to these operating segments. Effective January 1, 2012, the CODM reviews key financial information, including gross sales, operating income, accounts receivable, and inventory for the new operating segments. Prior to 2012, the CODM reviewed and evaluated operating performance to make decisions about resources to be allocated based on the Mattel Girls & Boys Brands US, Fisher-Price Brands US, American Girl Brands, and International segments. Operating performance for Mattel Girls & Boys Brands US and Fisher-Price Brands US is no longer reviewed by the CODM.

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The prior period operating segment amounts have been reclassified to conform to the current year presentation.

Segment Data

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(In thousands)			
Revenues by Segment				
North America	\$ 586,430	\$ 580,806	\$1,038,033	\$1,089,575
International	606,212	611,332	1,090,186	1,065,164
American Girl	74,050	72,018	155,673	150,526
Gross sales	1,266,692	1,264,156	2,283,892	2,305,265
Sales adjustments	(107,981)	(102,489)	(196,732)	(191,742)
Net sales	<u>\$1,158,711</u>	<u>\$1,161,667</u>	<u>\$2,087,160</u>	<u>\$2,113,523</u>
Segment Income (Loss)				
North America	\$ 104,740	\$ 99,605	\$ 168,745	\$ 184,127
International	84,163	83,066	123,434	120,225
American Girl	(6,778)	(2,922)	(5,350)	56
	182,125	179,749	286,829	304,408
Corporate and other expense (a)	(50,692)	(70,482)	(126,660)	(158,383)
Operating income	131,433	109,267	160,169	146,025
Interest expense	21,524	17,642	42,629	36,458
Interest (income)	(1,941)	(2,451)	(3,686)	(5,614)
Other non-operating expense (income), net	489	(812)	(303)	(968)
Income before income taxes	<u>\$ 111,361</u>	<u>\$ 94,888</u>	<u>\$ 121,529</u>	<u>\$ 116,149</u>

(a) Corporate and other expense includes (i) share-based compensation expense of \$13.3 million and \$25.2 million for the three and six months ended June 30, 2012, respectively, and \$8.9 million and \$19.9 million for the three and six months ended June 30, 2011, respectively, (ii) severance expense of \$3.0 million and \$8.1 million for the three and six months ended June 30, 2012, respectively, and \$8.6 million and \$10.5 million for the three and six months ended June 30, 2011, respectively, (iii) \$7.5 million Gunther-Wahl Productions legal settlement for the six months ended June 30, 2011, and (iv) legal fees associated with MGA litigation matters.

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	June 30, 2012	June 30, 2011 (In thousands)	December 31, 2011
Assets by Segment			
North America	\$ 640,205	\$ 635,271	\$ 741,603
International	864,745	918,944	795,257
American Girl	107,877	105,739	90,820
	<u>1,612,827</u>	<u>1,659,954</u>	<u>1,627,680</u>
Corporate and other	115,585	135,579	106,007
Accounts receivable and inventories, net	<u>\$1,728,412</u>	<u>\$1,795,533</u>	<u>\$1,733,687</u>

The table below presents worldwide revenues by brand category:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(In thousands)			
Worldwide Revenues				
Mattel Girls & Boys Brands	\$ 781,644	\$ 790,045	\$1,403,886	\$1,440,859
Fisher-Price Brands	407,269	399,955	717,438	709,821
American Girl Brands	68,682	66,439	144,709	139,401
Other	9,097	7,717	17,859	15,184
Gross sales	1,266,692	1,264,156	2,283,892	2,305,265
Sales adjustments	(107,981)	(102,489)	(196,732)	(191,742)
Net sales	<u>\$1,158,711</u>	<u>\$1,161,667</u>	<u>\$2,087,160</u>	<u>\$2,113,523</u>

21. New Accounting Pronouncement

In December 2011, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) 2011-11, *Balance Sheet (Topic 210): Disclosure about Offsetting Assets and Liabilities*, which requires an entity to include additional disclosures about financial instruments and transactions eligible for offset in the statement of financial position, as well as financial instruments subject to a master netting agreement or similar arrangement. ASU 2011-11 will be retroactively effective for Mattel for fiscal years beginning after January 1, 2013. Mattel does not expect the adoption of ASU 2011-11 to have a material effect on its operating results or financial position.

22. Subsequent Event

On July 17, 2012, Mattel announced that its Board of Directors declared a third quarter dividend of \$0.31 per common share. The dividend is payable on September 21, 2012 to stockholders of record on August 29, 2012.

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

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

Factors That May Affect Future Results

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

Mattel is including this Cautionary Statement to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (the "Act") for forward-looking statements. This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of the Act. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as "believes," "expects," "anticipates," "estimates," "intends," "plans," "seeks" or words of similar meaning, or future or conditional verbs, such as "will," "should," "could," "may," "aims," "intends," or "projects." A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. Investors should not place undue reliance on the forward-looking statements, which speak only as of the date of this Form 10-Q. These forward-looking statements are all based on currently available operating, financial, economic and other information and are subject to various risks and uncertainties. The Company's actual future results and trends may differ materially depending on a variety of factors, including, but not limited to, the risks and uncertainties detailed in Item 1A. "Risk Factors" in Mattel's 2011 Annual Report on Form 10-K.

Overview

Mattel, Inc. ("Mattel") designs, manufactures, and markets a broad variety of toy products worldwide which are sold to its customers and directly to consumers. Mattel's vision is "creating the future of play." Mattel's objectives are to grow its share in the marketplace, sustain gross margins of about 50%, leverage its scale to deliver cost savings and lower its selling and administrative costs, and create long-term stockholder value. To achieve these objectives, management has established the following strategies:

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

The second strategy is to optimize operating margins through sustaining gross margins of about 50% and delivering on cost savings initiatives.

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

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

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

Fisher-Price Brands —including Fisher-Price[®], Little People[®], BabyGear[™], Imaginext[®], and View-Master[®] (collectively "Core Fisher-Price[®]"), Dora the Explorer[®], Go Diego Go![®], Thomas and Friends[®], Mickey Mouse[®] Clubhouse, Sing-a-ma-jigs[®], Disney's Jake and the Never Land Pirates, and See 'N Say[®] (collectively "Fisher-Price[®] Friends"), and Power Wheels[®].

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

Segments and Regions

Effective January 1, 2012, Mattel modified its organizational structure, which resulted in changes to its operating segments. The new operating segments are: (i) North America, which consists of the US and Canada, (ii) International, and (iii) American Girl. The North America and International segments sell products in the Mattel Girls & Boys Brands and Fisher-Price Brands categories, although some are developed and adapted for particular international markets. For additional information on Mattel's operating segments, see Note 20 – Segment Information. The North American Region includes the North America and American Girl segments and the International Region includes the International segment.

Second Quarter 2012 Overview

In the second quarter, Mattel delivered solid financial results, despite a very challenging global economic climate, a difficult sales comparison with the release of the CARS 2[®] movie last year, currency headwinds, and a cautious retail environment. More specifically:

- Net sales for the second quarter of 2012 were \$1.16 billion, flat as compared to 2011, due to higher sales of Mattel's core brands including Barbie[®], Monster High[®], American Girl[®], and Hot Wheels[®], partially offset by lower sales of CARS 2[®] products resulting from the timing of the movie release during 2011.
- Gross profit as a percentage of net sales increased to 51.3% in the second quarter of 2012 from 47.9% in 2011, which is consistent with Mattel's long-term goal of gross margins of about 50%. The increase in gross profit as a percentage of net sales was driven primarily by favorable product mix, including lower sales of royalty-related entertainment properties, and price increases and savings from Mattel's Operational Excellence 2.0 initiatives, partially offset by higher input costs. Additionally, gross profit as a percentage of net sales was positively impacted by the acquisition of HIT Entertainment.
- Operating income in the second quarter of 2012 was \$131.4 million, as compared to \$109.3 million in 2011. The increase in operating income was driven primarily by higher gross margin, partially offset by higher other selling and administrative expenses.
- Mattel's Operational Excellence 2.0 program resulted in cost savings before severance charges and investments of approximately \$23 million (or approximately \$19 million in net cost savings). The gross cost savings included approximately \$13 million of structural cost savings generated by the program and approximately \$10 million of legal cost savings. Mattel continues to be on track to realize \$175 million in sustainable cumulative savings by the end of 2012.

Results of Operations—Second Quarter

Consolidated Results

Net sales for the second quarter of 2012 were \$1.16 billion, flat as compared to 2011, with unfavorable changes in currency exchange rates of 4 percentage points. Net income for the second quarter of 2012 was \$96.2 million, or \$0.28 per diluted share, as compared to \$80.5 million, or \$0.23 per diluted share, in 2011. Net income for the second quarter of 2012 was positively impacted by higher gross margins, partially offset by higher other selling and administrative expenses.

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The following table provides a summary of Mattel's consolidated results for the second quarter of 2012 and 2011 (in millions, except percentage and basis point information):

	For the Three Months Ended June 30,				Year/Year Change	
	2012		2011		Basis Points	
	Amount	% of Net Sales	Amount	% of Net Sales	%	of Net Sales
Net sales	\$1,158.7	100.0%	\$1,161.7	100.0%	—	—
Gross profit	\$ 594.5	51.3%	\$ 556.2	47.9%	7%	340
Advertising and promotion expenses	112.4	9.7	116.2	10.0	–3%	–30
Other selling and administrative expenses	350.7	30.3	330.7	28.5	6%	180
Operating income	131.4	11.3	109.3	9.4	20%	190
Interest expense	21.5	1.9	17.6	1.5	22%	40
Interest (income)	(1.9)	–0.2	(2.5)	–0.2	–21%	—
Other non-operating expense (income), net	0.4		(0.7)			
Income before income taxes	\$ 111.4	9.6%	\$ 94.9	8.2%	17%	140

Sales

Net sales for the second quarter of 2012 were \$1.16 billion, flat as compared to 2011, with unfavorable changes in currency exchange rates of 4 percentage points. Gross sales within the North American Region increased 1% in the second quarter of 2012 as compared to 2011, with no impact from changes in currency exchange rates, driven primarily by higher sales of our key brands including Barbie®, Monster High®, American Girl®, and Hot Wheels®, partially offset by lower sales of CARS 2® products resulting from the timing of the movie release during 2011. Gross sales within the North American Region accounted for 52% of consolidated gross sales in the second quarter of 2012 and 2011. Gross sales in the International Region decreased 1% in the second quarter of 2012 as compared to 2011, with unfavorable changes in currency exchange rates of 10 percentage points.

Cost of Sales

Cost of sales as a percentage of net sales was 48.7% in the second quarter of 2012, as compared to 52.1% in 2011. Cost of sales decreased by \$41.2 million, or 7%, from \$605.4 million in the second quarter of 2011 to \$564.2 million in 2012, as compared to flat net sales. Within cost of sales, product and other costs decreased by \$24.5 million, or 5%, from \$476.8 million in the second quarter of 2011 to \$452.3 million in 2012; royalty expenses decreased by \$16.8 million, or 26%, from \$65.6 million in the second quarter of 2011 to \$48.8 million in 2012; and freight and logistics expenses increased by \$0.1 million, from \$63.0 million in the second quarter of 2011 to \$63.1 million in 2012.

Gross Profit

Gross profit as a percentage of net sales increased to 51.3% in the second quarter of 2012 from 47.9% in 2011. The increase in gross profit as a percentage of net sales was driven primarily by favorable product mix, including lower sales of royalty-related entertainment properties, and price increases and savings from Operational Excellence 2.0 initiatives, partially offset by higher input costs. Additionally, gross profit as a percentage of net sales was positively impacted by the acquisition of HIT Entertainment.

Advertising and Promotion Expenses

Advertising and promotion expenses primarily consist of: (i) media costs, which primarily include the media, planning, and buying fees for television, print, and online advertisements, (ii) non-media costs, which primarily include commercial and website production, merchandising, and promotional costs, and (iii) generic advertising costs, which primarily include trade show costs. Advertising and promotion expenses decreased to

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9.7% of net sales in the second quarter of 2012, as compared to 10.0% of net sales in 2011, due primarily to a benefit from lower advertising rates from HIT Entertainment's licensing business.

Other Selling and Administrative Expenses

Other selling and administrative expenses were \$350.7 million in the second quarter of 2012, as compared to \$330.7 million in 2011, or 30.3% of net sales in 2012, as compared to 28.5% of net sales in 2011. Drivers for the increase in other selling and administrative expenses were HIT Entertainment's ongoing other selling and administrative expenses, higher employee-related expenses, and investments in strategic growth initiatives, including initiatives related to American Girl retail store expansion and information technology initiatives. The increase in other selling and administrative expenses was partially offset by the lower MGA legal fees of approximately \$10 million and structural cost savings from Operational Excellence 2.0 initiatives.

Non-Operating Items

Interest expense increased from \$17.6 million in the second quarter of 2011 to \$21.5 million in 2012, driven primarily by higher average borrowings (resulting from the \$600.0 million of senior notes issued in November 2011, partially offset by the repayments of \$240.0 million long-term debt in the second quarter of 2011 and \$10.0 million long-term debt in the fourth quarter of 2011), partially offset by lower average interest rates. Interest income decreased from \$2.5 million in the second quarter of 2011 to \$1.9 million in 2012, driven primarily by lower average interest rates and lower invested cash balances.

Provision for Income Taxes

Mattel's provision for income taxes was \$15.1 million in the second quarter of 2012, as compared to \$14.4 million in 2011. Mattel recognized discrete tax benefits of \$10.5 million and \$6.4 million in the second quarter of 2012 and 2011, respectively, primarily related to reassessments of prior years' tax liabilities based on the status of audits and tax filings in various jurisdictions, settlements, and enacted tax law changes.

Business Segment Results

Effective January 1, 2012, Mattel modified its organizational structure, which resulted in changes to its operating segments. The new operating segments are: (i) North America, (ii) International, and (iii) American Girl. The North America and International segments sell products in the Mattel Girls & Boys Brands and Fisher-Price Brands categories, although some are developed and adapted for particular international markets. Prior period amounts have been reclassified to conform to the current year presentation.

North America Segment

Gross sales for the North America segment were \$586.4 million in the second quarter of 2012, an increase of \$5.6 million or 1%, as compared to \$580.8 million in 2011, with no impact from changes in currency exchange rates, primarily due to higher sales of our key brands including Barbie®, Monster High®, and Hot Wheels®, partially offset by lower sales of CARS 2® products. Gross sales of Mattel Girls & Boys Brands increased 1%, with no impact from changes in currency exchange rates. Gross sales of Barbie® increased 11%, with no impact from changes in currency exchange rates. Gross sales of Other Girls Brands increased 110%, with no impact from changes in currency exchange rates, driven primarily by higher sales of Monster High® and Disney Princess® products. Gross sales of Wheels products increased 24%, with an unfavorable change in currency exchange rates of 1 percentage point, driven primarily by higher sales of Hot Wheels® products. Gross sales of Entertainment products decreased 39%, with no impact from changes in currency exchange rates, driven primarily by lower sales of CARS 2® products resulting from the timing of the movie release during 2011. Gross sales of Fisher-Price Brands were flat, with an unfavorable change in currency exchange rates of 1 percentage point. Gross sales of Core Fisher-Price® products decreased 13%, with no impact from changes in currency

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exchange rates. Gross sales of Fisher-Price® Friends products increased 67%, with no impact from changes in currency exchange rates, primarily due to the benefit of licensing revenues from the acquisition of HIT Entertainment. Cost of sales decreased 7% in the second quarter of 2012, as compared to flat net sales, driven primarily by lower product and other costs and lower royalty expenses. Gross margins increased primarily due to favorable product mix, including lower sales of royalty-related entertainment properties, and price increases and savings from Operational Excellence 2.0 initiatives, partially offset by higher input costs.

North America segment income increased 5% to \$104.7 million in the second quarter of 2012, as compared to \$99.6 million in 2011, driven primarily by higher gross margins, partially offset by higher other selling and administrative expenses, mainly due to HIT Entertainment's ongoing other selling and administrative expenses, higher employee-related expenses, and investments in strategic initiatives.

International Segment

The following table provides a summary of percentage changes in gross sales for the International segment in the second quarter of 2012 versus 2011:

	% Change in	Impact of Change in Currency Rates
	<u>Gross Sales</u>	<u>(in % pts)</u>
Total International Segment	-1	-10
Europe	-2	-10
Latin America	-1	-13
Asia Pacific	1	-4

Gross sales for the International segment were \$606.2 million in the second quarter of 2012, down \$5.1 million or 1%, as compared to \$611.3 million in 2011, with unfavorable changes in currency exchange rates of 10 percentage points. Gross sales of Mattel Girls & Boys Brands decreased 3%, with unfavorable changes in currency exchange rates of 10 percentage points. Gross sales of Barbie® increased 2%, with unfavorable changes in currency exchange rates of 10 percentage points. Gross sales of Other Girls Brands increased 85%, with unfavorable changes in currency exchange rates of 20 percentage points, driven primarily by higher sales of Monster High® products. Gross sales of Wheels products decreased 1%, with unfavorable changes in currency exchange rates of 11 percentage points. Gross sales of Entertainment products decreased 34%, with unfavorable changes in currency exchange rates of 7 percentage points, due to lower sales of CARS 2® products resulting from the timing of the movie release during 2011. Gross sales of Fisher-Price Brands increased 4%, with unfavorable changes in currency exchange rates of 9 percentage points. Gross sales of Core Fisher-Price® products decreased 5%, with unfavorable changes in currency exchange rates of 8 percentage points. Gross sales of Fisher-Price® Friends products increased 39%, with unfavorable changes in currency exchange rates of 11 percentage points, driven primarily by the benefit of licensing revenues from the acquisition of HIT Entertainment. Cost of sales decreased 6% in the second quarter of 2012, as compared to a 1% decrease in net sales, driven primarily by lower product and other costs and lower royalty expenses. Gross margins increased primarily due to favorable product mix, including lower sales of royalty-related entertainment properties, and price increases and savings from Operational Excellence 2.0 initiatives, partially offset by higher input costs.

International segment income increased 1% to \$84.2 million in the second quarter of 2012, as compared to \$83.1 million in 2011, driven primarily by higher gross margins, partially offset by higher other selling and administrative expenses, mainly due to HIT Entertainment's ongoing other selling and administrative expenses, higher employee-related costs, and investments in strategic initiatives.

American Girl Segment

Gross sales for the American Girl segment were \$74.1 million in the second quarter of 2012, up \$2.1 million or 3%, as compared to \$72.0 million in 2011, with an unfavorable change in currency exchange rates of 1 percentage point. The increase in gross sales was driven primarily by sales of McKenna™, the 2012 Girl of the

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Year ® doll, and the benefit of a new American Girl ® store in St. Louis, Missouri which opened in April 2012. Cost of sales increased 8% in the second quarter of 2012, as compared to a 4% increase in net sales, driven primarily by higher product and other costs. Gross margins decreased primarily due to higher input costs, partially offset by price increases.

American Girl segment losses were \$6.8 million in the second quarter of 2012, as compared to a \$2.9 million in 2011, driven primarily by lower gross margins and higher other selling and administrative expenses from retail expansion, partially offset by higher net sales.

Results of Operations—First Half of 2012

Consolidated Results

Net sales for the first half of 2012 were \$2.09 billion, down 1%, as compared to \$2.11 billion in 2011, with unfavorable changes in currency exchange rates of 3 percentage points. Net income for the first half of 2012 was \$104.0 million, or \$0.30 per diluted share, as compared to \$97.1 million, or \$0.27 per diluted share, in 2011. Net income for the first half of 2012 was positively impacted by higher gross margins, partially offset by higher other selling and administrative expenses, including transaction and integration costs associated with HIT Entertainment of approximately \$17 million.

The following table provides a summary of Mattel’s consolidated results for the first half of 2012 and 2011 (in millions, except percentage and basis point information):

	For the Six Months Ended June 30,				Year/Year Change	
	2012		2011		Basis Points	
	Amount	% of Net Sales	Amount	% of Net Sales	%	of Net Sales
Net sales	<u>\$2,087.2</u>	100.0%	<u>\$2,113.5</u>	100.0%	-1%	—
Gross profit	\$1,067.9	51.2%	\$1,029.4	48.7%	4%	250
Advertising and promotion expenses	210.3	10.1	218.0	10.3	-4%	-20
Other selling and administrative expenses	<u>697.4</u>	33.4	<u>665.4</u>	31.5	5%	190
Operating income	160.2	7.7	146.0	6.9	10%	80
Interest expense	42.6	2.0	36.5	1.7	17%	30
Interest (income)	(3.7)	-0.2	(5.6)	-0.3	-34%	10
Other non-operating (income), net	<u>(0.2)</u>		<u>(1.0)</u>			
Income before income taxes	<u>\$ 121.5</u>	5.8%	<u>\$ 116.1</u>	5.5%	5%	30

Sales

Net sales for the first half of 2012 were \$2.09 billion, down 1%, as compared to \$2.11 billion in 2011, with unfavorable changes in currency exchange rates of 3 percentage points. Gross sales within the North American Region decreased 4% in the first half of 2012, as compared to 2011, with no impact from changes in currency exchange rates, driven primarily by lower sales of CARS 2 ® products, partially offset by higher sales of our key brands including Barbie ®, Monster High ®, American Girl, and Hot Wheels ®. Gross sales within the North American Region accounted for 52% of consolidated gross sales in the first half of 2012, as compared to 54% of consolidated gross sales in 2011. Gross sales in the International Region increased 2% in the first half of 2012, as compared to 2011, with unfavorable changes in currency exchange rates of 8 percentage points.

Cost of Sales

Cost of sales as a percentage of net sales was 48.8% in the first half of 2012, as compared to 51.3% in 2011. Cost of sales decreased by \$64.9 million, or 6%, from \$1.08 billion in the first half of 2011 to \$1.02 billion in 2012, as compared to a 1% decrease in net sales. Within cost of sales, product and other costs decreased by

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\$36.4 million, or 4%, from \$856.9 million in the first half of 2011 to \$820.5 million in 2012; royalty expenses decreased by \$24.5 million, or 24%, from \$103.6 million in the first half of 2011 to \$79.1 million in 2012; and freight and logistics expenses decreased by \$3.9 million, or 3%, from \$123.6 million in the first half of 2011 to \$119.7 million in 2012.

Gross Profit

Gross profit as a percentage of net sales increased to 51.2% in the first half of 2012 from 48.7% in 2011. The increase in gross profit as a percentage of net sales was driven primarily by favorable product mix, including lower sales of royalty-related entertainment properties, and price increases and savings from Operational Excellence 2.0 initiatives, partially offset by higher input costs. Additionally, gross profit as a percentage of net sales was positively impacted by the acquisition of HIT Entertainment.

Advertising and Promotion Expenses

Advertising and promotion expenses primarily consist of: (i) media costs, which primarily include the media, planning, and buying fees for television, print, and online advertisements, (ii) non-media costs, which primarily include commercial and website production, merchandising, and promotional costs, and (iii) generic advertising costs, which primarily include trade show costs. Advertising and promotion expenses decreased to 10.1% of net sales in the first half of 2012, as compared to 10.3% of net sales in 2011, due primarily to a benefit from lower advertising rates from HIT Entertainment's licensing business.

Other Selling and Administrative Expenses

Other selling and administrative expenses were \$697.4 million in the first half of 2012, as compared to \$665.4 million in 2011, or 33.4% of net sales in 2012, as compared to 31.5% of net sales in 2011. The increase in other selling and administrative expenses was driven primarily by transaction and integration costs associated with HIT Entertainment of approximately \$17 million in the first half of 2012, HIT Entertainment's ongoing other selling and administrative expenses, higher employee-related expenses, and investments in strategic growth initiatives, including initiatives related to American Girl retail store expansion and information technology initiatives. The increase was partially offset by lower MGA legal fees of approximately \$34 million as Mattel was in trial during the first half of 2011, the absence of legal settlement costs, and structural cost savings from Operational Excellence 2.0 initiatives. Mattel expects to incur a total of approximately \$25 million to \$30 million of transaction and integration costs associated with HIT Entertainment during 2012.

Non-Operating Items

Interest expense increased from \$36.5 million in the first half of 2011 to \$42.6 million in 2012, driven primarily by higher average borrowings (resulting from the issuance of \$600.0 million of senior notes in November 2011, partially offset by repayments of \$240.0 million long-term debt in the second quarter of 2011 and \$10.0 million long-term debt in the fourth quarter of 2011), partially offset by lower average interest rates. Interest income decreased from \$5.6 million in the first half of 2011 to \$3.7 million in the first half of 2012, driven primarily by lower average interest rates and lower invested cash balances.

Provision for Income Taxes

Mattel's income tax provision was \$17.5 million in the first half of 2012, as compared to \$19.0 million in 2011. Mattel recognized discrete tax benefits of \$10.5 million and \$6.4 million in the first half of 2012 and 2011, respectively, primarily related to reassessments of prior years' tax liabilities based on the status of audits and tax filings in various jurisdictions, settlements, and enacted tax law changes.

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Business Segment Results

Effective January 1, 2012, Mattel modified its organizational structure, which resulted in changes to its operating segments. The new operating segments are: (i) North America, (ii) International, and (iii) American Girl. The North America and International segments sell products in the Mattel Girls & Boys Brands and Fisher-Price Brands categories, although some are developed and adapted for particular international markets. Prior period amounts have been reclassified to conform to the current year presentation.

North America Segment

Gross sales for the North America segment were \$1.04 billion in the first half of 2012, down \$51.5 million or 5%, as compared to \$1.09 billion in 2011, with no impact from changes in currency exchange rates, driven primarily by lower sales of CARS 2[®] products, partially offset by higher Monster High[®] sales. Gross sales of Mattel Girls & Boys Brands decreased 7%, with an unfavorable change in currency exchange rates of 1 percentage point. Gross sales of Barbie[®] increased 1%, with no impact from changes in currency exchange rates. Gross sales of Other Girls products increased 45%, with no impact from changes in currency exchange rates, driven primarily by higher sales of Monster High[®] and Disney Princess[®] products. Gross sales of Wheels products increased 6%, with no impact from changes in currency exchange rates, driven primarily by higher sales of Hot Wheels[®] products. Gross sales of Entertainment products decreased 36%, with no impact from changes in currency exchange rates, driven primarily by lower sales of CARS 2[®] products resulting from the timing of the movie release during 2011. Gross sales of Fisher-Price Brands decreased 2%, with no impact from changes in currency exchange rates. Gross sales of Core Fisher-Price[®] products decreased 11%, with no impact from changes in currency exchange rates. Gross sales of Fisher-Price[®] Friends products increased 45%, with no impact from changes in currency exchange rates, driven primarily by the benefit of licensing revenues from the acquisition of HIT Entertainment. Cost of sales decreased 9% in the first half of 2012, as compared to a 5% decrease in net sales, driven primarily by lower product and other costs and lower royalty expenses. Gross margins increased primarily due to favorable product mix, including lower sales of royalty-related entertainment properties, and price increases and savings from Operational Excellence 2.0 initiatives, partially offset by higher input costs.

North America segment income decreased by 8% to \$168.7 million in the first half of 2012, as compared to \$184.1 million in 2011, driven primarily by lower net sales and higher other selling and administrative expenses, primarily due to HIT Entertainment's ongoing other selling and administrative expenses and higher employee-related expenses, partially offset by higher gross margins.

International Segment

The following table provides a summary of percentage changes in gross sales for the International segment in the first half of 2012 versus 2011:

	% Change in	Impact of Change
	Gross Sales	in Currency Rates
		(in % pts)
Total International Segment	2	-8
Europe	2	-7
Latin America	2	-10
Asia Pacific	7	-2

Gross sales for the International segment were \$1.09 billion in the first half of 2012, up \$25.0 million or 2%, as compared to \$1.07 billion in 2011, with unfavorable changes in currency exchange rates of 8 percentage points. Gross sales of Mattel Girls & Boys Brands increased 1%, with unfavorable changes in currency exchange rates of 7 percentage points. Gross sales of Barbie[®] decreased 1%, with unfavorable changes in currency exchange rates of 6 percentage points. Gross sales of Other Girls Brands increased 70%, with unfavorable changes in currency exchange rates of 13 percentage points, driven primarily by higher sales of Monster High[®]

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and Disney Princess ® products. Gross sales of Wheels products decreased 2%, with unfavorable changes in currency exchange rates of 8 percentage points driven primarily by lower sales of Hot Wheels ® products. Gross sales of Entertainment products decreased 22%, with unfavorable changes in currency exchange rates of 6 percentage points, driven primarily by lower sales of CARS 2 ® products resulting from the timing of the movie release during 2011. Gross sales of Fisher-Price Brands increased 6%, with unfavorable changes in currency exchange rates of 7 percentage points. Gross sales of Core Fisher-Price ® products decreased 4%, with unfavorable changes in currency exchange rates of 6 percentage points. Gross sales of Fisher-Price ® Friends products increased 45%, with unfavorable changes in currency exchange rates of 9 percentage points, driven primarily by the benefit of licensing revenues from the acquisition of HIT Entertainment. Cost of sales were flat in the first half of 2012, as compared to a 2% increase in net sales, primarily due to lower royalty expenses, offset by higher product and other costs. Gross margins increased primarily due to favorable product mix, including lower sales of royalty-related entertainment properties, and price increases and savings from Operational Excellence 2.0 initiatives, partially offset by higher input costs.

International segment income increased 3% to \$123.4 million in the first half of 2012, as compared to \$120.2 million in 2011, driven primarily by higher gross margins, partially offset by higher other selling and administrative expenses, primarily related to higher employee-related costs, HIT Entertainment's ongoing other selling and administrative expenses, and investments in strategic initiatives, including the opening of a Russian subsidiary.

American Girl Segment

Gross sales for the American Girl segment were \$155.7 million in the first half of 2012, up \$5.2 million or 3%, as compared to \$150.5 million in 2011, with an unfavorable change in currency exchange rates of 1%. The increase in gross sales was driven primarily by sales of McKenna™, the 2012 Girl of the Year ® doll. Cost of sales increased 7% in the first half of 2012, as compared to a 4% increase in net sales, driven primarily by higher product and other costs. Gross margins decreased primarily due to higher input costs, partially offset by price increases.

American Girl's segment loss was \$5.4 million in the first half of 2012, as compared to segment income of \$0.1 million in 2011. The loss was driven primarily by higher other selling and administrative expenses from retail expansion, partially offset by higher net sales.

Operational Excellence 2.0

During 2011, Mattel initiated the second phase of its cost savings program, Operational Excellence 2.0, which currently targets cumulative cost savings of approximately \$175 million by the end of 2012. The cost savings are expected to include a reduction in legal costs of approximately \$75 million, which will lower other selling and administrative expenses, and approximately \$100 million of structural cost savings executed through a handful of important initiatives, which will be reflected in gross profit, advertising and promotion expenses, and other selling and administrative expenses. The major initiatives within the Operational Excellence 2.0 program include:

- A reorganization which resulted in the North America division,
- Additional procurement initiatives designed to fully leverage Mattel's global scale,
- SKU efficiency, and
- Packaging optimization.

In the second quarter of 2012, Mattel realized Operational Excellence 2.0 gross cost savings before severance charges and investments of approximately \$23 million (or approximately \$19 million in net cost savings). The gross cost savings for the second quarter included approximately \$13 million of structural cost savings and approximately \$10 million of legal cost savings. Of the gross cost savings realized during the three months ended June 30, 2012, approximately \$14 million was reflected within other selling and administrative expenses, approximately \$7 million within gross profit, and approximately \$2 million within advertising and promotion expenses.

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In the first half of 2012, Mattel realized Operational Excellence 2.0 gross cost savings before severance charges and investments of approximately \$59 million (or approximately \$50 million in net cost savings). The gross cost savings included approximately \$34 million of legal cost savings and \$25 million of structural cost savings. Of the gross cost savings realized in the first half of 2012, approximately \$43 million was reflected in other selling and administrative expenses, approximately \$12 million within gross profit, and approximately \$4 million within advertising and promotion expenses.

From the commencement of Operational Excellence 2.0 through June 30, 2012, Mattel has realized approximately \$153 million of cumulative gross cost savings. Mattel continues to be on track to realize \$175 million in sustainable cumulative savings by the end of 2012.

Income Taxes

Mattel's provision for income taxes was \$17.5 million and \$19.0 million for the first half of 2012 and 2011, respectively. Mattel recognized discrete tax benefits of \$10.5 million in the second quarter and first half of 2012, primarily related to reassessments of prior years' tax liabilities based on the status of current audits and tax filings in various jurisdictions, settlements, and enacted tax law changes. Mattel recognized discrete tax benefits of \$6.4 million in the second quarter and first half of 2011, primarily related to reassessments of prior years' tax liabilities based on the status of audits and tax filings in various jurisdictions, settlements, and enacted tax laws changes.

In the normal course of business, Mattel is regularly audited by federal, state, local and foreign tax authorities. In the fourth quarter of 2011, the IRS issued several Notices of Proposed Adjustments ("NOPA") related to its examination of the 2008 and 2009 federal income tax returns. In the first quarter of 2012, the IRS issued a Revenue Agent's Report ("RAR") related to the examination. In the second quarter of 2012, Mattel submitted written protests for all unresolved issues to the IRS Office of Appeals. Mattel believes it is more likely than not that ultimate resolution of these issues will not result in any significant changes to unrecognized tax benefits in the next twelve months. Based on the current status of state and foreign audits, Mattel may recognize a benefit of up to approximately \$8 million related to the settlement of tax audits and/or the expiration of statutes of limitations in the next twelve months. The ultimate settlement of any particular issue with the applicable taxing authority could have a material impact on Mattel's consolidated financial statements.

Liquidity and Capital Resources

Mattel's primary sources of liquidity are its cash and equivalents balances, access to short-term borrowing facilities, including Mattel's commercial paper program and its \$1.40 billion domestic unsecured committed revolving credit facility, and issuances of long-term debt securities. Cash flows from operating activities could be negatively impacted by decreased demand for Mattel's products, which could result from factors such as adverse economic conditions and changes in public and consumer preferences, or by increased costs associated with manufacturing and distribution of products, or shortages in raw materials or component parts. Additionally, Mattel's ability to issue long-term debt and obtain seasonal financing could be adversely affected by factors such as global economic crises and tight credit environments, an inability to meet its debt covenant requirements, which include maintaining consolidated debt-to-earnings before interest, taxes, depreciation, and amortization ("EBITDA") and interest coverage ratios, or a deterioration of Mattel's credit ratings. Mattel's ability to conduct its operations could be negatively impacted should these or other adverse conditions affect its primary sources of liquidity.

Current Market Conditions

Mattel is exposed to financial market risk resulting from changes in interest and foreign currency rates. Mattel believes that it has ample liquidity to fund its business needs, including beginning of year cash and equivalents, cash flows from operations, access to the commercial paper market, and its \$1.40 billion domestic unsecured committed revolving credit facility, which it uses for seasonal working capital requirements. As of

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June 30, 2012, Mattel had available incremental borrowing resources totaling \$1.40 billion under its domestic unsecured committed revolving credit facility, and Mattel has not experienced any limitations on its ability to access this source of liquidity. Market conditions could affect certain terms of other debt instruments that Mattel enters into from time to time.

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

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

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

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

Capital and Investment Framework

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

- To maintain approximately \$800 million to \$1 billion in year-end cash available to fund a substantial portion of seasonal working capital;
- To maintain a year-end debt-to-capital ratio of about 35%;
- To invest approximately \$180 million to \$200 million in capital expenditures annually to maintain and grow the business;
- To make strategic opportunistic acquisitions; and
- To return excess funds to stockholders through dividends and share repurchases.

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

Operating Activities

Cash flows used for operating activities were \$61.1 million in the first half of 2012, as compared to \$226.8 million for the same period in 2011. The decrease in cash flows used for operating activities was primarily due to lower working capital usage.

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Investing Activities

Cash flows used for investing activities were \$815.5 million in the first half of 2012, as compared to \$44.4 million for the same period in 2011. The increase in cash flows used for investing activities was primarily due to the acquisition of HIT Entertainment and the settlement of foreign currency forward exchange contracts.

Financing Activities

Cash flows used for financing activities were \$119.6 million in the first half of 2012, as compared to \$600.8 million for the same period in 2011. The decrease in cash flows used for financing activities was primarily due to repayments of long-term debt in the first half of 2011 and fewer share repurchases in the first half of 2012, partially offset by higher dividend payments in the first half of 2012.

Seasonal Financing

Mattel maintains and periodically amends or replaces its domestic unsecured committed revolving credit facility with a commercial bank group that is used as a back-up facility to Mattel's commercial paper program, which is used as the primary source of financing for the seasonal working capital requirements of its domestic subsidiaries. The revolving credit facility was amended and restated on March 8, 2011 to, among other things, (i) extend the maturity date of the credit facility to March 8, 2015, (ii) increase aggregate commitments under the credit facility to \$1.40 billion, with an "accordion feature," which allows Mattel to increase the aggregate availability under the credit facility to \$1.60 billion under certain circumstances, (iii) decrease the applicable interest rate margins to a range of 0.25% to 1.50% above the applicable base rate for base rate loans, and 1.25% to 2.50% above the applicable London Interbank Borrowing Rate for Eurodollar rate loans, in each case depending on Mattel's senior unsecured long-term debt rating, and (iv) decrease commitment fees to a range of 0.15% to 0.40% of the unused commitments under the credit facility.

In connection with the execution of the amendment of the domestic unsecured revolving credit facility in 2011, Mattel terminated its \$300.0 million domestic receivables sales facility, which was a sub-facility of the domestic unsecured committed revolving credit facility.

Mattel is required to meet financial covenants at the end of each quarter and fiscal year, using the formulae specified in the credit facility agreement to calculate the ratios. Mattel was in compliance with such covenants at the end of the six months ended June 30, 2012. As of June 30, 2012, Mattel's consolidated debt-to-EBITDA ratio, as calculated per the terms of the credit facility agreement, was 1.3 to 1 (compared to a maximum allowed of 3.0 to 1) and Mattel's interest coverage ratio was 15.0 to 1 (compared to a minimum required of 3.50 to 1).

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

To finance seasonal working capital requirements of certain foreign subsidiaries, Mattel avails itself of individual short-term credit lines with a number of banks. Mattel expects to extend the majority of these credit lines throughout 2012.

In April 2011, a major credit rating agency changed Mattel's long-term credit rating from BBB to BBB+, and maintained its short-term credit rating of A-2 and outlook at stable. Additionally, in April 2011, another major credit rating agency changed Mattel's long-term credit rating from Baa2 to Baa1, and maintained its short-term credit rating of P-2 and outlook at stable. In May 2011, a major credit rating agency changed Mattel's long-term credit rating from BBB+ to A-, and maintained its short-term credit rating of F-2 and outlook at stable.

Mattel believes its cash on hand, amounts available under its domestic unsecured committed revolving credit facility, and its foreign credit lines will be adequate to meet its seasonal financing requirements in 2012.

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Financial Position

Mattel's cash and equivalents decreased \$996.8 million to \$372.3 million at June 30, 2012, as compared to \$1.37 billion at December 31, 2011. The decrease was driven primarily due to the acquisition of HIT Entertainment, settlement of foreign currency forward exchange contracts, dividend payments made in the first half of 2012, purchases of property, plant, and equipment, purchases of tools, dies, and molds, seasonal changes in working capital, and share repurchases.

Goodwill increased \$243.9 million to \$1.07 billion at June 30, 2012, as compared to \$822.1 million at December 31, 2011. Other noncurrent assets increased \$550.5 million to \$1.43 billion at June 30, 2012, as compared to \$881.9 million at December 31, 2011. The increase in goodwill and other noncurrent assets was driven primarily by goodwill and identifiable intangible assets relating to the acquisition of HIT Entertainment.

The current portion of long-term debt increased \$350.0 million to \$400.0 million at June 30, 2012, as compared to \$50.0 million at December 31, 2011 due to the reclassification of \$350.0 million of 2008 Senior Notes to current.

A summary of Mattel's capitalization is as follows:

	June 30, 2012		June 30, 2011		December 31, 2011	
	(In millions, except percentage information)					
Medium-term notes	\$ 50.0	1%	\$ 100.0	3%	\$ 50.0	1%
2008 Senior Notes	—	—	350.0	9	350.0	7
2010 Senior Notes	500.0	11	500.0	13	500.0	11
2011 Senior Notes	600.0	14	—	—	600.0	13
Total noncurrent long-term debt	1,150.0	26	950.0	25	1,500.0	32
Other noncurrent liabilities	602.6	14	482.2	12	522.1	12
Stockholders' equity	2,590.8	60	2,466.9	63	2,610.6	56
	<u>\$4,343.4</u>	<u>100%</u>	<u>\$3,899.1</u>	<u>100%</u>	<u>\$4,632.7</u>	<u>100%</u>

Mattel's debt-to-total-capital ratio, including short-term borrowings and the current portion of long-term debt, increased from 28.0% at June 30, 2011 to 38.1% at June 30, 2012 due primarily to higher borrowings. Mattel's objective is to maintain a year-end debt-to-capital ratio of about 35%.

Litigation

See Part II, Item 1 "Legal Proceedings."

Application of Critical Accounting Policies and Estimates

Mattel's critical accounting policies and estimates are included in its Annual Report on Form 10-K for the year ended December 31, 2011, and did not change in the first half of 2012.

New Accounting Pronouncement

See Item 1 "Financial Statements—Note 21 to the Consolidated Financial Statements—New Accounting Pronouncement."

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

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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:

	<u>For the Three Months Ended</u>		<u>For the Six Months Ended</u>	
	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>
	<u>(In thousands)</u>			
Revenues by Segment				
North America	\$ 586,430	\$ 580,806	\$1,038,033	\$1,089,575
International	606,212	611,332	1,090,186	1,065,164
American Girl	74,050	72,018	155,673	150,526
Gross sales	1,266,692	1,264,156	2,283,892	2,305,265
Sales adjustments	(107,981)	(102,489)	(196,732)	(191,742)
Net sales	<u>\$1,158,711</u>	<u>\$1,161,667</u>	<u>\$2,087,160</u>	<u>\$2,113,523</u>

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Foreign Currency Exchange Rate Risk

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

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

There are numerous factors impacting the amount by which Mattel's financial results are affected by foreign currency translation and transaction gains and losses resulting from changes in currency exchange rates, including, but not limited to, the level of foreign currency forward exchange contracts in place at a given time and the volume of foreign currency denominated transactions in a given period. However, assuming that such

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factors were held constant, Mattel estimates that a 1 percent change in the US dollar Trade-Weighted Index would impact Mattel's net sales by approximately 0.5% and its full year earnings per share by approximately \$0.01 to \$0.02.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of June 30, 2012, Mattel's disclosure controls and procedures were evaluated to provide reasonable assurance that information required to be disclosed by Mattel in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to management, as appropriate, in a timely manner that would alert them to material information relating to Mattel that would be required to be included in Mattel's periodic reports and to provide reasonable assurance that such information was recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms. The scope of Mattel's assessment of the effectiveness of internal control over financial reporting does not include HIT Entertainment, which was acquired on February 1, 2012. This exclusion is in accordance with the SEC's general guidance that a recently acquired business may be omitted from the scope of the assessment in the year of acquisition. Based on this evaluation, Bryan G. Stockton, Mattel's principal executive officer, and Kevin M. Farr, Mattel's principal financial officer, concluded that these disclosure controls and procedures were effective as of June 30, 2012.

Changes in Internal Control Over Financial Reporting

Mattel made no changes to its internal control over financial reporting or in other factors that materially affected, or were reasonably likely to have materially affected, its internal control over financial reporting during the quarter ended June 30, 2012.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

The content of Note 19, “Contingencies” to the Consolidated Financial Statements of Mattel in Part I of this Quarterly Report on Form 10-Q is hereby incorporated by reference in its entirety in this Item 1.

Item 1A. Risk Factors.

There have been no material changes to the risk factors disclosed under Part I, Item 1A. “Risk Factors” in Mattel’s 2011 Annual Report on Form 10-K.

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

Recent Sales of Unregistered Equity Securities

In the second quarter of 2012, Mattel did not sell any unregistered equity securities.

Issuer Purchases of Equity Securities

This table provides certain information with respect to Mattel’s purchases of its common stock in the second quarter of 2012:

Period	Total Number of	Average Price Paid	Total Number of Shares	Maximum Number (or
	Shares (or Units)		(or Units) Purchased as	Approximate Dollar Value)
	Purchased	per Share (or Unit)	Part of Publicly	of Shares (or Units) that
			Announced Plans or	May Yet Be Purchased
			Programs	Under the Plans or
				Programs
April 1—30				
Repurchase program (1)	—	—	—	\$407,379,599
Employee transactions (2)	682	33.60	N/A	N/A
May 1—31				
Repurchase program (1)	—	—	—	407,379,599
Employee transactions (2)	1,391	32.73	N/A	N/A
June 1—30				
Repurchase program (1)	70,000	30.60	70,000	405,237,804
Employee transactions (2)	80,103	32.44	N/A	N/A
Total				
Repurchase program (1)	70,000	\$30.60	70,000	\$405,237,804
Employee transactions (2)	82,176	32.45	N/A	N/A

(1) Mattel announced its share repurchase program in July 2003. Repurchases will take place from time to time, depending on market conditions. Mattel’s share repurchase program has no expiration date.

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

N/A Not applicable.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

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Item 6. Exhibits.

<u>Exhibit No.</u>	<u>Exhibit Description</u>
12.0*	Computation of Earnings to Fixed Charges
31.0*	Certification of Principal Executive Officer dated July 25, 2012 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.1*	Certification of Principal Financial Officer dated July 25, 2012 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.0**	Certification of Principal Executive Officer and Principal Financial Officer dated July 25, 2012 pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

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

MATTEL, INC. AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Unaudited; in thousands, except ratios)	For the Six Months Ended	For the Years Ended December 31,				
	June 30, 2012	2011	2010	2009	2008	2007
Earnings Available for Fixed Charges:						
Income from continuing operations before income taxes	\$ 121,529	\$ 970,673	\$846,825	\$660,047	\$487,964	\$703,398
Add: Non-controlling interest losses in consolidated subsidiaries	—	—	—	222	262	255
Add:						
Interest expense	42,629	75,332	64,839	71,843	81,944	70,974
Appropriate portion of rents (a)	15,461	30,696	34,544	34,439	29,833	28,245
Earnings available for fixed charges	<u>\$ 179,619</u>	<u>\$1,076,701</u>	<u>\$946,208</u>	<u>\$766,551</u>	<u>\$600,003</u>	<u>\$802,872</u>
Fixed Charges:						
Interest expense	\$ 42,629	\$ 75,332	\$ 64,839	\$ 71,843	\$ 81,944	\$ 70,974
Appropriate portion of rents (a)	15,461	30,696	34,544	34,439	29,833	28,245
Fixed charges	<u>\$ 58,090</u>	<u>\$ 106,028</u>	<u>\$ 99,383</u>	<u>\$106,282</u>	<u>\$111,777</u>	<u>\$ 99,219</u>
Ratio of earnings to fixed charges	<u>3.09 X</u>	<u>10.15 X</u>	<u>9.52 X</u>	<u>7.21 X</u>	<u>5.37 X</u>	<u>8.09 X</u>

(a) Portion of rental expenses that is deemed representative of an interest factor, which is one-third of total rental expense.

CERTIFICATIONS

I, Bryan G. Stockton, 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: July 25, 2012

By: _____ /s/ Bryan G. Stockton
Bryan G. Stockton
Chief Executive Officer
(Principal executive officer)

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: July 25, 2012

By: _____
/s/ Kevin M. Farr
Kevin M. Farr
Chief Financial Officer
(Principal financial officer)

