MANAGEMENT DISCUSSION SECTION

Robert A. Eckert, Chairman and Chief Executive Officer

Good morning everyone. How are you today? Welcome, and a special welcome to those of you joining us via the webcast.

As I mentioned during Mattel's first quarter earnings call in April, Monday marks my 10-year anniversary with Mattel. As you well know, I joined the company during some tough times and in the midst of change. On my first day on the job, I gathered Mattel employees together in the cafeteria and told them we are going to do three things: build brands, cut costs and develop people.

After being part of the company for a few months, I came before the financial community for the first time and I expressed the same basic notion, but with a little bit more meat on the bones.

So let's take a little trip down memory lane. In 2000, I said that we would simultaneously improve, globalize and extend our existing toy brands by adhering to five basic strategies. One thing is for sure…..our PowerPoint skills have certainly improved over the past decade. We are going to show you some slides literally from August 2000.

In 2000, I said we would improve the execution of our existing business by developing all elements of the business system; including supply chain innovation and customer support; achieve profitable volume growth, not just volume; and lower costs.

And we have done just that. During the past 10 years, there has been incredible focus and discipline on improving the back office functions of our business, the basic blocking and tackling. When I first arrived at Mattel, we took a hard look inward and challenged Mattel employees across the globe to take a look at the way they do their jobs with a new set of eyes, with a One Mattel mantra in mind.

Whether it is operating efficiency on the factory floor or the number crunching accounting functions, when we applied the One Mattel focus to our business, we made changes for the better, improvements that would have a lasting and long-term positive impact.

In fact, during my first year we improved supply chain performance and service levels by taking four months off our production cycle, while at the same time significantly improving customer order fill levels. As I said then, and still say today, we need to get the right product to the right place at the right time -- all of the time. Today, we are much improved in this area.

Some of these changes were hard. We downsized positions, consolidated functions, and closed factories. But many times we looked beyond reductions to stave off costs, and mined for opportunities. We instituted a long-term I.T. strategy, created the chief procurement officer function, and implemented LEAN programs across the company. All with the goal of identifying efficiencies to assist in reducing cost across many disciplines and functions.

The Mattel machine is clearly running better, as evidenced by our robust cash flow. Since 2000, Mattel has generated more than $7 billion of cash flow. And we have been disciplined and opportunistic in deploying this cash flow by utilizing it to both strengthen the balance sheet and deploy funds for the benefit for our shareholders.

Since we initiated our capital and investment framework in 2003, we have returned more than $3.7 billion to shareholders in the form of share repurchase and dividends. Over the last seven years, we bought back about 109 million shares at an average price of $19.20, representing about 25% of our outstanding shares. And we have increased our dividend payout and yield levels consistent with blue chip consumer products companies.

Our second aim was to globalize the brands by gaining share in developed markets and penetrating new markets.

When I first started at Mattel, international sales represented about 29% of Mattel's overall sales. When I began to benchmark well run consumer goods companies, international sales typically represented about half of a company's sales. I'm pleased to report, 10 years of effort and focus has resulted in international making up 46% of Mattel sales in 2009.

Our international success continues to be based on managing a balanced portfolio of markets and brands. Our global presence along with local knowledge and execution, positions us to deliver growth across both mature and developing markets, and we aim to deliver this growth at margins comparable to the U.S.

And while some may assume that growth opportunities are limited to only emerging markets, we continue to pursue and realize the growth potential in core, mature markets. For example, our share of the toy market in the U.S. is larger than in the top five European countries and in Australia and Canada, so there is upside in mature markets.

Our developing market strategy is to invest to build overall category development, create consumer demand for branded toys and position our leading brands as the premier products to address consumer needs. We've also placed strategic bets in some key developing markets in order to help unlock their burgeoning scale potential.

We also promise to extend the brands into new areas, such as the interactive arena, the internet, entertainment, publishing and licensing through partnerships.

And we've delivered on this promise, and when we have in some cases, it was a game changer for the industry. Once such example was in February of 2001. The Barbie brand transformed the landscape for toys and entertainment with the launch of the first ever full-length Barbie feature, "Barbie in the Nutcracker." One of the first toy brands to delve into the entertainment world, the Barbie entertainment franchise has sold more than 85 million DVDs in 23 languages and has forged the way for branded toy entertainment.

Ten years later, with almost 20 chart topping DVDs under our belt, Barbie entertainment has taken a new artistic direction with fresh story telling and break-frame animation bringing Barbie to life in a new way through original stories based in modern day settings.

For Spring, Barbie stars in a more contemporary tale: "Barbie In a Mermaid Tale." And girls are clearly responding and connecting to the new artistic direction for the brand. The dolls are flying off the shelf at retail and when we look at our internal data, "Barbie In a Mermaid Tale" related dolls are consistently in our top five selling products within the Mattel brands portfolio.

For Fall, Barbie stars as herself in "Barbie - A Fashion Fairytale" and embarks on a modern day fairytale as she takes a journey to Paris where she makes new friends and stars in a fashion show. To harmonize the movie with the toy line, the corresponding Fashion Fairytale Barbie doll lights up with a push of a button and synchronizes to music from the movie's fashion show finale.

And while the animation has been refreshed and the stories contemporized, as always, every Barbie film teaches an important life lesson in a girl-friendly way.

Barbie.com is yet another example of extending our brands. Launched a couple of years before I started at Mattel, Barbie.com was one of the first - if not the first - website dedicated to girl content. It consistently ranks among the top 10 websites for girls 2 to 11 with the core visitor being girls between the ages of 6 and 10 years old, which tells us that older girls are still interested in and engaged in a Barbie brand beyond what we would traditionally think of as doll play.

And although more kids are spending a greater amount of time online, the market has grown very competitive and saturated with major investments by other kid entertainment brands as well as with other options such as games sites and virtual worlds. Barbie.com has continued to increase its breadth and depth of content as well as strengthen its connection to the brand and toy line over the years with games, videos and activities. All of this has kept it as one of the top ten online entertainment destinations for girls. Barbie is also a virtual celebrity in the social media space with more than 380,000 fans on Facebook and 12,000 followers on Twitter. And as a next step, later this Fall, Barbie will be launching two new iPhone apps that provide a fun way to extend the brand and deliver content to girls.

Max Steel is another great example of brand extension. Max Steel is the number one action figure brand in Latin America. The brand has an extensive DVD distribution with more than one and half million copies distributed last year. You can also find Max on broadcast television and we have a strong partnership with Cartoon Network, which airs Max Steel movies 12 times a year.

Currently, Hot Wheels is our only brand to boast a series on a U.S. Kids television network. Since its August 29 debut last year, Hot Wheels Battle Force 5 has been a top rated show on Cartoon Network and has been renewed for a second season. Kids are not only turning on their televisions to watch their favorite team of teen drivers; to date, more than 10 million full episodes have been downloaded on CartoonNetwork.com.

Our American Girl store expansion model is also another fine example of extending our brands. As you know, in 1998 American Girl opened a flagship retail experience in Chicago. With additional flagship locations in New York and Los Angeles, these stores are roughly 45,000 square feet and feature dining and parties, a photo studio, our famously successful doll hair salon, as well as our over-the-top programs and events.

In 2007 and 2008, we opened an additional four locations in Atlanta, Boston, Dallas and Minneapolis. We consider these our medium to large stores, ranging between 15,000 and 25,000 square feet, which feature a more casual dining experience, a doll hair salon, and a two-hour themed party that immerses girls in our rich content.

In 2009, we began working on our newest store format - an 8, 500 square foot store that carries the full line of products and two experiences; doll hair salon; and Creativi-tees, where a girl designs her own doll t-shirt that reflects her creativity and style. This store opened in March of this year in the Park Meadows Mall just outside of Denver. The purpose of this pilot is to test secondary markets that would support a smaller-format store, keeping our customers in these markets engaged in our brand.

We've been in the retail business for over a decade and we've gained some key learnings. First is that retail extends the brand. With it's origin in direct marketing, American Girl is able to target markets where we have avid customers and potentials based upon demographic and sociographic information, as we look to grow not only current customers but also bring in new customers.

That said, we do keep a very close eye on cannibalization, measuring the impact on the direct channel as well as other retail locations. Consistently, we've experienced small cannibalization on the business; however, laying in the overall impact we are seeing significant incremental growth in both revenue and operating profit.

Looking at our future growth, American Girl will continue to take a measured approach as we expand retail over the next several years. As we look to the real estate landscape, we will limit the number of stores to premium locations in select markets, as we've been doing. In addition, we will continue to utilize our customer segmentation to determine future market potential.

Fisher-Price has been at the forefront of connecting with moms where they are spending their time. Research shows that women are spending less time with traditional media, with TV viewing down 30%. Magazine readership is also down about the same. But moms are spending more time on social networking sites, with more than 22 million moms on Facebook alone.

So Fisher-Price created a meaningful and relevant application, or app, to respond to the fact that 85% of those Facebook moms are posting and sharing photos and videos. The unique application makes it easy for parents to record their child's milestones and special moments in a dynamic timeline they easily create with digital photos, videos, dates, captions and stories, while at the same time, getting exposure to age-related parenting content and product suggestions.

And since 65% of iPhone and iTouch owners pass their device to their kids, Fisher-Price has also launched Fisher-Price branded iPhone and iTouch apps to offer kids a new digital play experience, creating yet another connection to the physical toys.

Back in 2000, we also said our goal was to catch new trends within our existing businesses and create new brands and enter new categories.

I know that we have teased a lot about our newest Monster property so I'm very excited to finally be able to say that the Monsters are here and introduce the Monster High franchise, an original storyline that brings together the hip teenage descendents of the world's most famous monsters to brave the horrors of high school.

Never in Mattel history have we launched such a comprehensive franchise program that includes an all-encompassing toy line, publishing, entertainment in the form of webisodes and a live action musical in the works, as well as an apparel partner. The dolls are just beginning to ship and promotions and tie-ins will begin this Summer with a natural push during Back-To-School and Halloween.

Another great example of being on-trend with girls is the introduction of Barbie Video Girl, which truly allows girls to play with Barbie in a whole new way.

With a camera lens in her necklace and a color LCD video screen on her back, girls can create movies from Barbie's point-of-view and immediately play back the footage they capture. They can even edit footage to create a movie using our free editing software that also includes the ability to add music, visual and sound effects.

When I think of entering new categories, one of the best examples is Fisher-Price BabyGear. When I first joined the company, Fisher-Price BabyGear was approaching an all-time low. The company had to decide whether to exit the category or rethink how we approach the business. The decision was made to refocus on fewer categories where we thought we could lead.

Let me give you a couple of examples. In the area of product innovation, we developed a number of "game changers" that transformed the way consumers shop for baby gear. The Fisher-Price Cradle Swing was the first swing to soothe the child in either a head-to-toe or side-to-side motion. It revolutionized the way moms use swings. And to respond to the trend of portability, we created the Take Along Swing, the first swing that could be made small enough to take with you. The Space Saver High Chair is another great example because it brings all of the features of a full-size high chair in just half the space, which is on trend as new home sizes have decreased and grandparents buy more gear for their own homes.

From a marketing perspective, Fisher-Price was the first to bring toyetic themes and approaches to baby gear with bright fashions and character forward toys and looks, such as the Ocean Wonders and Rainforest themes, which are two of our best selling collections.

One of my favorite examples of catching new trends is the Fisher-Price iXL, this year's must-have smart device for preschoolers. iXL is a child portable window to a whole new world of learning and entertainment, with six applications: Story Book, Game Player, Notebook, Art Studio, Music Player and Photo Album. Licensed software will also be available for Ni-Hao Kai Lan, Disney Princess, Handy Manny, Batman, Toy Story and Scooby-Doo.

And the sleeper hit at Toy Fair, hands down, was Sing-a-ma-jigs. These irresistible and off-beat plush characters chatter and sing, and when kids put them all together and squeeze - Sing-a-ma-jigs harmonize. The more kids collect, the bigger the chorus. Given their fabulous price point, I expect these to be a big hit this holiday season.

And in the midst of achieving these goals, we promised to develop our people through measuring their achievements, rewarding their accomplishments, training for the next level and promoting from within.

People development at Mattel is designed to cultivate, engage and reward the individual and combined talents of our employees. In 2000, Mattel opened a state-of-the-art leadership and development center at our corporate headquarters dedicated to the enhancement and enrichment of our people through interactive workshops and classes. During the last 10 years, we've had more than 20,000 employees attend instructor-led courses globally, averaging about 2,000 course enrollments per year. Through Mattel On-Line Learning, we also offer more than 2,000 online courses on business-related and professional development topics. Since we began the online program in 2003, more than 17,000 courses have been completed.

We also implemented a formal talent management system and succession planning process through which managers identify steller performers within the organization for career advancement opportunities. This system provides employees with opportunities both within and outside of their current business units, resulting in increased movement of individuals within and between units.

And it's this last sentiment - the people of Mattel - that moves the company forward and bolsters our reputation. And I'm so very proud to say that even though last year was a year of sacrifice and hard work for Mattel employees, for the third consecutive year, FORTUNE Magazine named Mattel to one of its "100 Best Companies to Work For" list. Additionally, we've been ranked again among the "World's Most Ethical Companies" and as one of the "100 Best Corporate Citizens." And just recently we were recognized as the Outstanding Headquarters in Los Angeles for 2010. We've also published our third Global Citizenship Report, which focused on our efforts to create safe, high-quality products and to manufacture them in a responsible and ethical manner while management our environmental impact.

As I began my second decade at Mattel, we've launched our new vision for the company - creating the future play. For those of you who know me, this path will be more evolutionary than revolutionary; but it means that we believe in the value of play - the possibilities it creates and the joy that it brings.

We've also seen how the depth and breadth of our portfolio of brands has resonated across a number of toy categories, around the globe. We touch the child's imagination from the day they're born through their early teens and for many of us, the child in us continues to thrive through our robust collector businesses.

Our brands have been around for decades and we are just now reaping the benefits of such a legacy as we see Moms and Dads and Grandma's and Grandfather's pass on the tradition of Mattel toys.

The depth and breadth of our brands, and the success they bring has allowed us to give back to communities around the world. I believe in the old adage - you get what you give. Operating responsibility and recognizing the good we can bring to communities is advantageous to the business. Giving back and profit are not mutually exclusive; in fact our profitability allows us to make a greater, long-term social impact as part of our strategic Corporate Responsibility efforts.

Our goal moving forward is to build on the progress we have made and to push ourselves to achieve more. That's consistent with our goals for 2010: to capitalize on the opportunities to increase revenues by continuing core brand performance while maximizing the opportunities surrounding our new entertainment properties; maintain cost and expense controls; and deliver another strong year of profits and cash flow.

At Mattel, we have the unique opportunity to work at the intersection of what is enduring and what is innovative, which allows us the unrivaled opportunity to create emotional connections with children that last a lifetime. When we do this, there are no limits to what we can invent and the joy we can create.

And now, I would like to introduce Mattel's CFO, Kevin Farr.

Kevin M. Farr, Chief Financial Officer

Thanks Bob and good morning everyone.

As you have just heard from Bob, Mattel has a rich history and ability to leverage its portfolio of brands. My job in the next 20 minutes or so is to discuss our financial priorities and other considerations for our overall operating performance.

I will touch on few topics including; headwinds that are likely to impact our performance this year; levers we can pull to help offset these headwinds; progress on our Global Cost Leadership initiatives, including a little more color on our SKU efficiency.

As a setup, I think it's important to review where we have been up to this point. Over the last few years we have demonstrated the value of having a well-balanced portfolio of brands, that play in a number of categories, in a portfolio of markets around the globe.

From 2000 to 2009, which includes the setback from the 2008 economic downturn, our worldwide revenue grew at compounded annual rate of 2% and our operating profit went up at a compounded annual rate of 8%. Despite the ups and downs in some of our core brands, the ebb and flow of licensed entertainment properties, a major product recall and an economic downturn not seen since the great depression, our global portfolio of brands and markets have generated over $7 billion of cash flow since 2000.

We have consistently deployed this cash using our capital deployment framework with the global goal of maintaining Single-A credit metrics and creating shareholder value. This strong cash flow generation has allowed us to strengthen our balance sheet, invest in and expand our portfolio of brands, as well as pay out strong, consistent dividends and return excess cash to our shareholders via share repurchases.

Our performance over the past nine years reflects our disciplined approach for the business and 2009 is a good example of this. As we said, we entered 2009 with a number of significant headwinds and planned to deliver results based on realistic revenue assumptions. With our top priorities being to improve profitability, strengthen our balance sheet, increase cash flow and protect our dividend. And we accomplish just that. We've improved execution across the supply chain and throughout the company by realigning our infrastructure, controlling cost and expenses, tightly managing working capital, especially inventories, and reducing capital spending by doing only business critical projects and doing them exceptionally well.

The result for 2009 was improved profitability, a stronger balance sheet and improved cash flow which we used to lower debt, increase cash balances, and continue to reward our shareholders through our strong annual dividend.

We are committed to delivering consistent results and achieving our long-term performance targets: to grow sales in the low to mid single-digits; deliver gross margins of about 50%; maintain advertising spend at 11 to 13%; and SG&A of about 20%; with an overall goal of 15 to 20% operating margins.

As we think about 2010, while it may seem that the U.S. economic environment has somewhat stabilized, we're still in a challenging global economy.

We were pleased with the company's overall performance for the first quarter; with worldwide net sales up 12%, reflecting good performance in the U.S. as well as international; and continued improvements in our gross margin and operating profit. However, the first quarter is just that - the first 90 days of the year and we still have a lot of work to do to deliver another strong year for our investors.

We are aware that we face a number of headwinds in the near term; global unemployment remains high; global economies are still challenged, as evidenced by the evolving debt crisis in Europe; there's uncertainty about the strength of consumer spending; input cost and labor cost are rising; and while inventories at retail remain low by historical measures, it is unclear if retailers intend to move off of these lows.

As we look forward, these economic uncertainties could have an impact on currency which could present a headwind. While it's difficult to predict which way currencies would go, a strengthening dollar puts pressure on our revenue and our profitability.

Given the fact that all of our manufacturing is offshore and about half of our sales are outside the U.S., we hedge our estimated transaction exposure with a goal of mitigating volatility. That said, it's almost impossible to predict where currencies are headed.

As the slide shows even the so called experts who make a living from the currency markets can have significantly differening opinions about where rates are going. But as I said, our goal is to mitigate volatility, not speculate on where rates are heading. So we look forward to about 12 to 18 months and over time, we hedge about 50% of our estimated transaction exposure.

There are number of factors that can influence how much foreign exchange fluctuations will impact our financial results, so it's difficult to say with certainty. However, all else being equal, a good rule of thumb is: every 1% movement in The Broad U.S. Dollar Trade-Weighted Currency Index should impact annual EPS by about $0.01 to $0.02 and impact revenue by about a 0.5 percentage point.

Now let's talk about the rising input and labor cost environments. First, let me remind you of the primary components of our cost to good sold; raw materials are the largest component at approximately 40%; labor represents about 17%; and freight and distribution is approximately 12%. Resin and packaging are the largest components to raw materials, with resins representing about 10 to 13% of cost of goods and packaging representing about 9 to 10%. You may remember from last year's discussion of procurement timing, we've already begun to procure raw materials for our Fall 2010 line.

As you can see by the graph, we have seen a steady rise in resin over the past year. And we have also seen a steady rise in packaging material over the past year. We have made tremendous strides with consolidating and competitively bidding our global freight and distribution contracts. However, the cost of fuel will always be a variable cost within most of these contracts. And, as you know, we have seen as sizable increase in the price of oil over the past year so we will share those cost increases with our logistics partners.

Given our internal sourcing capabilities outside of China, we are better situated than most of the toy industry when it comes to fluctuations in labor costs in China. However, we are not immune to rising labor costs in China. We have recently seen a significant increase in Chinese labor costs versus last year as the Chinese government recently announced a 20% increase to the minimum wage, effective May 1.

Also, we will likely incur higher royalty expenses in 2010 due to the fact that we have more entertainment properties in our portfolio. In 2009, a very entertainment lite year for Mattel, our royalty expense was about 3.5% of net sales. This rate was one of the lowest ratios we have seen in nearly a decade. As you see on the chart, in the years 2000 to 2008, royalty expense averaged about 4.3%. With 2010 and 2011 having more license entertainment in the mix, we will likely see royalty expenses increasing back to more historical levels.

Other headwinds to consider include the year-over-year impact of: awarding merit increases in March of this year; legal expenses related to the continued preparation for the second trial in the MGA case; and the potential increase in equity compensation related to the final year of a long-term compensation cycle.

As we established our financial plan for 2010, we considered the impact of most of these headwinds. As you know, there are number of levers we can pull to fully, or partially, offset the impact of these challenges.

One of the most significant levers to consider in a rising cost environment is our ability to price appropriately. As we effectively demonstrated 2009, we must price for innovation and also for the new reality of cost. We have been aware of most of these headwinds and have taken them into consideration when we shared pricing on our Spring and Fall 2010 lines with retailers last year.

As most of you know, the vast majority of our toys are new each year. This fact allows us to stay on trend with a very fickle consumer. The constant changes in our product line also allow us to continually price our new products to retailers, which gives us the flexibility to price to sustain our margins.

It is important to remember that our price increases over last few years were, in part, in response to the volatility in the commodity markets. We continue to be diligent on pricing as we focus on making steady progress towards achieving our historical operating margins of 15 to 20% of net sales. Barring any major change in commodity and labor cost as we enter our peak manufacturing season, we do not anticipate making any significant changes to our 2010 pricing. But, if needed, we continue to have the ability to increase our prices for 2010.

Revenue scale is a wonderful lever against challenging headwinds. As we did in 2009, we continue to manage the business with realistic revenue assumptions. However, unlike a year ago we are much more optimistic about revenues this year.

We entered the year with good momentum in some of our core brands and key licensing partnerships. For example, all three brand health indicators: U.S. shipments; consumer takeaway and; market share, are headed in the right direction for Barbie and Hot Wheels.

Other core brands like Polly Pocket, Apples to Apples, UNO, Fisher-Price BabyGear and American Girl all had positive momentum in the all important 2009 holiday season. Also, we have strong long-term partnerships with licensed brands that are great, evergreen properties like CARS, Disney Infant and Preschool, Nickelodeon and Batman.

We are also seeing great success with the expansion of another long-term evergreen property - Disney Princesses, as we picked up the rights in Europe for 2010 and beyond. And, as you know, our partnerships for evergreen properties now includes WWE Wrestling, Thomas and Friends as well as Toy Story which we will launch its third film in the franchise in theaters on June 18th.

We are also optimistic about the revenue outlook for 2011. We have plans designed to continue to drive positive momentum in our core brands. Later today many of these plans will be shared with you.

We also anticipate the continued global expansion of our WWE Wrestling business as WWE broadens its global distribution of its entertainment offerings. Our Thomas property should be fully up and running and benefit from clean aisles at retail. We also fully expect the Toy Story franchise to develop into another strong evergreen property and we have a very strong slate of new licensed entertainment properties in CARS 2 and Green Lantern. And finally, we should realize some more benefits from the 2010 launch of our Monster High franchise.

Another opportunity to offset headwinds lies in our commitment to efficiency and improving our manufacturing capabilities. Over the years, we have driven significant improvements in how we manufacture things like fashion dolls and diecast cars. These efficiencies have allowed us to provide good price/value to the consumer while maintaining or improving our margin structure. For example, as labor costs in China begin to rise, we looked for opportunities to automate labor intensive activities like hair rooting for fashion dolls and decorating diecast cars.

We have a short video that shows you what we have done. First, you will see the manual process of hair rooting. The workers must be very skilled which can make for training challenges as we ramp up to peak manufacturing each year. Then, you will see the new automated process with significantly fewer workers needed to achieve the same or better hair quality.

Next you will see a worker placing one or two cars in a machine to have decal decorations added followed by a look at a more automated process. Let's take a look at the video.

[Video Presentation]

So you can clearly see in both case, the new process is clearly more efficient and less labor - intensive which results in lower cost.

In addition, we continue to reap benefits from our Global Cost Leadership program. Through the first quarter of 2010, our Global Cost Leadership program has delivered overall gross savings of approximately $181 million. The cumulative first quarter gross savings include about $93 million in SG&A, $73 million in gross margin and $15 million in advertising. And we are on track to deliver cumulative net savings of $180 to $200 million through the end of this year.

In 2010, we'll continue to drive savings from a more disciplined, fact-based procurement process that leverages our global spend in areas like over-the-road freight and creative agencies spend. And we also continue to further a number of Global Cost Leadership initiatives including clustering international sales subsidiaries to leverage scale and improve efficiency, executing our new logistics strategy including consolidation of our Southern California distribution centers and outsourcing certain back-office functions, primarily for Information Technology infrastructure. All of which will involve some investment this year, primarily for workforce reduction actions, to deliver the ongoing cost savings for 2010 and beyond.

We are confident that we'll deliver over $200 million in sustainable annual savings beyond 2010. We remain committed to continuous improvement so our efficiency efforts will not stop. One good example is our SKU efficiency initiative, which cuts across the entire value chain, impacting cost throughout the P&L. This is one of many efforts that will continue beyond 2010.

As we've said, managing the number of SKUs and SKU productivity is a strategic way to cut non-value added work in the organization. Given that a SKU cuts across the entire value chain of our business, its difficult to isolate the benefit of SKU efficiency from all other efficiency programs. That said, we know that SKU rationalization can drive lower head count, more efficient sourcing and manufacturing, reduced tooling spend, less testing, lower inventories and less markdowns as we and retailers focus on driving more revenues with less SKUs.

From the time a designer creates the idea for a toy, it begins to drive incremental work and cost as every SKU is conceived, sketched and designed, engineered and tested. And at that point, if we decide the SKU is marketable, it will drive additional cost as it is tooled, manufactured and tested, packaged, inventoried and shipped, marketed, advertised and sold. And each SKU has to be tracked and reported on throughout the value chain.

As I said, it is challenging to isolate the specific financial benefit of our focus on SKU efficiency to date. However, there is one way to demonstrate our progress. Even with significant reductions in head count across all of our business disciplines in the last couple of years, we've been able to; deliver all of our new entertainment properties, WWE Wrestling, Toy Story 3, and Thomas and Friends; revitalize our Barbie brand; as well as introduce a number of innovative products throughout our core portfolio.

We remain diligent in attacking that 30% of SKUs that are ineffective through such efforts as; our international SKU approval process; determining how many retailer customized SKU should be made; and ensuring we will reduce the number of carryover SKUs that somehow remain in our offerings when newer assortments are available.

We are just beginning to focus on the next level of SKU optimization. To date we have; defined a SKU; developed a clear process for governance and reporting; and have agreed on the savings metrics we are going after throughout the organization.

We've made good progress in the management of SKUs by leveraging fewer SKUs across customers and markets. For example, for international markets, we've instituted a new product planning process to streamline SKU approval. As a result, we are beginning to see stronger SKU productivity. This in turn allows us to concentrate marketing investment and talent on initiatives that provide greater return to the company and it creates more opportunities for scalable marketing and trade programs for retailers.

While we've been successful in the first phase of our SKU efficiency initiatives, which was primarily about SKU rationalization, our SKU efficiency focus is not only about cutting SKUs and related costs, it's also about improving productivity on the remaining SKUs.

Given our product development cycle, that means we are now in the midst of making SKU optimization decisions for the 2011 toy year and beyond. Better SKU management can be a sustainable advantage to us and aligns well with the SKU efficiency focus of major retail customers around the world.

So to summarize, we are focused on delivering another year of strong financial performance in 2010. We are committed to; making steady progress towards our long-term performance goals; generating significant cash flow; and executing within our capital employment framework to create significant value for our shareholders.

And although we face a number of headwinds, we have a proven track record of managing through these challenges in a number of ways including; maintaining disciplined pricing; maximizing revenue opportunities; focusing on manufacturing efficiencies; delivering Global Cost Leadership savings; executing on SKU optimization; and, of course, our ongoing commitment to continuous improvement across the organization.

We have demonstrated over a number of years a disciplined approach to managing our strong portfolio of core brands and nurturing evergreen entertainment properties across the portfolio of toy categories and markets around the world.

As we have said throughout the past year, companies that deliver improved execution during the tough times will be the ones best positioned to capitalize on the economic turnaround, which will most certainly occur.

2009 was important because it set the stage for what I am confident will be a strong year for Mattel in 2010 and for many years to come.

Now, Bob and I would be happy to take your questions.

QUESTION AND ANSWER SECTION

<Q>: [indiscernible]

<A – Robert Eckert>: The question relates to Monsters High. We are going to repeat the questions for the benefit of the webcast audience. What have we announced on Monsters High partners, Tim? Okay.

<A>: [indiscernible]

<A – Robert Eckert>: Yeah. So I think the retail partnership, the apparel partnership starts this year. The publishing partnership starts this year. The musical theatrical release is 2011 at the earliest, and quite possibly 2012. The dolls have just started shipping. And, have I missed any elements Tim?

<Q>: [indiscernible]

<A – Robert Eckert>: The question is about what's the average increase in toy pricing this year? I'd say low to mid single-digits. It wasn't a lot of pricing this year but we did anticipate what the costs were. And obviously, we'll have to see how the costs play out. But right now, I would say we haven't really been surprised by anything.

<A – Kevin Farr>: And I think I will just add to that. I think we made good progress in 2009 with regard to rebuilding our margins to 50%. And when we look going forward, our goal is to sustain those margins. There's a lot of moving pieces in our gross margins with regard to input costs, freight and distribution and royalties. It's very hard to predict due to all those moving pieces and the lack of transparency and predictability.

But looking forward, I think as I said today in my speech, we expect royalty expense to be up because of the fact that we have new entertainment properties this year. And then when we look year-over-year, we are seeing cost increases in things like resins. And also we're seeing forex that's working against us at this point in time.

That being said, we're executing our global cost leadership programs. We have continued to work on efficiency programs as I showed you in the manufacturing video you saw today. And we did price consistent with achieving and making steady progress against our long-term performance goals of operating margins of 15 to 20%.

<A – Robert Eckert>: And one other comment Kevin, that you stimulate is as it relates to foreign exchange. We're all focused on the euro right now. But if you look across the basket of currencies, we see strength in other currencies which are, at least in a large measure, offsetting the weakness in the euro. So again, I focus on the euro every morning. I look at it. But we need to remember the other side of forex, which is working for us not against us.

<A – Kevin Farr>: Yeah, I think the euro has moved from last year. In the first quarter it averaged 1.30. For the full year it went sequentially stronger against the dollar last year and ended the year in the 1.40s. The average was about 1.39 last year on the euro. We ended the year with the trade weighted index last year at about 1.06. Right now it's about 1.05. So more or less right now, I think it's a push.

<Q>: [indiscernible]

<A – Kevin Farr>: Yeah. I think we've sized the [sku rationalization] opportunity really based upon the perspective that 30% of our SKUs deliver 1- 2% of revenues. That's really the size of the prize. We know that those SKUs are not profitable to the company. There is a very complicated process –

it cuts across the company. So I told you the areas where there are savings, and it is less head count, less tooling, less inventories, less markdowns. But with respect to looking at across the company, it really is very complex. It depends upon complexity of the SKU. We've got some simple SKUs that we make, we've got some very complex SKUs. So we're looking across the company really to drive savings out and today I can't give you size of what that cost savings would be but we're working very diligently on it. We've made progress in 2009. We're making more progress in 2010 and I think over a three year period we should see substantial savings.

<Q>: [indiscernible]?

<A – Robert Eckert>: The question is - are things better or worse since the first quarter results? You know, kind of tricky because we try not to comment about current business in between quarters. I think I could best summarize it by saying, there have been a lot of changes recently in all sorts of things, like forex and cost and labor cost and product sales and Easter timing and there is just, there is probably as many moving parts right now as there usually are if not more for this time of the year and I think the general conclusion is nothing has really surprised us yet.

Any individual thing could be a surprise but then there is some sort of offset that's also a pleasant surprise. So I also caution this is still spring training. You know, second quarter is as much spring training in this business as the first quarter is and it counts when we get in the third and fourth quarter. But I don't see anything today despite all of the changes that we've seen in the last 60 or 90 days, I don't see anything that's really been a game changer in terms of what we expect this year.

<Q>: [indiscernible]?

<A – Robert Eckert>: It was really effect of the – the question is about the price increases and when are they effective? It, for the most part is effective when the product ships. Most of that product is shipping around May or June, July, at about the latest. Our big shipments obviously are August and September into retailers but those prices are in place at that time.

<A – Kevin Farr>: So I guess I'd just add to that. I think you're talking about the Fall 2010 line. We also had price increases in the Spring '10 line too.

<Q>: [indiscernible]?

<A – Robert Eckert>: The question is about the EU. How are things going over there? Any big surprises over there? How is Disney Princess doing? I'd say in general, even the EU is one of those areas where – yeah, there're certainly been some bad news, but there has been some good news and overall things are plugging along pretty well. I think Europe, including the UK represents about a-quarter or just under a-quarter of the company's overall sales. I think we got off to a pretty good start of the year in Europe. Point of sale has looked good in the first quarter in Europe. Retailers bought what they needed to sell this year and that was a theme I know I talked about in the first quarter conference call that, overall, retailers bought what they needed unlike the prior year where retailers really didn't need to buy from us in order to satisfy their POS demands.

So we've certainly seen some changes, nothing dramatic over the last couple weeks if you think about Europe as a whole. Obviously, everyone is concerned about Greece. Greece is a good market for us. We do very well in Greece but it's not a particularly large market.

If things spread to Portugal that's another great market for us but not a particularly large market. But when we get to Spain and Italy, now we're talking about really important markets to us. So hopefully things are contained. But at the present time I wouldn't say that there is any game changing surprise out of Europe. And included in the good news is that Disney Princess line. We're offering Disney Princess in Europe. It's going to be a good performer for us. The Disney Princess line has had a fabulous run here in the United States. No reason to believe that's going to change.

We're very excited about the Tangled movie this Fall. In general, Disney Properties are just doing really well across many fronts and I don't see any geographic exception to that.

<Q>: [indiscernible]?

<A – Robert Eckert>: The question goes to product development and the exciting news if you will, about how the product line is doing. And is there a reason why things are going better? And I don't know that this is a really big deal. But as I look across the company and how we are doing business today, the changes we have made in the organizational structure, with Kevin Curran, with Tim Kilpin, with Neil Friedman in the roles they have now been in for awhile. You are seeing the impact on freeing up the organization to go after things.

I walked out of the New York Toy Fair this year, personally, more excited about our products than at any time. Now that's okay Bob, more importantly, our retailers walked out of Toy Fair more excited about our product line than any other time. Hopefully, most importantly, the consumer is going to be more excited about our product than at any other time.

We have just started talking to retailers about the 2011 product lines. Over the last couple of weeks, I have been in meeting with some key retailers in 2011 and the momentum seems to be continuing. Its both core brands, the basic stuff like Barbie. I happened think that Barbie video thing is one of the coolest ideas I have ever seen. I just do. And there is lots going on in Barbie, that is doing well. Its also entertainment properties. I look at the WWE on the shelf today and we're having a problem still today keeping up with demand. It's a property that's been around a long time. What's changed? The toys are better, the packaging is better the merchandising is better and we are having time keeping up with demand. New things like Sing-a-ma-jigs, they are, already we're trying to figure out how many can we make. I mean this is a great problem in the toy business. It's lets figure out if we can satisfy demand. So I do feel better, I think it has to do to some degree with structure, but it's a lot to do with people and freeing them up and letting them go for things. Not everything's is going to work, I'm sure we're going to have some swings and misses but we're swinging the bat as well as I think we've ever done.

<Q>: [indiscernible]

<A – Kevin Farr>: Yeah, the question relates to how do we get to our 15-20% operating goals, particularly as we are at our gross margin goal of 50% and advertising is at above 11%, say 11.2 last year? And are we going to get there to just cost cutting or is it a combination of top line and cost cutting? And really it is a combination of both growing the top line and continuing to manage cost very tightly, looking for those opportunities from a continuous improvement program, how we can do more with less and its about really being more efficient and looking at processes. Some of the things that we're working on today with regard to back office functions and looking at how we can streamline those, outsource them. We are currently in the process of outsourcing IT infrastructure. With regard to international operations, we're looking at how we leverage our scale in international operations. I know Bryan is going to talk to you about clustering. Clustering really leverages the scale of our organization. It's really more about being more effective and efficient in our business operations and growing the top-line, but the rollout of clustering also means we're going to reduce cost. So really it's about growing the top-line, tightly managing cost and continue to pursue efficiency programs we can do better, more efficiently and effectively.

<Q>: [indiscernible].

<A – Kevin Farr>: Again, the question is what is our operating margin outlook for 2010. And again, we don't give you guidance for specific years. We are giving you sort of overarching goals over the long-term and our goals are over long-term to make steady progress to get to 15 to 20% operating margins.

Okay. We've got time for one more question.

<A – Robert Eckert>: I knew you weren't going to -- I knew you weren't going to catch him. But that was a great try.

<Q>: [indiscernible].

<A – Robert Eckert>: The question is Monster High. Can we give a little bit more color on the economics and how this thing's going to play out?

And not unusually, we just don't know yet. I mean, we can't predict how the thing will unfold. We love all our children. We love every new idea we come up with and hope it's going to be the next Barbie. I think what makes us feel particularly good about Monster High is we've been around this idea for quite a while. Everyone we showed it to gets excited about it. So it's allowing us to create partnerships even before anything physical exists. Just the concept, the intellectual property, the branding, the storyline, how it plays out is appealing to retailers and to potential partners.

How the demand plays out over time I don't know. But what we're trying to indicate to you today is this isn't one of those things where we put a product on the air for a couple of Saturdays and hope it sells. And if it doesn't sell, we move on. This is a commitment of significant marketing energy from our standpoint to see if we can create a franchise. Maybe we can, maybe we can't. But I'll tell you it's the beginning of what we see as some opportunities to create franchises like this going forward. So we want to give it our best shot which may take us some time. It will start with toys, it will follow with books, the apparel will hit this year. Most of that is in the licensing revenue side of the business as opposed to - we're not going to make apparel and we're not going to publish the book, somebody else is.

The movie deal, Tim, what's the economics on the movie?

<Q>: [indiscernible].

<A – Robert Eckert>: So there is not a real big economic investment from our vantage point. Presumably it's more of a demand creator than anything else.

<Q>: [indiscernible].

<A – Robert Eckert>: Is there participation in the box office?

<Q>: [indiscernible].

<A – Robert Eckert>: So since Tim can't remember on that particular deal, I won't comment on it. Hey everyone, we do thank those of you who have joined us via the webcast and we appreciate your participation. Have a great afternoon.