MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to Mattel's Fourth Quarter 2010 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder, today's conference is being recorded.

I'd now like to turn the conference to your host, Ms. Dianne Douglas.

Dianne Douglas, Senior Vice President, Investor Relations

Thanks, Amy.

As you know this morning, we reported Mattel's fourth quarter and full-year 2010 financial results. In an effort to improve our communications, we've provided you with a slide presentation to augment our discussion on the call today, and we plan to provide this in the future as well.

In a few minutes, Bob Eckert, Mattel's Chairman and CEO, and Kevin Farr, Mattel's CFO, will provide comments on the results and then the call will be opened for your questions.

Certain statements Bob and Kevin make during the call may include forward-looking statements relating to our future performance of our overall business, brands, and product lines. These statements are based on currently available operating, financial, economic, and competitive information and they are subject to a number of significant risks and uncertainties, which could cause our actual results to differ materially from those projected in the forward-looking statements. We describe some of these uncertainties in the Risk Factors section of our 2009 Annual Report on Form 10-K, as well as our quarterly reports on Form 10-Q and in other filings we make with the SEC from time to time. Mattel does not update forward-looking statements and expressly disclaims any obligation to do so.

The slide presentation and the information required by Regulation G regarding non-GAAP financial measures is available on the Investor and Media section of our corporate Web site, mattel.com, under the subheadings Financial Information and Earnings Releases. Additionally, for your reference, we've added quarterly and annual revenue growth trends for key businesses, brands, and markets to the other information that is available under the subheadings Financial Information and Financial History.

Now, I'd like to turn the call over to Bob.

Robert A. Eckert, Chairman and Chief Executive Officer

Thank you, Dianne, and good morning. The year 2010 was a personal milestone for me - May 17th marking 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, I told Mattel employees gathered in the company's cafeteria that we were going to do three things:build brands, cut costs, and develop people. During the last 10 years, we've made good progress on all three fronts.

Last year, we also revealed a new vision for the company - Creating the Future of Play - which I told you would be an evolutionary process with our overarching goal being to build on the progress we've made and to push ourselves to achieve more.

I also said we would achieve our goals by accomplishing three main objectives; capitalize on 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 yet another strong year of profits and cash flow.

So how did we deliver against our 2010 objectives? First, we delivered strong financial results with solid revenue growth across our portfolio of brands and markets. We sustained gross margins at about 50%. We also successfully completed our Global Cost Leadership program all of which resulted in an operating margin of 15.4%, which, for the first time in several years, is within our long-term goal of between 15% and 20%.

We also performed well in the marketplace; our POS grew nicely; and we gained category share according to NPD's most recent data. Inventory levels, both our own and our retail customers, are up, not surprisingly due to the momentum we've had in retail takeaway. And unlike a year ago, we now have sufficient inventory to support the business.

And we generated significant cash flow, which we deployed to create value for our shareholders by increasing the annual dividend to $0.83 per share, up 11% and by repurchasing 18.6 million of our shares. And as you likely saw in today's press release, we'll pay a quarterly dividend of $0.23 per share commencing this quarter.

To set the stage for 2011, last month we announced the appointment of Bryan Stockton, Mattel's former President of International, to the newly created position of Chief Operating Officer, which further aligns Mattel's senior leadership team with the company's global strategic priorities. Bryan now oversees the design, development, manufacturing, marketing and sales of all Mattel toys globally, such as Barbie, Hot Wheels, American Girl and Fisher-Price, as well as licensed entertainment properties, and the Mattel Digital Network. He is also responsible for the Operations and Corporate Responsibility functions.

Bryan will be presenting during our New York Toy Fair analyst meeting in which he will provide some insight into our plans to realize our vision of Creating the Future of Play, but in the meantime, let me give you a few quick highlights for 2011. For the holiday, Barbie reigned as the No. 1 property in the toy industry, maintaining her strong presence at retail and in the eyes of the consumer. Barbie continues her positive momentum moving into 2011, when the brand kicks off Ken's 50th anniversary and the "Ken Campaign - Will Barbie Take Him Back?" New product offerings will be supported by a comprehensive marketing campaign, including viral media, outdoor and special events on a global basis, and little girls, as well as grown-up girls, will get into the action by participating in a vote on whether Barbie should take Ken back. You can too - vote on BarbieandKen.com and find out on Valentine's Day whether the world's most famous couple will reunite.

So not only did we have the No. 1 property for the holiday season in Barbie, but we also enjoyed the best selling new fashion doll of the year with Monster High. As you know, Monster High was launched as a multi-category, multi-platform brand and not just a toy line. With increased production capacity, we're poised to scale up the franchise globally in 2011 and build on our positive momentum.

Turning to Entertainment, we continue our efforts to partner with the best and be the best partner. And we're very excited about the 2011 releases of Disney/Pixar's CARS 2 and Warner Bros' GREEN LANTERN, as well as our portfolio of evergreen entertainment property such as WWE, Toy Story, Batman, Thomas & Friends, Dora the Explorer and Disney Princess.

2011 will be the year of UNO. On January 1st, 2011 or 1/1/11, we kicked off UNO's 40th anniversary year and throughout the year, expect to see UNO 40th anniversary activity across social media, retail promotions, and unique product offerings.

This year, the Hot Wheels brand will be launching its first overarching brand campaign with Team Hot Wheels which will showcase the brand via viral content, video, and web-based communication. And in the toy aisle, watch for the groundbreaking Hot Wheels, Wall Tracks, and Hot Wheels Video Racer.

While we clearly experienced some improvement in the fourth quarter with Core Fisher-Price, in 2011, we'll see new work and continued refinement of our consumer positioning for the brand.

I'm very pleased with the performance of American Girl, and to continue the momentum this year, we're excited about the launch of Kanani, The Girl of the Year 2011, who hails from Hawaii, as well as the opening of our new store in Washington D.C. this summer.

I'm confident the office of COO will bring focus to help accelerate innovation and growth across brands and markets, and further leverage our scale and global structure as the world's largest toy company.

Our strategic priorities for 2011 and beyond are to deliver consistent growth by continuing the momentum in our core brands, optimizing entertainment partnerships, building new franchises, and working to expand our international footprint. We aim to build on the progress we've made on improving our operating margins through sustaining the gross margin and delivering another round of cost savings.

And with that we expect to generate significant cash flow and continue our disciplined, opportunistic, and value-enhancing deployment.

Now, I'd like to introduce Kevin Farr, Mattel's Chief Financial Officer, to take you through a financial review of the quarter and year. Kevin?

Kevin Farr, Chief Financial Officer

Thank you, Bob, and good morning, everyone.

On this call last year, we said our 2010 focus would be to build upon the progress we made towards our profitability goal in the face of what we expected to be a challenging cost environment and a continuation of a difficult economic climate.

And as Bob said, our disciplined approach to our long-term portfolio strategy paid off with revenues growing and improved profitability. For the year, revenues are up, gross margins improved slightly, which combined resulted in operating profits increasing 23%.

Starting on page 5 of our slide deck, you can see our worldwide gross sales are up 8% for the quarter and for the year. Based on our data, we continue to see good momentum in POS domestically, as well as internationally and based on the latest NPD U.S. data, we gained about one point of category share in the fourth quarter and the year, and we had six of the top 10 properties. As expected, retail inventories look to be up a little bit when compared to the beginning of the year when they were very light. This is primarily due to the positive momentum we've had with retail takeaway and overall, we are very comfortable with inventory levels as we enter 2011.

Let's turn to page 6 and 7 of the slide presentation to see the segment perspective on sales. Worldwide sales for the Mattel Girls & Boys Brands segment were up 9% for the quarter and 11% for the year. Barbie sales continued to improve, driven by its *I Can Be* line and continued good performance of its core fashion and *Fashionistas* Dolls. Hot Wheels, driven by increased worldwide demand in its die-cast cars performed very well internationally, but saw some softness in trackset lines domestically. Disney Princess drove growth in Other Girls along with the launch of Monster

High. Sales in our Entertainment business were primarily attributable to sales of toys geared to TOY STORY and WWE Wrestling but we also saw nice growth in our Games and Puzzles category driven by the success of Radica games.

Worldwide sales for Fisher-Price Brands segment were up 6% for the quarter and 2% for the year. Strong fourth quarter results for Fisher-Price Core domestically and continued strength in Fisher-Price Friends, driven by Thomas throughout the year and Sing-a-ma-jigs in the fourth quarter were the catalysts for improved performance.

American Girl continued to deliver strong results with sales in the fourth quarter up 8% and up 5% for the year. Sales results were buoyed by continued momentum for Lanie, the best-selling Girl of the Year doll in American Girl history, the retirement of Felicity, and the launch of the American Girl virtual world as well as its first ever national TV campaign.

Our International business, as seen on page 8, showed growth across all regions for the quarter and the year. It was good to see the improvement in Europe given the economic climate and we're very encouraged by the strength in Latin America where the results were strong, but partially offset by currency-related declines in Venezuela. Asia Pacific saw strong double-digit growth although off of a much smaller base.

Now let's review the P&L.

Starting on page 9 of the slide presentation, for the year, gross margin was up modestly to 50.5%, primarily due to effective pricing and savings from our Global Cost Leadership program. For the quarter, as expected, gross margins were down 180 basis points to 51.6% from last year's record fourth quarter. Higher input costs and royalties were the main reasons for the decline in the quarter.

As seen on page 10 of the slide presentation, for the quarter, Selling, General and Administrative expenses increased approximately $29.8 million to $417.8 million. As a percentage of net sales, SG&A expense was relatively flat compared with the prior year. The year-to-year dollar increase for the quarter primarily reflects $15 million in higher legal fees related to our ongoing MGA trial, higher employee-related costs including higher equity compensation and severance as well as information technology investments partially offset by savings related to our Global Cost Leadership initiative. For the year, SG&A expense was $1.4 billion, an increase of $32.1 million from 2009 and as a percentage of net sales, SG&A decreased by 130 basis points to 24.0%.

The year-to-year dollar increase primarily reflects higher employee-related costs, information technology and other infrastructure investments, and $5 million of higher legal settlement-related costs partially offset by $20 million in savings related to our Global Cost Leadership initiative, lower bad debt, and severance.

The increase in employee-related costs includes $17 million in incremental equity compensation costs, $10 million incremental annual incentive cost, and $16 million related to annual merit increases that began in Q2 2010.

For the year, total incentive compensation costs were $106.7 million and total equity compensation was $67.1 million. For perspective heading into 2011, over time we generally expect incentive compensation to be in the range of $75 million to $80 million and equity compensation to be in the range of $50 million to $55 million.

Additionally, for your reference, we've included a historical trend summary of our incremental legal and settlement-related costs in the appendix to the slide presentation.

Page 11 of our presentation deck summarizes the performance of our two-year Global Cost Leadership initiative. I'm pleased to report that we exceeded our stated commitment to deliver cumulative net savings of approximately $180 million to $200 million by the end of 2010.

Over the two-year period, our Global Cost Leadership program delivered overall growth savings before severance of $225 million. This sustained savings run rate was achieved through numerous programs, including our reduction-in-force efforts, our focus on logistics, our more robust fact-based procurement process, information technology outsourcing, international management clustering, and changes in company corporate policies.

As Bob mentioned, we'll continue our focus on margin and efficiency sustainability going forward. We are targeting additional cumulative cost savings of $150 million to be achieved by the end of 2012. This is expected to include savings of $75 million of legal cost and $75 million through the execution of round two of the Global Cost Leadership initiative.

Turning to page 12, you could see we delivered a full-year operating margin of 15.4%, which is within our long-term operating range of 15% to 20%. Operating income in the fourth quarter was $428.6 million or 20.2% of net sales, down 110 basis points compared with last year's fourth quarter. For the year, operating income was $901.9 million or 15.4% of net sales, up 190 basis points from the prior year.

Turning to page 13, earnings per share for the year of $1.86 is up $0.41 or 28%, driven primarily by increased operating profit due to higher sales and operating margins and a lower tax rate, partially offset by ForEx. Included in the results is a one-time discrete tax benefit equal to $0.05 per share, which was recorded in the third quarter of 2010. For the fourth quarter, earnings per share is flat compared to the prior year at $0.89. Please note that we had a one-time discrete tax benefit in the fourth quarter of 2009 equal to about $0.08 per share.

The income tax provision for 2010 was $161.9 million, compared to $131.3 million for 2009. The 2010 tax provision before the net discrete tax benefits was at a rate of 21.1%. For full year 2011 and beyond, we expect the rates to be about 22% based on current tax laws.

Now turning to the cash flow.

On page 14 of the slide presentation, you can see cash flow from operations for the year was $528 million, a decrease of $417 million compared with $945 million in 2009. The decrease was primarily driven by the decision not to factor $300 million of domestic receivables in 2010, as well as growth in accounts receivable due to the increase in sales volume and the rebuild of inventory to support POS momentum and customer service levels, partially offset by earnings growth. The decision not to factor receivables in 2010 will result in incremental collections of $300 million in the first quarter of 2011, positively affecting cash flow from operations by $300 million in 2011.

In 2010, we returned over $700 million to shareholders by increasing the dividend 11%, and repurchasing about $450 million in stock. We also issued $500 million of senior unsecured notes, given the attractiveness of the debt markets and knowing we intend to pay down $250 million of long-term debt, which comes due this year.

We continue to have a strong balance sheet and a business that generates strong cash flow which we continue to deploy to enhance shareholder value. Our momentum and confidence in our long-term portfolio strategy has allowed us to begin to pay quarterly dividends in 2011. And today we announced our first quarterly dividend reflecting an annualized dividend of $0.92 per share, which represents an 11% increase to 2010's annual dividend.

So to summarize.

We achieved our 2010 objective which was to deliver strong financial results in a challenging economic environment. We did this with revenue growth across virtually all of our brands and markets, sustained gross margins at our long-term objective of about 50%, and cost cutting which allowed us to achieve an operating margin which is within our long-term range of 15% to 20%.

So, to reiterate what Bob has outlined as our near-term priorities, we aim to:

- Deliver consistent growth by continuing the momentum in our core business, optimizing our Entertainment partnerships, building new franchises and working to expand our international footprint;
- Build on the progress we made on improving our operating margins through sustaining the gross margin and delivering another round of cost savings.
- And with that, we expect to generate significant cash flow and continue our disciplined, opportunistic, and value-enhancing deployment.

That concludes my review of the financial results. Now we'd like to open the call to questions. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And our first question comes from Tim Conder of Wells Fargo. Your line is open.

<Q – Timothy Conder>: Thank you. And first of all, congratulations to you all on a great execution year, and secondly thank you very much for the new disclosures here. I would want to ask a couple questions. Kevin, a little more color on the inventory at the company level up to 30% but versus the historical as a percentage of sales, it looks like it's within a range, but if you could give us a little more color there. And then it really doesn't sound like you have any major concerns as far as retailers cutting back to adjust their inventories in the first quarter. Is that the case?

<A – Robert A. Eckert>: Hey, Tim, this is Bob. Let me address that one. The retail inventories as we calculate them were up low to mid double-digits versus prior year. Of course our POS was up mid-single digits and the trend of our POS showed improvement all year long.

The inventories in general, whether we're holding them or whether retailers have them, are back to where they were a couple of years ago, and they are supported by the POS that we've seen. You will recall that a year ago at this time, our inventories were too low and our customer service levels suffered as a result, and we were plagued by customer service through the whole first half of the year.

So, this year, we're going to start with inventories in pretty good shape. We're committed to building inventories more in the first half of the year relative to the second half, in order to run the supply chain more efficiently than we did last year. We're also going to need ample inventory of this year's movie-related products. Obviously, our studio partners and retail partners are excited about some of the movies.

I think I'd say anecdotally, I've certainly heard from a couple of retailers that they are a bit long on toys overall or merchandise overall which could constrain their open to buy if you will, in early 2011, but we seem to be in relatively good shape.

<Q – Timothy Conder>: Okay. And along that line, Bob, you mentioned the channel. Is that related to the lengthening of the supply chain of China? And should that -- when should that anniversary roughly? Is it the third quarter of this year, we should see an anniversary of that part of the inventory build?

<A – Robert A. Eckert>: Yeah, I think we're going to see our inventories building throughout the first half. We'll obviously see retailers inventories build as we come close to the movie products because there are some big plans this year for them. So I – from my vantage point, I suspect we're going to be building inventories at Mattel and at retail probably for the first six months.

<Q – Timothy Conder>: Okay. And then again it sounds like your – you feel very comfortable with the sell-through that you had relative to your expectations heading into pre-Thanksgiving.

<A – Robert A. Eckert>: Yeah, certainly, we are comfortable with it. The momentum built all year long as I said, it carried through the holiday season. The toy category according to NPD here in the States grew about 2% for the year in dollars and about double that in units. In the fourth quarter, the growth rate of the toy business accelerated for the year. NPD tracked our growth rate fairly consistently with our internal shipment data. So, as Kevin mentioned, we gained share overall, and in fact, we gained share in virtually every one of the NPD segments -- dolls, vehicles, action figures, games, Infant & Preschool.

We have the, I think, eight of the toy business top 12 brands for the holidays -- Barbie, Toy Story, Disney Princess, Hot Wheels, American Girl, Thomas, CARS and Dora. So we had good POS momentum through the holiday season, and I think we're in relatively good shape here.

<Q – Timothy Conder>: And last question on the tax rate. I think the guidance which you've given on the tax rate was roughly 24% to 25% and a little bit – came in a little bit below 20%. Anything special, Kevin? You didn't really call out anything in your preamble, but anything special in the quarter or was that just some true-up at year-end?

<A – Kevin Farr>: Yeah, that really reflected the tax rate true-up. With respect to the rate, it's dependent upon where income is earned geographically and how the income is taxed in those geographical locations. And as we did that final calculation for the year, we've modified our effective tax rate, resulting in a tax rate on continuing operations of approximately 22%. And we expect that rate to continue into 2011 and beyond. The rate for 2010 was 21%, but as we looked at the future, we thought it would be 22% for 2011 and beyond.

<Q – Timothy Conder>: Great. Thank you, gentlemen.

<A – Robert A. Eckert>: Thanks, Tim.

Operator: Thank you. Our next question comes from Sean McGowan of Needham & Co. Your line is open.

<Q – Sean McGowan>: Thank you. Couple questions here as well. Can you talk a little bit about the buyback in terms of the timing? It looks like it didn't have that much impact on the share count. So does that suggest that the buyback really came very late in the quarter? And what is the actual starting share count for 2011?

<A – Kevin Farr>: Yeah, the share rebuy or share repurchase program was back-end loaded in the latter half of the quarter. When we look at shares outstanding at the end of the quarter, it's 349.1 million shares.

<Q – Sean McGowan>: Okay. And in terms of SG&A trends and this new round of Global Cost Leadership, how much of that is going to be sort of back-end loaded on the two-year period or should we start to see some of that impact fairly quickly?

<A – Kevin Farr>: Sean, we're targeting incremental cumulative savings of $150 million by the end of 2012, which is expected to include $75 million of lower legal related cost and $75 million savings in Global Cost Leadership program 2. We recently announced the appointment of Bryan Stockton to the new position of Chief Operating Officer. This action further aligns Mattel's senior leadership team with the company's global strategic priorities. And we're currently working with Bryan and his team to look across our operations to identify areas where we work together better, whether that's across geographies, functions or brands to leverage our scale more effectively and efficiently. At this point, it's difficult to say exactly when the savings will come or when investments will be made until we finalize specific plans and determine what investments are required to achieve our goals. We'll provide more information on GCL 2 initiatives over the next couple of months as the plans come together, but I can tell you that we're less concerned with driving near-term savings and more focused on identifying the right sustainable cost savings opportunities.

<Q – Sean McGowan>: Okay. And on the legal front, would you expect most of those savings on the legal cost to come this year, I mean, or is this thing going to drag into 2012?

<A – Robert A. Eckert>: Sean, this is Bob. It will be hard for the legal savings to come this year. The MGA trial is underway. As much as I would have preferred to settle the dispute, that wasn't my unilateral prerogative. We have a strong case. The trial is going to last three or four months. The spending is very high. And then, I'm hopeful we can finally put this behind us. But I'll also say – having said that, this is a matter of principle. It's about righting a wrong, and I have confidence in the judicial system and that we'll prevail. But certainly from a spending standpoint, we're spending at a pretty high rate right now.

<Q – Sean McGowan>: Okay. Last question. When is that $250 million debt due? What's the timing on that repayment?

<A – Robert A. Eckert>: It's June, I believe, isn't it, Kevin?

<A – Kevin Farr>: Yeah, I believe it's June. It's $240 million due in June and there is $10 million due in October.

<Q – Sean McGowan>: All right; thank you very much.

<A – Kevin Farr>: You're welcome.

<A – Robert A. Eckert>: Thanks, Sean.

Operator: Thank you. Our next question comes from Robert Carroll of UBS. Your line is open.

<Q – Robert Carroll>: Hi, guys. Congrats on a solid holiday. Looking forward to pricing, Bob, I know you'd said in the past that you're expecting prices to be higher in 2011. Now that we kind of see where input costs are and 2011 is kind of underway, any kind of refinement to that, whether it will be low single-digit, mid single-digit?

<A – Robert A. Eckert>: Yeah, I think the way I'm thinking about it, the way we are thinking about it, Rob, that the oil is at about $90 a barrel today, compared to about $70 a year ago; labor's up another 20% in China on top of last year's 20% increase. So costs are going up, and in addition to our strong focus on cost reductions, which have been very helpful here, we will be raising prices. My sense, it's I'd say, it's most likely high single digits in terms of price increases essentially across the whole line this year.

<Q – Robert Carroll>: Okay. And then also in the slides, you've included mix with FX during Q4 as -- on a combined basis being a drag. If you were to isolate mix aside from royalties and aside from FX, would that have still been a drag during Q4 on gross margins?

<A – Kevin Farr>: Yes.

<Q – Robert Carroll>: Okay. So is there in addition to the, call it, mid- to high single-digit price increases, there is likely given the trends that we've seen in some of the new product introductions, will mix likely remain a drag in 2011?

<A – Kevin Farr>: It's very hard to predict, but I don't think so.

<Q – Robert Carroll>: Okay. All right; great. Thanks, guys.

<A – Robert A. Eckert>: Thanks, Rob.

Operator: Thank you. Our next question comes from Margaret Whitfield of Sterne Agee. Your line is open.

<Q – Margaret Whitfield>: Good morning and congratulations. I wondered if you could discuss your plans for SKU reductions. Is that part of the Global Cost Leadership program number two or will that been in addition? That's the first question.

<A – Robert A. Eckert>: No, that's certainly, Margaret, a driver of GCL II. We've said that 25% or 30% of our SKUs really only generate 1% or 2% of our revenues and none of our profits. We've made good progress on SKU count. In 2010, we launched WWE, Toy Story and Thomas, all of which are SKU-intensive product lines and we had no increase in SKUs across the company despite those introductions. So managing SKUs is very important here. We will have fewer SKUs this year than we had last year and fewer next year than this year. And that's part of the drive on the next generation of Global Cost Leadership, which is capturing the efficiencies that come from fewer SKUs.

<Q – Margaret Whitfield>: And in terms of where the demand is from retail for 2011, the first half, could you talk about categories where you're getting interest from retail to ship in product?

<A – Robert A. Eckert>: We're in pretty good shape across the board. Certainly in the doll category, the entire category is up about – I think it was 6% in 2010 compared to about 2% for the total toy business. Disney Princess is on fire; Monster High has performed well; Dora has bounced back; American Girl grew very nicely in the quarter. So I would say demand for our Girls products has been very strong. Obviously, Entertainment in our Boys business has done very well. I think CARS 2 goes on shelf in -- around May 1st this year. So people are very excited about the CARS product line. And as I've mentioned before, we've been gaining share pretty much across the board, across the category. So I don't know if I'd isolate one product line over the other. As you know, one of the keys to this business is the portfolio of brands that we have and the portfolio of countries in which we market these brands. So on any given day, one brand may not be doing as well as some other brand, but across the board, the portfolio is performing pretty well.

<Q – Margaret Whitfield>: Final question on Entertainment. Would we expect perhaps some Monster High movie in '12 or could you talk about Entertainment in '12?

<A – Robert A. Eckert>: Yeah, I think it is reasonable to at least think about a Monster High movie in '12. We also have a Batman movie coming in '12 and a Superman movie coming in '12. So, again, the strategy is to partner with the best and be the best partner. We've certainly had a good run on Entertainment properties recently, and I expect that to continue.

<Q – Margaret Whitfield>: And any follow-on to Monster High in terms of any new IP properties announced for '11 or '12?

<A – Robert A. Eckert>: We're not going to be announcing anything right now. We're clearly working on some additional ideas, but the focus right now is on executing Monster High. We had a terrific start. We, as you know, didn't have sufficient capacity to fill demand. So we had to constrain our expansion plans. We're now in good shape with capacity. We're building that supply as we speak. We're launching in countries all over the world. There are two chapter books coming out this year on Monster High. Claire's is expanding from 400 stores to 1,000. Justice is putting it in their front windows. We're doing more work with Entertainment partners on Monster High. We're doing a test program as we speak with Macy's. So Monster High is going to keep us pretty busy this year.

<Q – Margaret Whitfield>: So the Macy's test will have apparel and the toys?

<A – Robert A. Eckert>: It will have apparel. I don't believe there are toys, but I could be wrong on that, Margaret.

<Q – Margaret Whitfield>: Okay, congratulations and thanks.

<A – Robert A. Eckert>: Thanks, Margaret.

<A – Kevin Farr>: Thanks, Margaret.

Operator: Thank you. Our next question comes from Drew Crum of Stifel Nicolaus. Your line is open.

<Q – Drew Crum>: Okay, thanks. Good morning, everyone. Aside from pricing, Kevin or Bob, what are some of the keys or swing factors to sustaining gross margins around 50% in 2011? And along those lines, you've got some big Entertainment properties this year. Directionally, where do you see royalties as a percentage of revenue going or on an absolute dollar basis?

<A – Robert A. Eckert>: Well, I'll start with the first, and then Kevin can talk about royalties. Cost reductions have been really important around this company and we've had very good success. Obviously, costs overall are increasing, and we will have to continue pricing to reflect the costs, but we still work very hard on cost reduction programs.

We've had tremendous success moving products from our vendor network, the half of the toys that are made outside of Mattel factories, into Mattel factories, where we have a cost advantage. And we have become much more efficient in those Mattel plants through the main supply chain activities that we've had for the last few years.

So, as an example, we've essentially doubled the capacity in our internal plants over the last four or five years with very little capital investment. It's really about running these plants more efficiently. We do global procurement. So I've talked in the past about things like distribution and how in days gone by we used to have a lot of different people making a lot of different decisions about who was buying freight to go from point A to point B, and now all of that stuff is digitized and done globally.

So cost reduction is a big deal. SKU reduction will be a driver of costs, but unfortunately, we're in a position where the costs are going up so quickly that we are going to have to price.

<A – Kevin Farr>: I think adding to that, Bob, the Global Cost Leadership program over the last two years has reduced cost in cost of goods sold by about $89 million with respect to things like indirect procurement, logistics, and just streamlining the organization. So, in your second question I think, Drew, I think we expect the royalties to go up in 2011.

<A – Robert A. Eckert>: One example of that, Drew, is CARS is a big deal. We are in the fifth year of CARS as we speak. The POS on CARS actually grew last year, and per NPD, CARS remains one of the top 10 toy brands, five years after the original movie. So we're obviously all quite excited about that, but that carries a sizable royalty.

<A – Kevin Farr>: Correct.

<Q – Drew Crum>: Okay, thanks for that. And then – and, Kevin, could you comment on the cash balances held overseas and how that influences your share repurchase activity going forward?

<A – Kevin Farr>: Yeah, we do have cash overseas, but we can get at that cash when we need it subject to tax implications, but that's not a factor in our share repurchase program.

<Q – Drew Crum>: Okay. And then last question from me. Bob, you alluded to some refinement on the Fisher-Price line; you had some growth in the fourth quarter. Can you talk to – or give additional detail on what that refinement entails for 2011?

<A – Robert A. Eckert>: Well, we certainly feel better about Core Fisher-Price, but there is more work to do. We anticipated sales coming in late last year for Fisher-Price and they did. And we had good response to our retooled price-value architecture of the key drivers in last fall's line, so we are going to continue working on that. We still need to solidify the brand's positioning especially in international markets where we are not always the No. 1 Infant & Preschool brand and we need to work harder on retail support here in the States. So, while I feel better about where we are in Fisher-Price, there is still work in front us in 2011.

<Q – Drew Crum>: Okay. Thanks, guys.

Operator: Thank you. Our next question comes from Michael Kelter of Goldman Sachs. Your line is open.

<Q – Michael Kelter>: Thanks. I wanted to get maybe a little more commentary on pricing and gross margins. I guess on the pricing, so when do you anticipate those prices to be going through the mid- or high-single-digit pricing, and what levels of various commodities have you factored into your forecast? Are you looking at spot or have you built in a more aggressive forecast for what things like resin and zinc and paperboard might do?

<A – Robert A. Eckert>: Well, I think from a pricing standpoint, Michael, we'll be raising prices in the second quarter, so to make sure we're effective with the costs as they come in and particularly in the fall seasonal toy line.

<A – Kevin Farr>: And with regard to what do we look at. We look at for cost assumptions all of our input costs. And as you know, it's impossible to predict what will happen with input costs, but we expect to see year-over-year cost pressures in such areas of resins, packaging, labor rates, freight rates, and the strengthening Chinese currency. And as always, we'll continue to execute our continuous improvement programs in manufacturing efficiency initiatives and benefit from the cumulative annual gross savings from our Global Cost Leadership program to offset the headwinds as much as we can. But as Bob said, we're looking to more like a high-single-digit price increase based upon what we're assuming for costs for 2011.

<Q – Michael Kelter>: And since it sounds like 2Q is coming up pretty soon, you must have had some of those initial conversations with retailers by now. How would you classify how those conversations have gone and whether or not there is any resistance to taking that level of pricing?

<A – Robert A. Eckert>: Well, nobody likes to take prices up, but the fact is costs are up and retailers are certainly aware of that. Many of them have private label programs. They buy all sorts of products from overseas, and whether it's the price of cotton or the price of oil or the price of food, we are in a rising cost environment. And our goal is to protect our margins. I am sure retailers want to do the same thing. It's going to be an important year for doing that, but we are facing a rising cost environment, and I don't think it's surprising to anybody. We would obviously all like to be as constrained as we possibly can, but the fact is, cost is going up and everyone recognizes it.

<Q – Michael Kelter>: And then on an unrelated note, I'm just curious your thoughts on Barbie. It had been in decline, and you guys stabilized and actually grew the brand in the last two years. What do you think the potential is to that brand to continue to grow here, or was the growth in '10 mainly been driven by Toy Story and it will be difficult for you to go up against those types of comparisons. The brand could take a step back before taking further steps forward.

<A – Robert A. Eckert>: We had the same question a year ago. In 2009, people thought maybe it was just because of Barbie's 50th anniversary and what were we going to do in 2010. And then 2010, it was Toy Story, and what we are going to do in 2011. But the fact is we've seen strength in core Barbie across the entire portfolio and around the world. The POS continues to grow. Retailer confidence continues to improve. We've done well in 2010 with I Can Be, Fashionistas, Video Girl Barbie, the accessories, the Townhouse. The brand's now gone through a couple of years in being in very good shape, and we expect it to continue to perform well.

But again, I remind everyone that the key of Mattel is a portfolio of brands across a portfolio of countries and on any given day – a brand – any given brand might do well or any given country might perform well or underperform, but the portfolio works. And Barbie certainly is an important component and we've had a good run on Barbie, and I'm looking to put the days of 2007, or '08, or '06 behind us.

<Q – Michael Kelter>: Thank you very much, guys.

Operator: Thank you. Our next question comes from Felicia Hendrix of Barclays Capital.

<Q – Felicia Hendrix>: Hi, good morning, guys.

<A – Robert A. Eckert>: Hi, Felicia.

<A – Kevin Farr>: Hi, Felicia.

<Q – Felicia Hendrix>: Hi. Bob, it sounds like you guys are in a good place regarding your inventory levels and the build into that. Just wanted to get back to the question on the retail level. This question might be -- it might be a little too early to ask this question, but just given the, I guess, worse than expected holiday season in general, not necessarily for you guys, but in general for the industry, I'm wondering if you've seen any kind of, any change in appetite from the retail environment as they think towards the second half of the year. Have they -- have you got any kind of sense that they've changed their view on the amount of product they might take, for example?

<A – Robert A. Eckert>: Yeah, Felicia, it's a little bit early to have much of a perspective on that. But I think consistently now over the years, we've seen retailers want to run their supply chains as tightly as they can, and they don't want to get ahead of demand, particularly in tough economic times. So I think that that perspective will continue, but we'll have to see how the business goes during the year and where the momentum is. And we had pretty good success across our key products of not being out of stock with retailers this holiday season. And we clearly had momentum in the marketplace. And, we all make more money when we have toys and they sell. So I think at the end of the day, we will be fine. But it's a little early to think about the holiday season already.

<Q – Felicia Hendrix>: Okay. Thank you. And then also for you, Bob, on the cash side, you guys have more cash than you've ever had, which is a great problem to have. You've obviously increased your dividend. You stepped up buybacks. I know this is probably a – this is a board decision. But I was wondering if there is any chance of thinking about special dividends or other ways to return cash to shareholders besides just buybacks and dividends?

<A – Robert A. Eckert>: No, we don't think about things like special dividends, Felicia. We have returned, as Kevin mentioned, $700 million to shareholders in 2010. We do have a strong balance sheet. The business generates sizable cash flow. We'll continue to deploy it to enhance shareholder value. I think the most recent evidence to that is today's announcement of an increase in the dividend on top of last year's increase in the dividend.

So there has been no change to our capital deployment framework that we've put in place in 2002 or 2003. We're very high in cash today because as Kevin mentioned in June of this year, we're going to pay back $250 million or so in debt and we essentially pre-funded that when the rates were as low as they were last year. So we sort of earmarked that level of cash to go out the door.

<Q – Felicia Hendrix>: Okay. And then you've also consistently said the right thing at the right time regarding acquisitions, but now that the landscape -- I'm just wondering if the landscape is looking more attractive to you these days given some struggling competitors.

<A – Robert A. Eckert>: Yeah, I guess it's a little bit more favorable in the sense that some people aren't doing as well as they might like to have, but that doesn't necessarily mean we're going to fix their problem for them. So, I guess I don't come off with a mantra of the right thing, right time at the right price.

<Q – Felicia Hendrix>: Okay. Okay; great. See you soon.

<A – Robert A. Eckert>: Thanks, Felicia.

<A – Kevin Farr>: Thanks, Felicia.

Operator: Thank you. Our next question comes from Greg Badishkanian of Citigroup. Your line is open.

<Q – Greg Badishkanian>: Yeah, thank you. Hey, just wanted to clarify. I think you mentioned that POS is up mid-single digits. Is that U.S., globally or what were you referring to, Bob?

<A – Robert A. Eckert>: Yeah, that was U.S., although I think it was pretty consistent globally. We had good performance in Europe. We've had dramatic growth over the years in Latin America and it's all POS based. We've had very strong performance in Asia. The data isn't quite as precise outside of the U.S. as it is in the U.S., but we saw a good momentum as best we can measure it on a POS standpoint around the world.

<Q – Greg Badishkanian>: Was that – were those consumers outside the U.S. -- the environment was pretty – pretty similar in terms of their buying habits, etcetera, or were there some pretty major differences this holiday?

<A – Robert A. Eckert>: Well, obviously, there are many markets in Europe where the economic environment is in much worse shape than it is in the United States. We were pleased with our performance in Europe. We had POS increases in some of these countries where the economies are clearly struggling. So our product line held up well. The toy industry continues to perform well in tough economic times. I think that's now been proven six or seven times in the last 20 or 30 years.

So in fact, we probably saw a slightly higher growth rate in the toy industry in 2010 than we've seen in the last few years. So the business – the toy industry holds up pretty well, and I think that – that's consistent around the world.

<Q – Greg Badishkanian>: Great; nice job in the quarter. Thanks, guys.

<A – Kevin Farr>: Thank you.

Operator: Thank you.

<A – Robert A. Eckert>: Thanks, Greg.

Operator: Our question comes from John Taylor of Arcadia Investment. Your line is open.

<Q – John Taylor>: Hi, nice job. I've got a number of questions here too if I can. I wonder if you could look at the fourth quarter gross margin, if -- it looks to me like if you take the incremental sales volume, the gross margin on that was like around 30% or something. So could you talk a little bit more maybe about the mix? Was there some closeout or some markdown stuff in there to make sure things were clean or anything going on there?

<A – Kevin Farr>: No, there was nothing like that, J.T.

<Q – John Taylor>: Any reason why the increment – the margin on those incremental sales ought to be that low, though?

<A – Kevin Farr>: Well, I think really the 180-basis point decline in gross margin for the quarter was primarily due to higher input costs and royalties, partially offset by price increases in savings from the Global Cost Leadership program. So really, it wasn't related to those marginal sales or doing closeout sales.

<Q – John Taylor>: Yeah. Okay.

<A – Kevin Farr>: It's just higher input costs.

<Q – John Taylor>: Okay. All right and then. Bob, maybe for you. I wonder if you'd talk a little bit about the dynamics of some of the two Pixar properties, CARS and Toy Story. So we've seen big Entertainment properties erode in year two at lesser rates like with things like Transformers and Star Wars. I wonder how you would think about Toy Story 3? Would -- you think it's going to be sort of more along the traditional curve or maybe sort of a slower erosion rate?

And then the second part of that is, I know you want to look at this as a portfolio and that's fine. CARS is already a pretty good number at the base. So maybe I wonder if you could talk a little bit about how much growth potential there is, given that we are not starting from zero or anything close to it.

<A – Robert A. Eckert>: Well, I think, J.T., we start with Toy Story as an evergreen franchise. We have viewed it as an evergreen franchise. It performed well for 10 years between movies and I think its rate of decline will mirror an evergreen franchise as opposed to a movie about a character that comes and goes and when the movie is over, we're done with that character.

CARS is yet another example of that. CARS has sold well for five years despite the fact that there hasn't been a new movie. Obviously, we expect incremental business in CARS with the next movie; certainly Disney believes that; our retail customers believe that. I think this is going to be a big deal. And having seen portions of where the story is going in the movie, there are new characters, new geographies, a whole new play pattern with some conflict in it, if you will, almost 007 kind of stuff. It should be a pretty cool toy line. So I think our expectations are pretty high for CARS 2, and I don't think we are alone in believing that.

<Q – John Taylor>: Yeah, okay. Okay, good. And then I wonder if you could talk about, maybe first quarter in terms of themes. Back to this question about whether retailers have too much. Is there anything that's particularly driving retail reorders? How are they feeling about restocking early as opposed to kind of when they need to? Is there any way you could kind of characterize their appetite for restocks?

<A – Robert A. Eckert>: Well, I guess the way I'd characterize it is January is an important month for them as they're managing their inventories down as most of the retailers close their books at the end of January. And as I mentioned, at least anecdotally, I've heard from some retailers that they are a little long on merchandise and they are not looking for more merchandise this week. And this isn't a particularly strong toy time of the year. So I don't think there is anything extraordinary there. Maybe it's a little bit more pronounced this year because they finished a little long instead of a little lean, but I don't think it's anything -- again, I wouldn't use the word extraordinary.

<Q – John Taylor>: Yeah, well, it seems like this time last year there were still kind of a bunker mentality. Do you think that is dissipating finally?

<A – Robert A. Eckert>: No, I wouldn't say that. It -- literally this time last year; we were having a hard time filling orders. We went through holiday season 2009 with stronger demand than we expected. And some of our new properties, like WWE, last year at this time got off to a terrific start and we just didn't have enough products.

So if you looked at our inventory coming out of 2009, or if you looked at retail inventories coming out of 2009, they were two alike. So to some degree, we were filling the pipeline again, if you will, a year ago at this time, and I wouldn't say we're in that position today. But again, I don't think anybody is extraordinarily long.

<Q – John Taylor>: Is it -- I mean, were you so tight you might have missed some sales, and if so any rough guess in terms of how much you were constrained in Q1 last year?

<A – Robert A. Eckert>: Yeah, we were. We had a pretty good first quarter, I don't remember, but it's up like – was up like 13% sales or something. It was a pretty strong quarter.

<Q – John Taylor>: Yeah.

<A – Robert A. Eckert>: But the fact is we were out of stock on some key products and the retailers were out of stock on some key products, and the supply chain wasn't running as well as we had liked. And we worked on that and corrected the issues. We ended up with a solid supply chain. Our sales came in later than we thought in 2010. We weren't surprised. But that's with the inventory flow. And, unlike that situation this year, we are absolutely committed to having better customer service to taking care of our retailers. And, we're going to have more inventory in the first part of the year to do that.

<Q – John Taylor>: Okay; very good. And then last question. You mentioned Radica. It's been a while since we've heard that sub-brand. Could you talk maybe a little bit about what was driving that and is – do you expect that momentum to continue?

<A – Robert A. Eckert>: Yeah, again, I know you want to hear me say the word portfolio again. But Radica is a part of the portfolio and had a really good holiday season. We've had some good innovation in the game side of Radica like the Loopz Game, which was a big sellout. And so Radica had a particularly good holiday period. We have some ideas and they are going to be launched in some products in this holiday season with the Radica brand that I think are going to do pretty well. So I think it's going to be a good – continue to be a good performer.

<Q – John Taylor>: Great. Thank you.

<A – Robert A. Eckert>: Thanks, J.T.

Operator: Thank you. Our next question comes from Linda Bolton-Weiser of Caris. Your line is open.

<Q – Linda Bolton-Weiser>: Hi; congratulations.

<A – Robert A. Eckert>: Thanks, Linda.

<A – Kevin Farr>: Thanks, Linda.

<Q – Linda Bolton-Weiser>: Can I ask, I know – I know you don't like to give guidance and everything, but there have been quite a few questions just surrounding the issue of retail inventory in the first quarter. And I don't have my model in front of me, but I do recall the sales growth was really strong and especially the channel sell of World Wrestling. Is there anything that I'm forgetting that would replace that strong channel sell? Like will there be a lot of Monster High available for you to ship in to meet that demand in the first quarter, or what am I missing like that's going to ship in, in the first quarter to offset the large ship-in in the first quarter of 2010?

<A – Robert A. Eckert>: Boy, Linda, I'm really not going to get into 90-day views of the business. I mean, I just don't think about this business in 90-day increments the way some people do.

Yeah, things like Monster High are shipping quite well. WWE continues to be doing quite well in the marketplace. So -- but I don't want to get into a product line and a 90-day period, particularly since it's the seasonally unimportant time of the year.

<Q – Linda Bolton-Weiser>: Okay. And then, can I just ask about your longer-term International strategy? You've done great with that, really since you've been at the company in terms of increasing the sales there, and I assume that's still a strong focus. Can you just share how you strategically go about that? Do you target to enter a certain number of new markets each year, and like is that how you specifically do it or can you just talk about how you do that, and would the new market entries be more in 2011 or the same as in 2010, or more or less or can you just give us some sense?

<A – Robert A. Eckert>: We did have another good year, Linda, in International in 2010. We had 10% growth on a constant currency basis. We have momentum, we have scale, we're rolling in developed markets, and our investments in emerging markets like Brazil and China and India are paying off. So I don't think there are a number of new markets in 2011. I think it's going to be continued building of the business in 2011 in the markets in which we already compete, and we compete all over the world.

So as middle classes grow, as the infrastructure grows, and retail develops, we have a model that is proven successful and how to build demand for toys and build specific demand for our brands of toys in emerging markets. But I'll also tell you we've done well in markets that have been around for a long time like Europe and Mexico.

<Q – Linda Bolton-Weiser>: Thanks. Can I also ask about -- I think I remember reading that the Barbie -- rights to a Barbie movie were bought by somebody a few years ago or a year ago. What is the status of that, or is there actual plans for a live action Barbie movie any time soon?

<A – Robert A. Eckert>: No, I am not sure there is going to be a live action Barbie movie any time soon. It is something I've talked about before. It's something we think about very hard. I am not inclined to do a movie in the near term on Barbie. I think it's a really important franchise and it needs to be done really well in a live-action standpoint. And don't forget that we started essentially the movie business for toys with Barbie 10 or 11 years ago now. We've sold two or three DVDs every year, and these things have become pretty big sellers. I think we've had 19 DVDs now since 2001. We average some number like 4.5 million on these things a year, probably generated a $1.5 billion in revenue since 2001. So Barbie movies exist, but I'm not yet convinced – we're not yet convinced that Barbie needs to be a theatrical release on the big screen live action. So I wouldn't hold my breath for a Barbie movie in that genre.

<Q – Linda Bolton-Weiser>: Okay. Thank you very much.

<A – Robert A. Eckert>: Thanks, Linda.

<A – Kevin Farr>: Thanks, Linda.

<A – Dianne Douglas>: Operator, we have one more – time for one more call or question.

Operator: Thank you. Our last question comes from Gerrick Johnson of BMO Capital Markets. Your line is open.

<Q – Gerrick Johnson>: Hi, good morning. Hey, in 2011, new growth categories for you guys that you are targeting; learning games, construction, some of the areas you are dipping your toe in. Any plans there?

<A – Robert A. Eckert>: Yeah, I – you're going to tire of this, but it is a portfolio. We gained share in every segment, I think, or as NPD defines segments. We probably gained share in virtually every one last year. So there are clear areas where we want to grow, but we're also growing the businesses where we've been in them for a long time, like dolls.

If you think about new opportunities, we're very excited about the new relationship that we have with THQ. It's a multi-year alliance to publish and market video games based on the entire portfolio -- Barbie, Hot Wheels, Fisher-Price, Monster High. We're going to do some older titles like Rock 'em Sock 'em and LED Football. So whether it's X-Station -- or sorry; Xbox or PlayStation, we – I think – they've got the uDraw Game Tablet. Pictionary is already one of the hot sellers on that. So I think that's an area where the company will grow, but we'll do it in partnership with THQ instead of all by ourselves.

<Q – Gerrick Johnson>: Okay. And two clarification questions. On Monster High, where was it launched in 2010? Was it just U.S. and where is it planning to go in 2011? And then one follow-up.

<A – Robert A. Eckert>: We were in Canada in 2010. I think we were in a couple of the European markets in 2010. But it's going to be in – I don't know -- some number like 40 different markets in the first six months of this year.

<Q – Gerrick Johnson>: A portfolio of geographies.

<A – Robert A. Eckert>: There you go.

<Q – Gerrick Johnson>: And then finally the license for Toy Story last year, you kind of shared it, shared the Master license with Thinkway. For CARS 2, is this – do you have this all yourself or is Thinkway involved again in this Pixar film?

<A – Robert A. Eckert>: No, we don't have it all ourselves. We're certainly the master toy licensee, as we are with many Disney/Pixar kinds of products, but they also have other partners. And so particularly with a property as large as either Toy Story or CARS, we'll be exclusive in the categories in which we have exclusivity, but Disney will also be using other licensees to sell other products.

<Q – Gerrick Johnson>: All right, well, last year Thinkway was a big part of Toy Story. Is it going to be as big -- are they going to be as big in CARS 2 as they were in Toy Story last year? Because I'm just trying to get a sort of order of magnitude on CARS 2, how much that could be for you guys this year.

<A – Robert A. Eckert>: I think that's better asked of them than us.

<Q – Gerrick Johnson>: Okay; okay. We'll see them soon. All right; thank you.

<A – Robert A. Eckert>: All right, thanks, Gerrick.

<A – Kevin Farr>: Thanks, Gerrick.

Dianne Douglas, Senior Vice President, Investor Relations

All right. Thank you all for participating in the call today. There will be a replay of the call available beginning at 11:30 AM Eastern Time. The number for the replay is 706-645-9291 and the passcode is 35308770. Thank you.

Operator: Ladies and gentlemen, this does conclude today's conference. Thank you for your participation and have a wonderful day. You may all disconnect.