MATTEL INC /DE/
Form 10-Q
July 29, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2009

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission File Number 001-05647

MATTEL, INC.

(Exact name of registrant as specified in its charter)

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

333 Continental Blvd.

El Segundo, CA 90245-5012

(Address of principal executive offices)

(310) 252-2000

(Registrant s telephone number)

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

NONE

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

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

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

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

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

Number of shares outstanding of registrant s common stock, $1.00 par value, as of July 27, 2009:

359,967,954 shares

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MATTEL, INC. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

MATTEL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30, 2009	June 30, 2008	December 31, 2008
		(Unaudited; in thousands, except share data)	
ASSETS			
Current Assets			
Cash and equivalents	$ 422,685	$ 384,407	$ 617,694
Accounts receivable, net	747,157	977,449	873,542
Inventories	589,554	676,108	485,925
Prepaid expenses and other current assets	402,792	339,940	409,689
Total current assets	2,162,188	2,377,904	2,386,850
Noncurrent Assets			
Property, plant, and equipment, net	522,221	517,814	536,162
Goodwill	830,539	847,100	815,803
Other noncurrent assets	962,626	890,322	936,224
Total Assets	$ 4,477,574	$ 4,633,140	$ 4,675,039
LIABILITIES AND STOCKHOLDERS EQUITY			
Current Liabilities			
Short-term borrowings	$ 294,210	$ 106,987	$
Current portion of long-term debt	50,000	150,000	150,000
Accounts payable	266,050	374,453	421,736
Accrued liabilities	437,261	507,168	649,383
Income taxes payable		22,983	38,855
Total current liabilities	1,047,521	1,161,591	1,259,974
Noncurrent Liabilities			
Long-term debt	710,000	760,000	750,000
Other noncurrent liabilities	550,366	382,290	547,930
Total noncurrent liabilities	1,260,366	1,142,290	1,297,930
Stockholders Equity			
Common stock $1.00 par value, 1.0 billion shares authorized; 441.4 million shares issued	441,369	441,369	441,369
Additional paid-in capital	1,654,809	1,638,797	1,642,092
Treasury stock at cost; 82.1 million shares, 80.9 million shares, and 82.9 million shares, respectively	(1,606,505)	(1,586,075)	(1,621,264)
Retained earnings	2,056,186	1,942,696	2,085,573

Accumulated other comprehensive loss	(376,172)	(107,528)	(430,635)
Total stockholders equity	2,169,687	2,329,259	2,117,135
Total Liabilities and Stockholders Equity	$ 4,477,574	$ 4,633,140	$ 4,675,039

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

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MATTEL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
	(Unaudited; in thousands, except per share amounts)			
Net Sales	$ 898,197	$ 1,112,431	$ 1,683,843	$ 2,031,730
Cost of sales	492,137	617,097	931,911	1,139,560
Gross Profit	406,060	495,334	751,932	892,170
Advertising and promotion expenses	89,820	116,805	173,884	219,766
Other selling and administrative expenses	283,727	347,921	600,744	678,331
Operating Income (Loss)	32,513	30,608	(22,696)	(5,927)
Interest expense	17,489	16,566	33,406	32,615
Interest (income)	(2,525)	(7,271)	(6,003)	(15,818)
Other non-operating (income) expense, net	(6,268)	6,380	(8,466)	22,145
Income (Loss) Before Income Taxes	23,817	14,933	(41,633)	(44,869)
Provision (benefit) for income taxes	2,348	3,150	(12,116)	(10,006)
Net Income (Loss)	$ 21,469	$ 11,783	$ (29,517)	$ (34,863)
Net Income (Loss) Per Common Share Basic	$ 0.06	$ 0.03	$ (0.08)	$ (0.10)
Weighted average number of common shares	358,824	361,262	358,972	361,535
Net Income (Loss) Per Common Share Diluted	$ 0.06	$ 0.03	$ (0.08)	$ (0.10)
Weighted average number of common and potential common shares	360,881	363,919	358,972	361,535

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

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MATTEL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Six Months Ended June 30, 2009	June 30, 2008
	(Unaudited; in thousands)	
Cash Flows From Operating Activities:		
Net loss	$ (29,517)	$ (34,863)
Adjustments to reconcile net loss to net cash flows used for operating activities:		
Net gain on disposal of property, plant, and equipment		1,841
Depreciation	75,904	80,013
Amortization	9,874	5,839
Deferred income taxes	(29,532)	(41,621)
Share-based compensation	20,145	13,422
Increase (decrease) from changes in assets and liabilities:		
Accounts receivable	137,051	45,900
Inventories	(76,070)	(230,918)
Prepaid expenses and other current assets	(60,221)	(48,577)
Accounts payable, accrued liabilities, and income taxes payable	(397,632)	(278,252)
Other, net	188	(42,465)
Net cash flows used for operating activities	(349,810)	(529,681)
Cash Flows From Investing Activities:		
Purchases of tools, dies, and molds	(37,458)	(37,949)
Purchases of other property, plant, and equipment	(24,347)	(42,143)
Proceeds from sale of investments	67,134	
Proceeds from sale of other property, plant, and equipment	238	3,177
Proceeds from foreign currency forward exchange contracts	3,105	41,187
Net cash flows provided by (used for) investing activities	8,672	(35,728)
Cash Flows From Financing Activities:		
Payments of short-term borrowings		(349,003)
Proceeds from short-term borrowings	293,962	106,927
Payments of long-term borrowings	(140,000)	(40,000)
Proceeds from long-term borrowings		347,183
Payment of credit facility renewal costs	(10,506)	
Share repurchases		(40,489)
Proceeds from exercise of stock options	1,041	15,365
Other, net	(1,191)	958
Net cash flows provided by financing activities	143,306	40,941
Effect of Currency Exchange Rate Changes on Cash	2,823	7,727
Decrease in Cash and Equivalents	(195,009)	(516,741)
Cash and Equivalents at Beginning of Period	617,694	901,148
Cash and Equivalents at End of Period	$ 422,685	$ 384,407
Supplemental Cash Flow Information:		
Cash paid during the period for:		

Income taxes, gross	$	63,071	$	36,899
Interest		34,067		30,357

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

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MATTEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

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

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

The financial information included herein should be read in conjunction with Mattel s consolidated financial statements and related notes in its 2008 Annual Report on Form 10-K.

Effective April 1, 2009, Mattel adopted Statement of Financial Accounting Standards (SFAS) No. 165, *Subsequent Events.* SFAS No. 165 establishes general standards for accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. SFAS No. 165 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition in the financial statements, identifies the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that should be made about events or transactions that occur after the balance sheet date. In preparing these financial statements, Mattel evaluated the events and transactions that occurred between June 30, 2009 through July 29, 2009, the date these financial statements were issued.

2. Accounts Receivable

Accounts receivable are net of allowances for doubtful accounts of $25.5 million, $23.4 million, and $25.9 million as of June 30, 2009, June 30, 2008, and December 31, 2008, respectively.

3. Inventories

Inventories include the following:

	June 30, 2009	June 30, 2008	December 31, 2008
		(In thousands)	
Raw materials and work in process	$ 88,933	$ 87,888	$ 57,311
Finished goods	500,621	588,220	428,614
	$ 589,554	$ 676,108	$ 485,925

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4. Property, Plant, and Equipment

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

	June 30, 2009	June 30, 2008 (In thousands)	December 31, 2008
Land	$ 26,635	$ 26,697	$ 26,499
Buildings	239,665	239,783	237,561
Machinery and equipment	765,634	778,805	758,656
Tools, dies, and molds	580,215	616,000	544,789
Capital leases	23,271	23,271	23,271
Leasehold improvements	175,837	158,081	162,288
	1,811,257	1,842,637	1,753,064
Less: accumulated depreciation	(1,289,036)	(1,324,823)	(1,216,902)
	$ 522,221	$ 517,814	$ 536,162

5. Goodwill

Goodwill is allocated to various reporting units, which are either at the operating segment level or one reporting level below the operating segment level, for purposes of evaluating whether goodwill is impaired. Mattel s reporting units are: Mattel Girls Brands US, Mattel Boys Brands US, Fisher-Price Brands US, American Girl Brands, and International. Mattel tests its goodwill for impairment annually in the third quarter, and whenever events or changes in circumstances indicate that the carrying value may not be recoverable, based on the fair value of the cash flows that the reporting units can be expected to generate in the future.

The change in the carrying amount of goodwill by reporting unit for the six months ended June 30, 2009 is shown below. Brand-specific goodwill held by foreign subsidiaries is allocated to the US reporting units selling those brands, thereby causing foreign currency translation impact for the US reporting units.

	December 31, 2008	Impact of Currency Exchange Rate Changes (In thousands)	June 30, 2009
Mattel Girls Brands US	$ 29,224	$ 3,380	$ 32,604
Mattel Boys Brands US	130,883	(105)	130,778
Fisher-Price Brands US	215,520	663	216,183
American Girl Brands	207,571		207,571
International	232,605	10,798	243,403
	$ 815,803	$ 14,736	$ 830,539

6. Other Noncurrent Assets

Other noncurrent assets include the following:

June 30, 2009	June 30, 2008 (In thousands)	December 31, 2008

Deferred income taxes	$	552,163	$	508,229	$	524,451
Nonamortizable identifiable intangibles		128,382		128,382		128,382
Identifiable intangibles (net of amortization of $65.8 million, $56.8 million, and $61.8 million, respectively)		99,759		65,799		107,447
Other		182,322		187,912		175,944
	$	962,626	$	890,322	$	936,224

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In October 2008, Mattel acquired Sekkoia SAS, which owns the Blokus® trademark and trade name rights, for $35.1 million in cash, including acquisition costs. In connection with the acquisition, Mattel recorded goodwill and amortizable identifiable intangible assets totaling $18.1 million and $22.9 million, respectively.

In August 2008, Mattel acquired the intellectual property rights related to Whac-a-Mole® for $23.5 million, including acquisition costs, which is included within amortizable identifiable intangibles.

7. Accrued Liabilities

Accrued liabilities include the following:

	June 30, 2009	June 30, 2008 (In thousands)	December 31, 2008
Royalties	$ 41,294	$ 56,881	$ 86,152
Derivatives payable	27,750	39,752	11,757
Advertising and promotion	20,155	49,585	56,941
Receivable collections due bank		21,571	82,245
Other	348,062	339,379	412,288
	$ 437,261	$ 507,168	$ 649,383

8. Product Recalls and Withdrawals

During 2007, Mattel recalled products with high-powered magnets that may become dislodged and other products, some of which were produced using non-approved paint containing lead in excess of applicable regulatory and Mattel standards. During the second half of 2007, additional products were recalled, withdrawn from retail stores, or replaced at the request of consumers as a result of safety or quality issues (collectively, the 2007 Product Recalls). In the second quarter of 2008, Mattel determined that certain products had been shipped into foreign markets in which the products did not meet all applicable regulatory standards for those markets. None of these deficiencies related to lead or magnets. Mattel withdrew these products from retail stores in these markets and, although not required to do so, also withdrew the products from the US and other markets because they did not meet Mattel s internal standards (the 2008 Product Withdrawal).

The following table summarizes Mattel s reserves and reserve activity for the 2007 Product Recalls and the 2008 Product Withdrawal for the six months ended June 30, 2009:

	Reserves at December 31, 2008	Reserves Used	Changes in Estimates (In thousands)	Impact of Currency Exchange Rate Changes	Reserves at June 30, 2009
Product returns/redemption	$ 3,605	$ (753)	$ (824)	$ 36	$ 2,064
Other	1,338	(141)	(13)	(22)	1,162
	$ 4,943	$ (894)	$ (837)	$ 14	$ 3,226

The following table summarizes Mattel s reserves and reserve activity for the 2007 Product Recalls and the 2008 Product Withdrawal for the six months ended June 30, 2008:

	Reserves at December 31, 2007	2008 Product Withdrawal	Reserves Used	Changes in Estimates	Impact of Currency Exchange Rate Changes	Reserves at June 30, 2008
			(In thousands)			
Impairment of inventory on hand	$	$ 3,571	$ (3,571)	$	$	$
Product returns/redemption	12,612	1,611	(11,264)	2,829	404	6,192
Other	2,360	242	(1,532)	827	3	1,900
	$ 14,972	$ 5,424	$ (16,367)	$ 3,656	$ 407	$ 8,092

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Following the announcement of the 2007 Product Recalls and 2008 Product Withdrawal, a number of lawsuits were filed against Mattel with respect to the recalled and withdrawn products, which are more fully described in Note 12 to the Consolidated Financial Statements in Mattel s 2008 Annual Report on Form 10-K and Note 23, Contingencies, of this Quarterly Report on Form 10-Q. During the three and six months ended June 30, 2009, Mattel recorded charges of $1.1 million and $22.0 million, respectively, which are included in other selling and administrative expenses, to reserve for the settlement of a portion of the above-described product liability-related litigation. Additionally, during the three months ended June 30, 2009, Mattel recorded a $6.0 million benefit associated with an insurance recovery for product liability-related litigation.

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

9. Restructuring Charges

During the second quarter of 2008, Mattel initiated the Global Cost Leadership program, which is designed to improve operating efficiencies and leverage Mattel s global scale to improve profitability and operating cash flows. The major initiatives of Mattel s Global Cost Leadership program include:

- A global reduction in Mattel s professional workforce of approximately 1,000 employees that was implemented beginning in November 2008.

- A coordinated efficiency strategic plan that includes structural changes designed to lower costs and improve efficiencies; for example, offshoring and outsourcing certain back office functions, and more clustering of management for international markets.

- Additional procurement initiatives designed to fully leverage Mattel s global scale in areas such as creative agency partnerships, legal services, and distribution, including ocean carriers and over-the-road freight vendors.

In connection with the Global Cost Leadership program, during the three and six months ended June 30, 2009, Mattel recorded severance and other termination-related charges of $2.5 million and $7.2 million, respectively, which are included in other selling and administrative expenses. The following table summarizes Mattel s severance and other termination costs activity for the six months ended June 30, 2009 (in thousands):

	Reserves at December 31, 2008	2009 Charges	Payments	Reserves at June 30, 2009
Severance	$ 17,115	$ 7,199	$ (16,580)	$ 7,734
Other termination costs	881		(407)	474
	$ 17,996	$ 7,199	$ (16,987)	$ 8,208

10. Seasonal Financing

Mattel maintains and periodically amends or replaces its domestic unsecured committed revolving credit facility with a commercial bank group that is used as the primary source of financing for the seasonal working capital requirements of its domestic subsidiaries. The agreement in effect was amended and restated on March 23, 2009 to, among other things, (i) extend the maturity date of the credit facility to March 23, 2012, (ii) reduce aggregate commitments under the credit facility from $1.3 billion to $880.0 million, with an accordion feature, which would allow Mattel to increase the availability under the credit facility to $1.08 billion under certain circumstances, (iii) add an interest rate floor equal to 30 day LIBOR plus 1.00% for base rate loans under the credit facility, (iv) increase the applicable interest rate margins to a range of 2.00% to 3.00% above the applicable base rate for base rate loans, and 2.5% to 3.5% above the applicable LIBOR rate for

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Eurodollar rate loans, depending on Mattel s senior unsecured long-term debt rating, (v) increase commitment fees to a range of 0.25% to 0.75% of the unused commitments under the credit facility, and (vi) replace the consolidated debt-to-capital ratio with a consolidated debt-to-earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio. On April 29, 2009, Mattel utilized the accordion feature of the credit facility to increase the aggregate commitments under the credit facility by $60.0 million. On July 9, 2009, Mattel further increased the aggregate commitments under the credit facility by $95.0 million, from $940.0 million to $1.035 billion, also through the accordion feature of the credit facility. The remaining accordion feature availability is $45.0 million.

Mattel has a $300.0 million domestic receivables sales facility that is a sub-facility of Mattel s domestic unsecured committed revolving credit facility, which was also amended in connection with the amendment of the credit facility. The amendment to the receivables sales facility, among other things, (i) extended the maturity date of the receivables sales facility to March 23, 2012, and (ii) incorporated the credit facility s increased applicable interest rate margins described above.

11. Long-term Debt

Long-term debt includes the following:

	June 30, 2009	June 30, 2008 (In thousands)	December 31, 2008
Medium-term notes due November 2009 to November 2013	$ 210,000	$ 260,000	$ 250,000
2006 Senior Notes due June 2011	200,000	300,000	300,000
2008 Senior Notes due March 2013	350,000	350,000	350,000
	760,000	910,000	900,000
Less: current portion	(50,000)	(150,000)	(150,000)
	$ 710,000	$ 760,000	$ 750,000

In June 2009, Mattel repaid $100.0 million of the 2006 unsecured floating rate senior notes (Floating Rate Senior Notes) in connection with their scheduled maturity. Additionally, during the six months ended June 30, 2009, Mattel repaid $40.0 million of its Medium-term notes in connection with their scheduled maturity.

12. Other Noncurrent Liabilities

Other noncurrent liabilities include the following:

	June 30, 2009	June 30, 2008 (In thousands)	December 31, 2008
Benefit plan liabilities	$ 285,412	$ 145,955	$ 286,557
Noncurrent tax liabilities	132,862	119,275	132,744
Other	132,092	117,060	128,629
	$ 550,366	$ 382,290	$ 547,930

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13. Comprehensive Income

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
	(In thousands)			
Net income (loss)	$ 21,469	$ 11,783	$ (29,517)	$ (34,863)
Currency translation adjustments	102,199	6,480	63,074	79,303
Defined benefit pension plans net prior service cost and net actuarial loss	8,512	303	2,527	607
Net unrealized (losses) gains on derivative instruments:				
Unrealized holding losses	(23,922)	(6,114)	(7,400)	(24,694)
Reclassification adjustment for realized (gains) losses included in net income	(2,077)	8,956	(3,738)	13,066
	(25,999)	2,842	(11,138)	(11,628)
	$ 106,181	$ 21,408	$ 24,946	$ 33,419

The components of accumulated other comprehensive loss are as follows:

	June 30, 2009	June 30, 2008	December 31, 2008
		(In thousands)	
Currency translation adjustments	$ (211,777)	$ (2,971)	$ (274,851)
Defined benefit pension and other postretirement plans, net of tax	(158,186)	(72,470)	(160,713)
Net unrealized (loss) gain on derivative instruments, net of tax	(6,209)	(32,087)	4,929
	$ (376,172)	$ (107,528)	$ (430,635)

Currency Translation Adjustments

Mattel s reporting currency is the US dollar. The translation of its results of operations and financial position of subsidiaries with non-US dollar functional currencies subjects Mattel to currency exchange rate fluctuations in its results of operations and financial position. Assets and liabilities of subsidiaries with non-US dollar functional currencies are translated into US dollars at fiscal period-end exchange rates. Income, expense, and cash flow items are translated at weighted average exchange rates prevailing during the fiscal period. The resulting currency translation adjustments are recorded as a component of accumulated other comprehensive loss within stockholders equity. For the six months ended June 30, 2009, currency translation adjustments resulted in a net gain of $63.1 million, with gains primarily from the strengthening of the Mexican peso, Indonesian rupiah, Brazilian real, British pound sterling, Chilean peso, and Euro against the US dollar. For the six months ended June 30, 2008, currency translation adjustments resulted in a net gain of $79.3 million, with gains primarily from the strengthening of the Euro, British pound sterling, Mexican peso, Indonesian rupiah, and Brazilian real against the US dollar.

14. Income Taxes

Mattel had an income tax benefit of $12.1 million for the six months ended June 30, 2009, compared to an income tax benefit of $10.0 million for the six months ended June 30, 2008. During the three months ended June 30, 2009, Mattel recognized discrete tax benefits of $2.5 million related to a change in estimate for a previously unrecognized tax benefit, along with the impact of a newly enacted tax law.

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During the normal course of business, Mattel is regularly audited by federal, state, and foreign tax authorities. The Internal Revenue Service (IRS) is currently auditing Mattel s 2006 and 2007 federal income tax returns. The IRS audit plan calls for the completion of the current examination in the second quarter of 2010. At this time, there is insufficient information related to current IRS, state, and foreign audits to quantify any possible changes in the unrecognized tax benefits that may occur during the next twelve months.

15. Foreign Currency Transaction Gains and Losses

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

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
	(In thousands)			
Operating income (loss)	$ (14,731)	$ (28,685)	$ (29,125)	$ (43,682)
Other non-operating (income) expense, net	(6,246)	5,764	(8,624)	22,522
Net transaction gains	$ (20,977)	$ (22,921)	$ (37,749)	$ (21,160)

16. Derivative Instruments

Effective January 1, 2009 and as required, Mattel adopted SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133.* SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* to provide users of financial statements with an enhanced understanding of (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity s financial position, results of operations, and cash flows. The adoption of SFAS No. 161 had no impact on Mattel s financial statements.

Mattel seeks to mitigate its exposure to foreign currency transaction risk by monitoring its foreign currency transaction exposure for the year and partially hedging such exposure using foreign currency forward exchange contracts. Mattel uses foreign currency forward exchange contracts as cash flow hedges primarily to hedge its purchases and sales of inventory denominated in foreign currencies. These contracts generally have maturity dates up to 18 months. These derivative instruments, which have been designated as effective cash flow hedges, are accounted for under SFAS No. 133*,* whereby the unsettled hedges are reported in Mattel s consolidated balance sheets at fair value, with changes in the fair value of the hedges reflected in other comprehensive income (OCI). Realized gains and losses for these contracts are recorded in the consolidated statements of operations in the period in which the inventory is sold to customers. Additionally, Mattel uses foreign currency forward exchange contracts to hedge intercompany loans and advances denominated in foreign currencies. Due to the short-term nature of the contracts involved, Mattel does not use hedge accounting for these contracts, and as

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such, changes in fair value are recorded in the period of change in the consolidated statements of operations. As of June 30, 2009, Mattel held foreign currency forward exchange contracts with notional amounts of approximately $1.20 billion, which was equal to the exposure hedged.

In connection with the issuance of its $100.0 million of Floating Rate Senior Notes, Mattel entered into two interest rate swap agreements, each in a notional amount of $50.0 million, for the purpose of hedging the variability of cash flows in the interest payments due to fluctuations of the LIBOR benchmark interest rate. The two interest rate swap agreements expired in June 2009, which corresponded with the maturity of the Floating Rate Senior Notes. These derivative instruments, which were designated as effective cash flow hedges, were accounted for under SFAS No. 133, whereby the hedges were reported in Mattel s consolidated balance sheets at fair value, with changes in the fair value of the hedges reflected in OCI. Under the terms of the agreements, Mattel received quarterly interest payments from the swap counterparties based on the three-month LIBOR plus 40 basis points and made semi-annual interest payments to the swap counterparties based on a fixed rate of 5.871%. The three-month LIBOR used to determine interest payments under the interest rate swap agreements had reset every three months, matching the variable interest on the Floating Rate Senior Notes.

The following table presents Mattel s derivative assets and liabilities at June 30, 2009 (in thousands):

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives designated as hedging instruments under SFAS No. 133				
Foreign currency forward exchange contracts	Prepaid expenses and other current assets	$ 14,943	Accrued liabilities	$ 27,648
Foreign currency forward exchange contracts	Other noncurrent assets	982	Other noncurrent liabilities	4,580
Total derivatives designated as hedging instruments under SFAS No. 133		$ 15,925		$ 32,228
Derivatives not designated as hedging instruments under SFAS No. 133				
Foreign currency forward exchange contracts		$	Accrued liabilities	$ 102
Total derivatives		$ 15,925		$ 32,330

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

	For the Three Months Ended June 30, 2009		For the Six Months Ended June 30, 2009		
	Amount of Gain (Loss) Recognized in OCI	Amount of Gain (Loss) Reclassified from Accumulated OCI to Statements of Operations	Amount of Gain (Loss) Recognized in OCI	Amount of Gain (Loss) Reclassified from Accumulated OCI to Statements of Operations	Statements of Operations Location
Derivatives designated as hedging instruments under SFAS No. 133					
Foreign currency forward exchange contracts	$ (23,922)	$ 3,627	$ (7,051)	$ 5,288	Cost of sales
Interest rate swaps		(1,550)	(349)	(1,550)	Interest expense
Total	$ (23,922)	$ 2,077	$ (7,400)	$ 3,738	

The net gains of $2.1 million and $3.7 million reclassified from accumulated OCI to the statements of operations for the three and six months ended June 30, 2009, respectively, are offset by the changes in cash flows associated with the underlying hedged transactions.

	Amount of Gain Recognized in the Statements of Operations		
	For the Three Months Ended June 30, 2009	For the Six Months Ended June 30, 2009	Statements of Operations Location
Derivatives not designated as hedging instruments under SFAS No. 133			
Foreign currency forward exchange contracts	$ 24,291	$ 2,231	Other non-operating (income) expense

The net gains of $24.3 million and $2.2 million recognized in the statements of operations for the three and six months ended June 30, 2009, respectively, are offset by foreign currency transaction losses on the related intercompany loan balances.

17. Fair Value Measurements

The following table presents information about Mattel s assets and liabilities measured and reported in the financial statements at fair value on a recurring basis as of June 30, 2009 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value. The three levels of the fair value hierarchy defined by SFAS No. 157, *Fair Value Measurements,* are as follows:

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

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

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

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Mattel does not have any significant financial assets or liabilities measured at fair value using Level 1 or Level 3 inputs as of June 30, 2009, June 30, 2008, or December 31, 2008. Mattel s financial assets and liabilities measured using Level 2 inputs include the following:

	June 30, 2009	June 30, 2008 (In thousands)	December 31, 2008
Assets:			
Foreign currency forward exchange contracts (a)	$ 15,925	$ 11,748	$ 24,714
Liabilities:			
Foreign currency forward exchange contracts (a)	$ 32,330	$ 37,630	$ 12,326
Interest rate swaps (b)		2,321	1,934
Total liabilities	$ 32,330	$ 39,951	$ 14,260

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

(b) The fair value of the interest rate swaps is based on dealer quotes using cash flows discounted at relevant market interest rates.

Effective January 1, 2009, Mattel adopted SFAS No. 157, for all nonfinancial assets and liabilities that are measured at fair value on a non-recurring basis, such as goodwill and identifiable intangible assets. The adoption of SFAS No. 157 for nonfinancial assets and liabilities that are measured at fair value on a non-recurring basis did not impact Mattel s financial position or results of operations for the three and six months ended June 30, 2009, and Mattel does not expect the adoption to have a material impact on the amounts reported in the financial statements in future periods.

Effective April 1, 2009, Mattel adopted Financial Accounting Standards Board (FASB) Staff Position (FSP) No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or the Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. FSP No. FAS 157-4 amends SFAS No. 157 to provide additional guidance on (i) estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability, and (ii) circumstances that may indicate that a transaction is not orderly. The adoption of FSP No. FAS 157-4 did not impact Mattel s financial position or results of operations for the three months ended June 30, 2009.

18. Fair Value of Financial Instruments

Effective April 1, 2009, Mattel adopted FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. FSP No. FAS 107-1 and APB 28-1 requires disclosures about fair value of financial instruments in interim as well as in annual financial statements.

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

The estimated fair value of Mattel s long-term debt, including the current portion, is $774.6 million (compared to a carrying amount of $760.0 million) as of June 30, 2009. The estimated fair value has been calculated based on broker quotes or rates for the same or similar instruments.

The fair value related disclosures for Mattel s derivative financial instruments are included in Note 16 Derivative Instruments and Note 17 Fair Value Measurements .

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19. Other Selling and Administrative Expenses

Other selling and administrative expenses include the following:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
	(In thousands)			
Design and development	$ 43,789	$ 47,690	$ 83,909	$ 90,302
Identifiable intangible asset amortization	2,591	2,341	5,315	4,829

20. Earnings (Loss) Per Share

Effective January 1, 2009, Mattel adopted FSP Emerging Issues Task Force (EITF) No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. Under FSP EITF No. 03-6-1, unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method as described in SFAS No. 128, *Earnings Per Share*. The adoption of FSP EITF No. 03-6-1 did not have a material impact on the net income (loss) per common share for the three and six months ended June 30, 2009 and 2008.

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

Diluted net income per common share is computed by dividing reported net income by the weighted average number of common shares and potential common shares outstanding during each period. The calculation of potential common shares assumes the exercise of dilutive stock options, net of assumed treasury share repurchases at average market prices. Nonqualified stock options totaling 21.3 million and 6.0 million shares were excluded from the calculation of diluted net income per common share for the three months ended June 30, 2009 and 2008, respectively. All potential common shares were excluded from the calculation of diluted net income per common share for the six months ended June 30, 2009 and 2008 because they were anti-dilutive due to Mattel s net loss position.

21. Employee Benefit Plans

Mattel and certain of its subsidiaries have qualified and nonqualified retirement plans covering substantially all employees of these companies, which are more fully described in Note 7 to the Consolidated Financial Statements in its 2008 Annual Report on Form 10-K.

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
	(In thousands)			
Service cost	$ 2,531	$ 3,022	$ 5,913	$ 6,346
Interest cost	7,665	6,601	15,165	13,186
Expected return on plan assets	(7,506)	(6,732)	(14,854)	(13,466)
Amortization of prior service cost	359	478	744	956
Recognized actuarial loss	3,034	1,537	6,059	2,999
	$ 6,083	$ 4,906	$ 13,027	$ 10,021

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

	For the Three Months Ended June 30, 2009	For the Three Months Ended June 30, 2008	For the Six Months Ended June 30, 2009	For the Six Months Ended June 30, 2008
	(In thousands)			
Service cost	$ 27	$ 24	$ 53	$ 48
Interest cost	664	717	1,328	1,434
Recognized actuarial loss	176	129	353	258
	$ 867	$ 870	$ 1,734	$ 1,740

During the three and six months ended June 30, 2009, Mattel made cash contributions totaling approximately $5 million and $11 million, respectively, to its defined benefit pension and postretirement benefit plans.

22. Share-Based Payments

Mattel has various stock compensation plans, which are more fully described in Note 10 to the Consolidated Financial Statements in its 2008 Annual Report on Form 10-K. Under the Mattel, Inc. 2005 Equity Compensation Plan (the 2005 Plan), Mattel has the ability to grant nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units (RSUs), dividend equivalent rights, and shares of common stock to officers, employees, and other persons providing services to Mattel. Stock options expire no later than ten years from the date of grant and both stock options and RSUs generally provide for vesting over a period of three years from the date of grant. Such stock options under the 2005 Plan were granted with exercise prices at or above the fair market value of Mattel s common stock on the applicable measurement dates.

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

	For the Three Months Ended June 30, 2009	For the Three Months Ended June 30, 2008	For the Six Months Ended June 30, 2009	For the Six Months Ended June 30, 2008
	(In thousands)			
Stock option compensation expense	$ 2,333	$ 575	$ 4,795	$ 2,361
RSU compensation expense	8,374	5,797	15,350	11,061
	$ 10,707	$ 6,372	$ 20,145	$ 13,422

During the three and six months ended June 30, 2009, Mattel recognized compensation expense of $0.5 million and $1.0 million, respectively, which is included in the RSU compensation expense amounts noted above, for performance RSUs granted in connection with its January 1, 2008 December 31, 2010 Long Term Incentive Plan, which is more fully described in Note 7 to the Consolidated Financial Statements in its 2008 Annual Report on Form 10-K.

As of June 30, 2009, total unrecognized compensation cost related to unvested share-based payments totaled $51.0 million and is expected to be recognized over a weighted-average period of 1.7 years.

Mattel uses treasury shares purchased under its share repurchase program to satisfy stock option exercises and the vesting of RSUs. Cash received for stock option exercises for the six months ended June 30, 2009 and 2008 was $1.0 million and $15.4 million, respectively.

23. Contingencies

With regard to the claims against Mattel described below, Mattel intends to defend itself vigorously. Except as described in Note 8, Product Recalls and Withdrawals, management cannot reasonably determine the scope

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or amount of possible liabilities that could result from an unfavorable settlement or resolution of these claims, and no reserves for these claims have been established as of June 30, 2009. However, it is possible that an unfavorable resolution of these claims could have a material adverse effect on Mattel s financial condition and results of operations, and there can be no assurance that Mattel will be able to achieve a favorable settlement or resolution of these claims.

Litigation Related to Carter Bryant and MGA Entertainment, Inc.

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

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

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

In June 2006, the three cases were consolidated in the United States District Court for the Central District of California. On July 17, 2006, the Court issued an order dismissing all claims that Bryant had asserted against Mattel, including Bryant s purported counterclaims to invalidate Mattel s Confidential Information and Proprietary Inventions Agreements with its employees, and Bryant s claims for declaratory relief. Mattel believes the remaining MGA claims against it are without merit and intends to continue to vigorously defend against them.

In November 2006, Mattel asked the Court for leave to file an Amended Complaint that included not only additional claims against Bryant, but also included claims for copyright infringement, RICO violations, misappropriation of trade secrets, intentional interference with contract, aiding and abetting breach of fiduciary duty and breach of duty of loyalty, and unfair competition, among others, against MGA, its CEO Isaac Larian, certain MGA affiliates and an MGA employee. The basis for the Amended Complaint was the MGA defendants infringement of Mattel s copyrights and their pattern of misappropriation of trade secrets and unfair competition in violation of the applicable statutes. On January 12, 2007, the Court granted Mattel leave to file these claims as counterclaims in the consolidated cases, which Mattel did that same day.

In February 2007, the Court decided that the consolidated cases would be tried in two phases, with the first trial to determine claims and defenses related to Mattel s ownership of Bratz works and whether MGA infringed those works. The second trial, which is currently scheduled to commence in spring 2010, will consider both

Mattel s separate claims for misappropriation of trade secrets and violations of the RICO statute and MGA s claims for unfair competition. In May 2009, Mattel obtained leave to file a Third Amended Answer and Counterclaims in the litigation in connection with the claims to be tried as part of the second phase.

On May 19, 2008, Bryant reached a confidential settlement agreement with Mattel and is no longer a defendant in the litigation. In the public stipulation entered by Mattel and Bryant in connection with the resolution, Bryant agreed that he was and would continue to be bound by all prior and future Court Orders relating to Bratz ownership and infringement, including the Court s summary judgment rulings.

The first phase of the first trial, which began on May 27, 2008, resulted in a unanimous jury verdict on July 17, 2008 in favor of Mattel, finding that almost all of the Bratz design drawings and other works in question were created by Bryant while he was employed at Mattel. Among other things, the jury determined that MGA and Isaac Larian intentionally interfered with the contractual duties owed by Bryant to Mattel, aided and abetted Bryant s breaches of his duty of loyalty to Mattel, aided and abetted Bryant s breaches of the fiduciary duties he owed to Mattel, and converted Mattel property for their own use.

In the second phase of the first trial, which began on July 23, 2008, the same jury determined the amount of damages to award to Mattel for MGA s and Isaac Larian s conversion, intentional interference with Bryant s contractual duties, and aiding and abetting Bryant s breaches of his fiduciary duties and duty of loyalty to Mattel. In addition, the jury determined if Bratz dolls and related products infringe on the Bratz drawings and other works owned by Mattel, what damages to assess for such infringement, and whether certain defenses asserted by MGA have merit. The jury was instructed that if it found infringement, it was to determine the amount of damages to be awarded to Mattel due to the infringement. On August 26, 2008, the jury rendered a unanimous verdict for Mattel in the second phase of the trial. The jury found that defendants MGA, Larian, and MGA Entertainment (HK) Limited infringed Mattel s copyrights in the Bratz design drawings and other Bratz works. The jury awarded Mattel total damages of approximately $100 million against the defendants for the copyright infringement claim and the claims that the defendants intentionally interfered with Bryant s contract, aided and abetted Bryant s breach of his fiduciary duty and duty of loyalty to Mattel, and converted Mattel s property for their own use.

Post-trial, Mattel moved the Court to enjoin MGA from producing infringing products in the future. Mattel also asked the Court to award to Mattel certain rights in the term Bratz , which the jury found Bryant had conceived and created while a Mattel employee. Mattel also moved the Court to enter declaratory relief confirming, among other things, Mattel s rights in the Bratz works found by the jury to have been created by Bryant during his Mattel employment. MGA filed motions as well, including a motion that asserted the Court should rule for MGA on equitable affirmative defenses such as laches, waiver and estoppel against Mattel s claims. On December 3, 2008, the Court issued a series of orders rejecting MGA s equitable defenses and granting Mattel s motions, including an order enjoining the MGA party defendants from manufacturing, marketing, or selling certain Bratz fashion dolls or from using the Bratz name. The Court stayed the effect of the December 3, 2008 injunctive orders until further order of the Court and entered a further specified stay of the injunctive orders on January 7, 2009.

The parties filed and argued additional motions for post-trial relief, including a request by MGA to enter judgment as a matter of law on Mattel s claims in MGA s favor and to reduce the jury s damages award to Mattel. Mattel additionally moved for the appointment of a receiver. On April 27, 2009, the Court entered an order confirming that Bratz works found by the jury to have been created by Bryant during his Mattel employment are and were Mattel s property and that hundreds of Bratz female fashion dolls infringe Mattel s copyrights. The Court also upheld the jury s award of damages in the amount of $100 million and ordered an accounting of post-trial Bratz sales. The Court further vacated the stay of the December 3, 2008 orders, except to the extent specified by the Court s January 7, 2009 modification. Finally, the Court appointed a temporary receiver with powers to manage, supervise and oversee the Bratz brand and assets of the MGA entities. The temporary receivership was subsequently terminated, and the Court appointed a monitor in lieu of a receiver to facilitate implementation and enforcement of the injunctive orders.

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On July 10, 2009, MGA filed an interlocutory appeal with the 9th Circuit Court of Appeal seeking to overturn the District Court s April 27, 2009 injunctive orders. Those appellate proceedings are currently pending.

Litigation Related to Product Recalls and Withdrawals

Product Liability Litigation in the United States

Twenty-two lawsuits have been filed in the United States asserting claims arising out of the August 2, August 14, September 4, and/or October 25, 2007 voluntary product recalls by Mattel and Fisher-Price, as well as the withdrawal of red and green toy blood pressure cuffs from retail stores or their replacement at the request of consumers.

Eighteen of those cases were commenced in the following United States District Courts: ten in the Central District of California (Mayhew v. Mattel, filed August 7, 2007; White v. Mattel, filed August 16, 2007; Luttenberger v. Mattel, filed August 23, 2007; Puerzer v. Mattel, filed August 29, 2007; Shah v. Fisher-Price, filed September 13, 2007; Rusterholtz v. Mattel, filed September 27, 2007; Jimenez v. Mattel, filed October 12, 2007; Probst v. Mattel, filed November 5, 2007; Entsminger v. Mattel, filed November 9, 2007; and White v. Mattel, filed November 26, 2007, hereinafter, White II); three in the Southern District of New York (Shoukry v. Fisher-Price, filed August 10, 2007; Goldman v. Fisher-Price, filed August 31, 2007; and Allen v. Fisher-Price, filed November 16, 2007); two in the Eastern District of Pennsylvania (Monroe v. Mattel, filed August 17, 2007, and Chow v. Mattel, filed September 7, 2007); one in the Southern District of Indiana (Sarjent v. Fisher-Price, filed August 16, 2007); one in the District of South Carolina (Hughey v. Fisher-Price, filed August 24, 2007); and one in the Eastern District of Louisiana (Sanders v. Mattel, filed November 14, 2007). Two other actions originally filed in Los Angeles County Superior Court were removed to federal court in the Central District of California (Healy v. Mattel, filed August 21, 2007, and Powell v. Mattel, filed August 20, 2007). Another lawsuit commenced in San Francisco County Superior Court was removed to the federal court in the Northern District of California (Harrington v. Mattel, filed August 20, 2007). One other action was commenced in District of Columbia Superior Court and removed to the United States District Court for the District of Columbia (DiGiacinto v. Mattel, filed August 29, 2007). Mattel was named as a defendant in all of the actions, while Fisher-Price was named as a defendant in nineteen of the cases.

Multidistrict Litigation (MDL)

On September 5, 2007, Mattel and Fisher-Price filed a motion before the Judicial Panel on Multidistrict Litigation (JPML) asking that all federal actions related to the recalls be coordinated and transferred to the Central District of California (In re Mattel Inc. Toy Lead Paint Products Liability Litigation). On December 18, 2007, the JPML issued a transfer order, transferring six actions pending outside the Central District of California (Sarjent, Shoukry, Goldman, Monroe, Chow and Hughey) to the Central District of California for coordinated or consolidated pretrial proceedings with five actions pending in the Central District (Mayhew, White, Luttenberger, Puerzer and Shah). The remaining cases (Healy, Powell, Rusterholtz, Jiminez, Probst, Harrington, DiGiacinto, Allen, Sanders, Entsminger, and White II), so-called potential tag-along actions, are either already pending in the Central District of California or have been transferred there pursuant to January 3 and January 17, 2008 conditional transfer orders issued by the JPML. These matters are all currently pending in In re Mattel, Inc. Toy Lead Paint Products Liability Litigation, No. 2:07-ML-01897-DSF-AJW, MDL 1897 (C. D. Ca.) (the MDL proceeding).

On March 31, 2008, plaintiffs filed a Consolidated Amended Class Action Complaint in the MDL proceeding, which was followed with a Second Consolidated Amended Complaint (the Consolidated Complaint), filed on May 16, 2008. Plaintiffs seek certification of a class of all persons who, from May 2003 through the present, purchased and/or acquired certain allegedly hazardous toys. The Consolidated Complaint defines hazardous toys as those toys recalled between August 2, 2007 and October 25, 2007, due to the presence of lead in excess of applicable standards in the paint on some parts of some of the toys; those toys recalled on November 21, 2006 and

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August 14, 2007, related to magnets; and the red and green toy blood pressure cuffs voluntarily withdrawn from retail stores or replaced at the request of consumers. Defendants named in the Consolidated Complaint are Mattel, Fisher-Price, Target Corporation, Toys R Us, Inc., Wal-Mart Stores, Inc., KB Toys, Inc., and Kmart Corporation. Mattel has assumed the defense of Target Corporation, Toys R Us, Inc., KB Toys, Inc., and Kmart Corporation, and agreed to indemnify all of the retailer defendants, for the specific claims raised in the Consolidated Complaint, which claims relate to the sale of Mattel and Fisher-Price toys.

In the Consolidated Complaint, plaintiffs assert claims for breach of implied and express warranties, negligence, strict liability, violation of the United States Consumer Product Safety Act (CPSA) and related Consumer Product Safety Rules, various California consumer protection statutes, and unjust enrichment. Plaintiffs seek (i) declaratory and injunctive relief enjoining defendants from continuing the allegedly unlawful practices raised in the Consolidated Complaint; (ii) restitution and disgorgement of monies acquired by defendants from the allegedly unlawful practices; (iii) costs of initial diagnostic blood lead level testing to detect possible injury to plaintiffs and members of the class; (iv) costs of treatment for those who test positive to the initial diagnostic blood lead level testing; (v) reimbursement of the purchase price for the allegedly hazardous toys; and (vi) costs and attorneys fees. On June 24, 2008, defendants filed motions to dismiss the Consolidated Complaint. On November 24, 2008, the Court granted defendants motion with respect to plaintiffs claims under the CPSA related to the magnet toys and the toy blood pressure cuffs and denied defendants motions in all other respects. Discovery has commenced, but is in the early stages.

California Proposition 65 Claims and State Attorneys General Inquiries

On September 24 and September 26, 2007, respectively, the Environmental Law Foundation and the Center for Environmental Health, each of which is a non-profit environmental group, issued pre-litigation notices of intent to sue (the Notices) against Mattel for allegedly failing to issue clear and reasonable warnings in accordance with California Health and Safety Code Section 25249.6 (Proposition 65) with regard to potential exposures to lead and lead compounds from certain toys distributed for sale in California. Pursuant to Proposition 65, the pre-litigation Notices had to be served on the California Attorney General, the district attorneys in California, and certain city attorneys, at least sixty days before the Noticing Parties could proceed with a formal lawsuit.

On November 19, 2007, the California Attorney General, joined by the Los Angeles City Attorney, brought suit against Mattel and Fisher-Price, along with a number of other entities alleged to have manufactured and/or sold children s products that exposed children to lead, in Alameda County Superior Court in California. The complaint asserted claims for violation of Proposition 65 (California Health & Safety Code § 25249.6 et seq.) and the California Unfair Competition Act (California Business & Professions Code § 17200 et seq.) and sought civil penalties up to $2,500 per day for each violation of each statute, restitution pursuant to Business & Professions Code § 17203, and injunctive relief. The filing of this action by the Attorney General precluded several environmental non-profit groups that had issued pre-suit notices of intent to bring Proposition 65 claims from proceeding with such claims of their own. The California Attorney General s lawsuit was served on Mattel and Fisher-Price on January 23, 2008. The Alameda County Superior Court designated the case as complex. On November 12, 2008, Mattel reached a settlement of the lawsuit in which it did not admit liability, but agreed to make certain payments totaling $1 million, to implement certain quality assurance measures, and to comply as of the effective date of the settlement with certain federal lead standards scheduled to become effective at various times in the future. On December 31, 2008, the Court approved a consent judgment among Mattel, Fisher-Price, and Plaintiffs reflecting the terms of the settlement.

In addition, Mattel has responded to formal and informal inquiries from, and produced certain information and documents to, a number of state attorneys general. In December 2008 and January 2009, Mattel and Fisher-Price entered into consent judgments with Alabama, Alaska, Arizona, Arkansas, Colorado, Connecticut, Delaware, Florida, Hawaii, Idaho, Illinois, Iowa, Kansas, Kentucky, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Jersey, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Dakota, Tennessee, Texas, Vermont, Washington, West Virginia, Wisconsin, and Wyoming. Under the terms of the consent judgments, Mattel and Fisher-Price agreed to pay a total of $12 million to be divided among the various states and to comply as of the effective date of the settlements with certain federal lead standards scheduled to become effective at various times in the future. The consent judgments have been approved by the respective courts in each of these states.

Product Liability Litigation in Canada

Since September 26, 2007, eight proposed class actions have been filed in the provincial superior courts of the following Canadian provinces: British Columbia (Trainor v. Fisher-Price, filed September 26, 2007); Alberta (Cairns v. Fisher-Price, filed September 26, 2007); Saskatchewan (Sharp v. Mattel Canada, filed September 26, 2007); Quebec (El-Mousfi v. Mattel Canada, filed September 27, 2007, and Fortier v. Mattel Canada, filed October 10, 2007); Ontario (Wiggins v. Mattel Canada, filed September 28, 2007); New Brunswick (Travis v. Fisher-Price, filed September 28, 2007); and Manitoba (Close v. Fisher-Price, filed October 3, 2007). Mattel, Fisher-Price, and Mattel Canada are defendants in all of the actions, and Fisher-Price Canada is a defendant in two of the actions (El-Mousfi and Wiggins). All but one of the cases seek certification of both a class of residents of that province and a class of all other residents of Canada outside the province where the action was filed. The classes are generally defined similarly in all of the actions to include both purchasers of the toys recalled by Mattel and Fisher-Price in August and September 2007 and children, either directly or through their parents as next friends, who have had contact with those toys.

The actions in Canada generally allege that defendants were negligent in allowing their products to be manufactured and sold with lead paint on the toys and negligent in the design of the toys with small magnets, which led to the sale of defective products. The cases typically state claims in four categories: (i) production of a defective product; (ii) misrepresentations; (iii) negligence; and (iv) violations of consumer protection statutes. Plaintiffs generally seek general and special damages, damages in the amount of monies paid for testing of children based on alleged exposure to lead, restitution of any amount of monies paid for replacing recalled toys, disgorgement of benefits resulting from recalled toys, aggravated and punitive damages, pre-judgment and post-judgment interest, and an award of litigation costs and attorneys fees. Plaintiffs in all of the actions except one do not specify the amount of damages sought. In the Ontario action (Wiggins), plaintiff demands general damages of CDN$75 million and special damages of CDN$150 million, in addition to the other remedies. In November 2007, the class action suit commenced by Mr. Fortier was voluntarily discontinued. In October 2008, counsel in the Quebec class action (El-Mousfi) sought permission from the Court to discontinue that action, and that request remains pending.

After the discontinuance of his class action suit, Mr. Fortier filed an individual action in Quebec (Fortier v. Mattel Canada, Inc., filed on November 22, 2007). In his individual action, Mr. Fortier alleges that he purchased recalled toys and, as a result, suffered damages, including consequential and incidental damages such as worry, concern, and costs of the products and replacement products, medicines, diagnosis, and treatment. Mr. Fortier alleges damages of CDN$5 million. Mattel moved to stay Mr. Fortier s individual action pending resolution of the request to proceed as a class action filed in the El-Mousfi action also pending in Quebec, and that motion to stay was denied.

All of the actions in Canada are at a preliminary stage.

Product Liability and Related Claims in Brazil

Three consumer protection associations and agencies have filed claims against Mattel s subsidiary Mattel do Brasil Ltda. in the following courts in Brazil: (a) the Public Treasury Court in the State of Santa Catarina (Associacao Catarinense de Defesa dos Cidadaos, dos Consumidores e dos Contribuintes (ACC/SC) ACC/SC v. Mattel do Brasil Ltda., filed on February 2, 2007); (b) the Second Commercial Court in the

State of Rio de Janeiro (Consumer Protection Committee of the Rio de Janeiro State Legislative Body (CPLeg/RJ) CPLeg/RJ v. Mattel do Brasil Ltda., filed on August 17, 2007); and (c) the Sixth Civil Court of the Federal District (Brazilian Institute for the Study and Defense of Consumer Relationships (IBEDEC) IBEDEC v. Mattel do Brasil Ltda., filed on September 13, 2007). The ACC/SC case is related to the recall of magnetic products in November 2006; the CPLeg/RJ case is related to the August 2007 recall of magnetic products; and the IBEDEC case is related to the August and September 2007 recalls of magnetic products and products with non-approved paint containing lead exceeding the limits established by applicable regulations and Mattel standards. The cases generally state claims in four categories: (i) production of a defective product; (ii) misrepresentations; (iii) negligence; and (iv) violations of consumer protection statutes. Plaintiffs generally seek general and special damages; restitution of monies paid by consumers to replace recalled toys; disgorgement of benefits resulting from recalled toys; aggravated and punitive damages; pre-judgment and post-judgment interest; injunctive relief; and litigation costs and attorneys fees. The amount of damages sought by plaintiffs is not generally specified, except that in the Public Treasury Court in the State of Santa Catarina action, ACC/SC demands general damages of approximately $1 million, in addition to other remedies, and in the Sixth Civil Court of the Federal District action, IBEDEC estimated the amount of approximately $21 million, as a basis for calculating court fees, in addition to requesting other remedies.

On June 18, 2008, the court held that the action brought by IBEDEC was without merit, and on July 1, 2008, IBEDEC filed an appeal. On July 23, 2008, Mattel do Brasil submitted its appellate brief. On September 15, 2008, the Public Prosecutor s Office submitted its opinion to the court, which supported upholding the original decision, given that no reason had been cited for ordering the company to pay pain and suffering damages. Moreover, just as the judge had done, the Public Prosecutor s Office determined that the mere recall of products does not trigger any obligation to indemnify any party. On November 4, 2008, the panel of three appellate judges unanimously upheld the lower court s decision. On November 18, 2008, IBEDEC filed a special appeal and on January 5, 2009 Mattel do Brasil filed its response. On February 2, 2009, the special appeal lodged by IBEDEC was rejected. In February, 2009, IBEDEC filed a new interlocutory appeal, and on March, 16, 2009, Mattel do Brasil presented its counter arguments to the IBEDEC interlocutory appeal. Currently, Mattel do Brasil is awaiting the judgment of this new appeal.

On July 9, 2008, the court also rendered a decision concerning the action brought by CPLeg/RJ. The judge rejected the claim for general damages, but Mattel do Brasil was ordered to provide product-exchange outlets in certain locations for replacement of the recalled products, to publish in newspapers the provisions of the court decision, and to make available on its website the addresses of the outlets for replacement of recalled products and the provisions of the court s decision. The decision also allowed the consumers who were affected by the recall to submit information to the court, so that the applicability of pecuniary damages can be analyzed later, on a case by case basis. It finally ordered Mattel do Brasil to pay attorneys fees in an amount equal to 10% of the value placed on the claim (with a value placed on the claim of approximately $12,500). Mattel do Brasil filed a motion seeking to resolve apparent discrepancies in the court s decision, but the judge sustained the decision, as rendered, and Mattel do Brasil filed its appeal of such decision. On September 19, 2008, the appellate court accepted Mattel s appeal for purposes of remand, only, and not to stay the proceedings. Seeking to prevent execution on the judgment, Mattel do Brasil filed an interlocutory appeal and requested the court grant a preliminary injunction. On October 14, 2008 the injunction was granted. On February 5, 2009, the court heard the interlocutory appeal and confirmed the injunction. The court date to hear the appeal for purposes of remand is still pending.

Since August 20, 2007, the Department of Consumer Protection and Defense (DPDC), the Consumer Protection Office (PROCON) of São Paulo, Mato Grosso and Rio de Janeiro, and public prosecutors from the States of Pernambuco, Rio Grande do Norte, and Rio de Janeiro have brought eight administrative proceedings against Mattel do Brasil, alleging that the company offered products whose risks to consumers health and safety should have been known by Mattel. The proceedings have been filed with the following administrative courts: (a) DPDC (DPDC v. Mattel do Brasil Ltda., filed on August 20, 2007, and DPDC v. Mattel do Brasil Ltda., filed on September 14, 2007); (b) PROCON (PROCON/MT v. Mattel do Brasil, filed on August 29, 2007, PROCON/SP v. Mattel do Brasil, filed on September 4, 2007, and PROCON/RJ v. Mattel do Brasil, filed on

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August 27, 2007); and (c) the Public Prosecutor s Office (MP/RJ v. Mattel do Brasil, filed on September 27, 2007, MP/PE v. Mattel do Brasil, filed on September 28, 2007, and MP/RN v. Mattel do Brasil, filed on October 10, 2007). The administrative proceedings generally state claims based on the alleged negligence of Mattel do Brasil regarding recalled products. In the PROCON/SP proceeding, plaintiff estimated a fine equivalent to approximately $400,000. None of the other administrative proceedings listed above specify the amount of the penalties that could be applied if the claims against Mattel do Brasil are successful. On December 21, 2007, PROCON/SP rendered a decision and decided to impose a fine on Mattel do Brasil in the approximate amount of $200,000. On January 9, 2008, Mattel do Brasil filed an administrative appeal regarding the decision of December 21, 2007. On January 29, 2009, the administrative appeal was not granted and as a consequence Mattel do Brasil decided to pursue further adjudication of this matter in the Brazilian courts.

In addition to the matters discussed above, a few individual consumers in Brazil have brought individual lawsuits against Mattel do Brasil. These lawsuits have been brought in special courts that provide expedited judgments on cases involving amounts below $7,000 and in consumer defense agencies (PROCONs). Generally, these claims focus on alleged failures by Mattel to make refunds in cash or replace recalled products with new toys in the proper time and manner. At present there are 10 individual lawsuits; none of these lawsuits states a claim for damages exceeding $7,000. The special courts that provide expedited judgments have issued decisions in eleven lawsuits brought by individual consumers; in three of these cases, the court decisions order Mattel do Brasil to refund only the amounts paid by the consumers for the recalled toys; in six cases, Mattel do Brasil was also ordered to pay general damages (danos morais) to the consumers, which range from approximately $250 to $450. Two of the lawsuits were dismissed in their entirety.

All of the actions in Brazil are progressing and are at various stages of adjudication as described above.

24. Segment Information

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

Mattel Girls & Boys Brands including Barbie® fashion dolls and accessories (Barbie®), Polly Pocket®, Little Mommy®, Disney Classics, and High School Musical (collectively Other Girls Brands), Hot Wheels®, Matchbox®, Speed Racer®, and Tyco R/C® vehicles and playsets (collectively Wheels), and CARS , Radica®, Speed Racer®, Batman®, and Kung Fu Panda® products, and games and puzzles (collectively Entertainment).

Fisher-Price Brands including Fisher-Price®, Little People®, BabyGear , and View-Master® (collectively Core Fisher-Price®), Sesame Street®, Dora the Explorer®, Winnie the Pooh, Go-Diego-Go!®, and See N Say® (collectively Fisher-Price® Friends), and Power Wheels®.

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

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

The following tables present information about revenues, income (loss), and assets by segment. Mattel does not include sales adjustments such as trade discounts and other allowances in the calculation of segment revenues (referred to as gross sales). Mattel records these adjustments in its financial accounting systems at the time of sale to each customer, but the adjustments are not allocated to individual products. For this reason, Mattel s chief operating decision maker uses gross sales by segment as one of the metrics to measure segment performance. Such sales adjustments are included in the determination of segment income (loss) from operations based on the adjustments recorded in the financial accounting systems. Segment income (loss) from operations represents operating income (loss), while consolidated income (loss) from operations represents income (loss) from

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operations before income taxes as reported in the consolidated statements of operations. The corporate and other category includes costs not allocated to individual segments, including charges related to incentive compensation, share-based payments, and corporate headquarters functions managed on a worldwide basis, and the impact of changes in foreign currency rates on intercompany transactions.

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
	(In thousands)			
Revenues				
Domestic:				
Mattel Girls & Boys Brands US	$ 212,664	$ 260,751	$ 433,597	$ 486,487
Fisher-Price Brands US	215,828	236,759	386,100	426,612
American Girl Brands	61,040	61,085	127,470	130,171
Total Domestic	489,532	558,595	947,167	1,043,270
International	485,503	655,845	885,007	1,177,837
Gross sales	975,035	1,214,440	1,832,174	2,221,107
Sales adjustments	(76,838)	(102,009)	(148,331)	(189,377)
	$ 898,197	$ 1,112,431	$ 1,683,843	$ 2,031,730

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
	(In thousands)			
Segment Income (Loss)				
Domestic:				
Mattel Girls & Boys Brands US	$ 17,774	$ 11,885	$ 31,860	$ 14,536
Fisher-Price Brands US	22,649	13,162	18,633	11,724
American Girl Brands	(2,477)	(5,760)	(5,230)	(7,423)
Total Domestic	37,946	19,287	45,263	18,837
International	27,320	58,014	36,618	81,878
	65,266	77,301	81,881	100,715
Corporate and other expense (a)	32,753	46,693	104,577	106,642
Operating income (loss)	32,513	30,608	(22,696)	(5,927)
Interest expense	17,489	16,566	33,406	32,615
Interest (income)	(2,525)	(7,271)	(6,003)	(15,818)
Other non-operating (income) expense, net	(6,268)	6,380	(8,466)	22,145
Income (loss) before income taxes	$ 23,817	$ 14,933	$ (41,633)	$ (44,869)

(a) Corporate and other expense includes (i) stock compensation expense of $10.7 million and $20.1 million for the three and six months ended June 30, 2009, respectively, and $6.4 million and $13.4 million for the three and six months ended June 30 2008, respectively, (ii) charges to establish a legal settlement reserve for product liability-related litigation amounting to $1.1 million and $22.0 million for the three and six months ended June 30, 2009, respectively, (iii) legal fees associated with recall-related litigation matters, and (iv) legal fees associated with MGA litigation matters.

	June 30, 2009	June 30, 2008 (In thousands)	December 31, 2008
Assets			
Domestic:			
Mattel Girls & Boys Brands US	$ 184,660	$ 266,032	$ 249,013
Fisher-Price Brands US	218,406	256,200	198,241
American Girl Brands	82,829	87,082	62,718
Total Domestic	485,895	609,314	509,972
International	777,737	968,520	755,735
	1,263,632	1,577,834	1,265,707
Corporate and other	73,079	75,723	93,760
Accounts receivable and inventories, net	$ 1,336,711	$ 1,653,557	$ 1,359,467

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
	(In thousands)			
Worldwide Revenues				
Mattel Girls & Boys Brands	$ 540,571	$ 721,727	$ 1,044,595	$ 1,314,507
Fisher-Price Brands	369,937	428,014	653,672	769,322
American Girl Brands	61,040	61,085	127,470	130,171
Other	3,487	3,614	6,437	7,107
Gross sales	975,035	1,214,440	1,832,174	2,221,107
Sales adjustments	(76,838)	(102,009)	(148,331)	(189,377)
Net sales	$ 898,197	$ 1,112,431	$ 1,683,843	$ 2,031,730

25. New Accounting Pronouncements

In December 2008, the FASB issued FSP No. FAS 132(R)-1, *Employers Disclosures about Postretirement Benefit Plan Assets*. FSP No. FAS 132(R)-1 amends SFAS No. 132(R), *Employers Disclosures about Pensions and Other Postretirement Benefits*, to require additional disclosures about plan assets held in an employer s defined benefit pension or other postretirement plan, to provide users of financial statements with an understanding of (i) how investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies, (ii) the major categories of plan assets, (iii) the inputs and valuation techniques used to measure the fair value of plan assets including the level within the fair value hierarchy, using the guidance in SFAS No. 157, and (iv) significant concentrations of risk within plan assets. FSP No. FAS 132(R)-1 is effective for financial statements issued for fiscal years ending after December 15, 2009. Mattel does not expect the adoption of FSP No. FAS 132(R)-1 to have a material effect on its financial statements.

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140*. SFAS No. 166 amends SFAS No. 140, *Accounting for the Transfers and Servicing of Financial Assets and the Extinguishments of Liabilities*, and seeks to improve the relevance and comparability of the information that a reporting entity provides in its financial statements about transfers of financial assets; the effects of the transfer on its financial position, financial performance, and cash flows; and a transferor s continuing involvement, if any, in transferred financial assets. SFAS No. 166 eliminates the concept of a qualifying special-purpose entity, creates more stringent conditions for reporting a transfer of a portion of a

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financial asset as a sale, clarifies other sale-accounting criteria, and changes the initial measurement of a transferor s interest in transferred financial assets. SFAS No. 166 is effective for interim and annual reporting periods beginning after November 15, 2009. Mattel has not completed its evaluation, but does not expect the adoption of SFAS No. 166 to have a material impact on its consolidated financial statements.

In June 2009, the FASB issued SFAS No.167, *Amendments to FASB Interpretation No. 46(R).* SFAS No. 167 amends FASB Interpretation No. (FIN) 46, *Consolidation of Variable Interest Entities (revised December 2003) an interpretation of ARB No. 51*, which requires an enterprise to determine whether its variable interest or interests give it a controlling financial interest in a variable interest entity. The primary beneficiary of a variable interest entity is the enterprise that has both (1) the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance, and (2) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. SFAS No. 167 also amends FIN 46(R) to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. SFAS No. 167 is effective for interim and annual reporting periods beginning after November 15, 2009. Mattel has not completed its evaluation, but does not expect the adoption of SFAS No. 167 to have a material impact on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162*. SFAS No. 168 replaces SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, to establish the FASB Accounting Standards Codification (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in preparation of financial statements in conformity with generally accepted accounting principles in the United States of America. SFAS No. 168 is effective for interim and annual reporting periods ending after September 15, 2009. Mattel does not expect the adoption of SFAS No. 168 to have a material impact on its consolidated financial statements.

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

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

Factors That May Affect Future Results

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

Mattel is including this cautionary statement to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (the Act) for forward-looking statements. This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of the Act. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as believes, expects, anticipates, estimates, intends, plans, seeks or words of similar meaning, or future or conditional verb will, should, could, may, aims, intends, or projects. A forward-looking statement is neither a prediction nor a guarantee of future event circumstances, and those future events or circumstances may not occur. Investors should not place undue reliance on the forward-looking statements, which speak only as of the date of this Form 10-Q. These forward-looking statements are all based on currently available operating, financial, economic and competitive information and are subject to various risks and uncertainties. The Company s actual future results and trends may differ materially depending on a variety of factors, including, but not limited to, the risks and uncertainties detailed in Item 1A. Risk Factors in Mattel s 2008 Annual Report on Form 10-K.

Overview

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

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

Mattel Girls & Boys Brands including Barbie® fashion dolls and accessories (Barbie®), Polly Pocket®, Little Mommy®, Disney Classics, and High School Musical (collectively Other Girls Brands), Hot Wheels®, Matchbox®, Speed Racer®, and Tyco R/C® vehicles and playsets (collectively Wheels), and CARS, Radica®, Speed Racer®, Batman® , and Kung Fu Panda® products, and games and puzzles (collectively Entertainment).

Fisher-Price Brands including Fisher-Price®, Little People®, BabyGear , and View-Master® (collectively Core Fisher-Price®), Sesame Street®, Dora the Explorer®, Winnie the Pooh, Go-Diego-Go!®, and See N Say® (collectively Fisher-Price® Friends), and Power Wheels® .

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

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

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The first goal is to enhance innovation in order to reinvigorate the Barbie® brand, while maintaining growth in other core brands, by continuing to develop popular toys. Additionally, Mattel plans to pursue additional licensing arrangements and strategic partnerships to extend its portfolio of brands into areas outside of traditional toys.

The second goal is to improve execution in areas including manufacturing, distribution, and selling. Mattel continues to focus on improving the efficiency of its supply chain using Lean supply chain initiatives. The objective of the Lean program is to improve the flow of processes, do more with less, and focus on the value chain from beginning to end.

The third goal is to further capitalize on Mattel s scale advantage. For example, as the world s largest toy company, Mattel believes it can realize cost savings when making purchasing decisions based on a One Mattel philosophy.

Second Quarter 2009 Overview

Much like the first quarter of this year, throughout the second quarter, Mattel saw the continuation of economic malaise on a global basis. Net sales declined 19% in the second quarter of 2009, as compared to the second quarter of 2008, with the decline fairly evenly split between three main drivers: the continuation of retailers tightly managing inventory levels, the lack of toys geared to summer entertainment properties as compared to last year, as well as the negative effect of foreign exchange. During last year s second quarter, Mattel s net sales benefited from toys tied to 2008 s key summer entertainment properties: Batman®, Speed Racer®, and Kung Fu Panda®. The second quarter is typically a key selling period for summer entertainment-related products, and represented the largest shipping quarter for those products in 2008.

Although the second quarter, like the first, is relatively small for Mattel, overall, Management is pleased with its ability to deliver on what it can control, including appropriately pricing its brands, tightly managing costs, and aligning its infrastructure with realistic revenue assumptions, which have resulted in improved gross margin, profit, and cash flow for the quarter. More specifically:

- Gross profit, as a percentage of net sales, increased from 44.5% in the second quarter of 2008 to 45.2% in the second quarter of 2009, primarily due to the benefit of price increases that were effective January 1, 2009, lower royalty expense, and net cost savings related to Mattel s Global Cost Leadership program, partially offset by input cost pressures and unfavorable changes in foreign currency exchange rates.

- Other selling and administrative expenses decreased from $347.9 million in the second quarter of 2008 to $283.8 million in the second quarter of 2009, primarily due to lower litigation-related expenses, net cost savings related to the Global Cost Leadership program, and the impact of foreign currency exchange rates.

- Operating income increased from $30.6 million in the second quarter of 2008 to $32.5 million in the second quarter of 2009.

- Cash flows used in operations decreased from a use of $529.7 million in the first half of 2008 to a use of $349.8 million in the first half of 2009.

- Capital expenditures decreased from $80.1 million in the first half of 2008 to $61.8 million in the first half of 2009.

On an overall basis, despite the pressures on net sales, Mattel has made progress in aligning prices and input costs, executing its Global Cost Leadership program, and tightly managing cash and capital expenditures.

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2009 and Beyond

For the second half of 2009, Management anticipates the continuation of pressures on Mattel s net sales from several key areas, including the negative effects of foreign currency exchange rates, general softness at retail as Mattel s customers continue to cautiously align their inventory levels with their expectations for consumer demand, and 2009 being an entertainment-light year for Mattel. Mattel s priorities for the second half of 2009 are consistent with its goals for the first half: to improve profitability, generate strong cash flow, and strengthen Mattel s balance sheet. Mattel is managing its business based on realistic revenue assumptions and taking actions intended to meet these goals:

- Mattel implemented a modest price increase for its 2009 product line;
- Mattel is evaluating reductions to the number of stock keeping units (SKUs) it offers;
- Mattel is reassessing its advertising spending and strategy with the expectation that 2009 advertising expense will be at the low end of its historical range of 11 to 13 percent of net sales; and
- Mattel initiated its Global Cost Leadership Program in 2008, which includes a global reduction in its professional workforce of approximately 1,000 employees implemented beginning in November 2008, a coordinated efficiency strategic plan that includes structural changes designed to lower costs and improve efficiencies, and additional procurement initiatives designed to fully leverage Mattel s global scale. This program is expected to generate approximately $90 million to $100 million of net cost savings in 2009, and approximately $180 million to $200 million of cumulative net cost savings by the end of 2010.

Management expects to focus on profitability and margins and conserve cash in 2009. As a result, Mattel is planning to tightly manage its capital expenditures to a level that is more consistent with its levels of capital expenditures in 2003 through 2007. In addition, given the current volatile global economic environment, Mattel is prioritizing protecting Mattel s dividend to shareholders and minimizing strategic acquisitions and share repurchases in 2009.

Results of Operations Second Quarter

Consolidated Results

Net sales for the second quarter of 2009 were $898.2 million, down 19% as compared to $1.11 billion in 2008, including unfavorable changes in currency exchange rates of 5 percentage points. Net income for the second quarter of 2009 was $21.5 million, or $0.06 per diluted share, as compared to a net income of $11.8 million, or $0.03 per diluted share for the second quarter of 2008. Net income for the second quarter of 2009 was positively impacted by gross margin improvement, lower other selling and administrative expenses, which included a net $5.0 million adjustment to reduce charges for legal settlements, and lower advertising and promotion expenses, partially offset by lower sales and unfavorable changes in currency exchange rates.

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The following table provides a summary of Mattel s consolidated results for the second quarter of 2009 and 2008 (in millions, except percentage and basis point information):

	For the Three Months Ended June 30,					
	2009		2008		Year/Year Change	
	Amount	% of Net Sales	Amount	% of Net Sales	%	Basis Points of Net Sales
Net sales	$ 898.2	100.0%	$ 1,112.4	100.0%	19%	
Gross profit	$ 406.1	45.2%	$ 495.3	44.5%	18%	70
Advertising and promotion expenses	89.8	10.0	116.8	10.5	23%	(50)
Other selling and administrative expenses	283.8	31.6	347.9	31.3	18%	30
Operating income	32.5	3.6	30.6	2.8	6%	80
Interest expense	17.5	1.9	16.6	1.5	6%	40
Interest (income)	(2.5)	0.3	(7.3)	0.7	65%	40
Other non-operating (income) expense, net	(6.3)	0.7	6.4	0.6	198%	(130)
Income before income taxes	$ 23.8	2.7%	$ 14.9	1.3%		140

Sales

Net sales for the second quarter of 2009 were $898.2 million, down 19% as compared to $1.11 billion in 2008, including unfavorable changes in currency exchange rates of 5 percentage points. Gross sales within the US decreased 12% in the second quarter of 2009, as compared to 2008, and accounted for 50% of consolidated gross sales in the second quarter of 2009, as compared to 46% of consolidated gross sales in 2008. Gross sales in international markets decreased 26% in the second quarter of 2009, as compared to 2008, including unfavorable changes in currency exchange rates of 10 percentage points.

Worldwide gross sales of Mattel Girls & Boys Brands decreased 25% in the second quarter of 2009 to $540.6 million, with unfavorable changes in currency exchange rates of 7 percentage points. Domestic gross sales of Mattel Girls & Boys Brands decreased 18% as compared to the second quarter of 2008 and international gross sales of Mattel Girls & Boys Brands decreased 29%, with unfavorable changes in currency exchange rates of 11 percentage points. Worldwide gross sales of Barbie® decreased 15% as compared to the second quarter of 2008, including unfavorable changes in currency exchange rates of 7 percentage points. Domestic gross sales of Barbie® decreased 5% and international gross sales of Barbie® decreased 20%, with unfavorable changes in currency exchange rates of 11 percentage points. Worldwide gross sales of Other Girls products decreased 23%, including unfavorable changes in currency exchange rates of 7 percentage points, driven primarily by declines in High School Musical and Polly Pocket® products. Worldwide gross sales of Wheels products decreased 28%, including unfavorable changes in currency exchange rates of 6 percentage points, driven primarily by sales declines in Speed Racer® products. Worldwide gross sales of Entertainment products decreased 32%, including unfavorable changes in currency exchange rates of 6 percentage points, driven primarily by lower sales of products tied to last year s three key summer movie properties: Batman®, Speed Racer®, and Kung Fu Panda®, and lower sales of CARS internationally.

Worldwide gross sales of Fisher-Price Brands were $369.9 million, down 14% in the second quarter of 2009, including unfavorable changes in currency exchange rates of 5 percentage points. International gross sales of Fisher-Price Brands decreased 19%, including unfavorable changes in currency exchange rates of 10 percentage points and domestic gross sales decreased 9%. Worldwide gross sales of Core Fisher-Price® decreased 13%, including unfavorable changes in currency exchange rates of 5 percentage points. International gross sales of Core Fisher-Price® decreased 19%, including unfavorable changes in currency exchange rates of 10 percentage points and domestic gross sales of Core Fisher-Price® decreased 8%. Worldwide gross sales of Fisher-Price® Friends decreased 15%, including unfavorable changes in currency exchange rates of 4 percentage points. International gross sales of Fisher-Price® Friends decreased 19%, including unfavorable changes in currency exchange rates of 8 percentage points and domestic gross sales of Fisher-Price® Friends decreased 10%, as compared to 2008.

American Girl Brands gross sales were flat in the second quarter of 2009, as compared with the second quarter of 2008. Higher sales due to the shift of the Easter holiday from the first quarter last year to the second quarter this year, and the benefit of the November 2008 opening of the American Girl Boutique and Bistros® in Boston and Minneapolis, were partially offset by lower sales of products tied to last year s Kit Kittredge® movie.

Cost of Sales

Cost of sales as a percentage of net sales was 54.8% in the second quarter of 2009 as compared to 55.5% in the second quarter of 2008. Cost of sales decreased by $125.0 million, or 20%, from $617.1 million in the second quarter of 2008 to $492.1 million in the second quarter of 2009, as compared to a 19% decrease in net sales. Cost of sales decreased primarily due to lower sales as compared to the second quarter of 2008. Within cost of sales, product costs decreased by $80.8 million, or 16%, from $490.1 million in the second quarter of 2008 to $409.3 million in the second quarter of 2009; freight and logistics expenses decreased by $22.4 million, or 29%, from $76.4 million in the second quarter of 2008 to $54.0 million in the second quarter of 2009; and royalty expense decreased $21.8 million, or 43%, from $50.6 million in the second quarter of 2008 to $28.8 million in the second quarter of 2009.

Gross Profit

Gross profit as a percentage of net sales was 45.2% in the second quarter of 2009 as compared to 44.5% in the second quarter of 2008. The increase in gross profit as a percentage of net sales was primarily due to the benefit of price increases that were effective January 1, 2009, lower royalty expense, and net cost savings related to the Global Cost Leadership program, partially offset by input cost pressures and unfavorable changes in foreign currency exchange rates.

Advertising and Promotion Expenses

Advertising and promotion expenses, as a percentage of net sales, were 10.0% in the second quarter of 2009 as compared to 10.5% in the second quarter of 2008.

Other Selling and Administrative Expenses

Other selling and administrative expenses were $283.8 million, or 31.6% of net sales, in the second quarter of 2009 as compared to $347.9 million, or 31.3% of net sales, in the second quarter of 2008. The absolute dollar decrease in other selling and administrative expenses is primarily due to lower litigation-related expenses of approximately $22 million, net cost savings related to the Global Cost Leadership program of approximately $20 million, and the impact of foreign currency exchange benefit of approximately $14 million.

Non-Operating Income (Expense)

Interest expense increased from $16.6 million in the second quarter of 2008 to $17.5 million in the second quarter of 2009, due primarily to higher average interest rates, which were partially offset by lower average borrowings. Interest income decreased from $7.3 million in the second quarter of 2008 to $2.5 million in the second quarter of 2009, due to lower average investment rates and lower average invested cash balances. Other non-operating income was $6.3 million in the second quarter of 2009 and primarily related to foreign currency exchange gains caused by local currency revaluation of US dollar cash balances held by Mattel s Venezuelan subsidiary. Other non-operating expense was $6.4 million in the second quarter of 2008 and primarily related to foreign currency exchange losses caused by local currency revaluation of US dollar cash balances held by Mattel s Venezuelan subsidiary.

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Provision for Income Taxes

Mattel s provision for income taxes was $2.3 million in the second quarter of 2009, as compared to a provision for income taxes of $3.2 million in the second quarter of 2008. During the second quarter of 2009, Mattel recognized discrete tax benefits of $2.5 million related to a change in estimate for a previously unrecognized tax benefit, along with the impact of a newly enacted tax law. Mattel expects its full year 2009 effective tax rate to be approximately 22 to 23 percent.

Business Segment Results

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

Domestic Segment

Mattel Girls & Boys Brands US gross sales were $212.7 million in the second quarter of 2009, down $48.1 million or 18%, as compared to $260.8 million in the second quarter of 2008. Within this segment, gross sales of Barbie® products decreased 5%. Gross sales of Other Girls products decreased 4%, primarily due to sales declines in High School Musical. Gross sales of Wheels products decreased 18%, primarily due to sales declines in Speed Racer® products. Gross sales of Entertainment products decreased 34%, primarily driven by sales declines in products tied to last year s three key summer movie properties: Batman®, Speed Racer®, and Kung Fu Panda®. Mattel Girls & Boys Brands US segment income increased $5.9 million to $17.8 million in the second quarter of 2009 from $11.9 million in the second quarter of 2008, primarily due to higher gross margin, lower other selling and administrative expenses, and lower advertising expense, partially offset by lower sales volume.

Fisher-Price Brands US gross sales were $215.8 million in the second quarter of 2009, down $21.0 million or 9%, as compared to $236.8 million in the second quarter of 2008. Within this segment, gross sales of Fisher-Price® Friends products decreased 10% and gross sales of Core Fisher-Price® products decreased 8%. Fisher-Price Brands US segment income increased $9.4 million to $22.6 million in the second quarter of 2009 from $13.2 million in the second quarter of 2008, primarily due to higher gross margin, lower other selling and administrative expenses, and lower advertising expense, partially offset by lower sales volume.

American Girl Brands gross sales were flat in the second quarter of 2009, as compared to the second quarter of 2008. Higher sales due to the shift of the Easter holiday from the first quarter last year to the second quarter this year, and the benefit of the November 2008 opening of the American Girl Boutique and Bistros® in Boston and Minneapolis, were partially offset by lower sales of products tied to last year s Kit Kittredge® movie. American Girl Brands segment loss decreased from a loss of $5.8 million in the second quarter of 2008 to a loss of $2.5 million in the second quarter of 2009, primarily due to lower other selling and administrative expenses and higher gross profit.

International Segment

The following table provides a summary of percentage changes in gross sales within the International segment for the second quarter of 2009 versus 2008:

Non-US Regions:	**% Change in Gross Sales**	**Impact of Change in Currency (in % pts)**
Total International	(26)	(10)
Europe	(29)	(9)
Latin America	(23)	(13)
Asia Pacific	(20)	(9)
Other	(34)	(6)

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International gross sales decreased by 26% in the second quarter of 2009, as compared to the second quarter of 2008, including unfavorable changes in currency exchange rates of 10 percentage points. Gross sales of Mattel Girls & Boys Brands decreased 29% in the second quarter of 2009, including unfavorable changes in currency exchange rates of 11 percentage points. Gross sales of Barbie® products decreased 20%, including unfavorable changes in currency exchange rates of 11 percentage points. Gross sales of Other Girls products decreased 32%, including unfavorable changes in currency exchange rates of 9 percentage points, driven primarily by sales declines in High School Musical and Polly Pocket® products. Gross sales of Wheels products decreased 34%, including unfavorable changes in currency exchange rates of 10 percentage points, driven primarily by sales declines in Speed Racer® products. Gross sales of Entertainment products decreased 31%, including unfavorable changes in currency exchange rates of 11 percentage points, driven primarily by lower sales of products tied to last year s three key summer movie properties: Batman®, Speed Racer®, and Kung Fu Panda®, and lower sales of CARS. Gross sales of Fisher-Price Brands decreased 19% in the second quarter of 2009, including unfavorable changes in currency exchange rates of 10 percentage points. Gross sales of Fisher-Price® Friends products decreased 19%, including unfavorable changes in currency exchange rates of 8 percentage points. Gross sales of Core Fisher-Price® products decreased 19%, including unfavorable changes in currency exchange rates of 10 percentage points. International segment income decreased by $30.7 million from $58.0 million in the second quarter of 2008 to $27.3 million in the second quarter of 2009, primarily driven by lower sales volume and unfavorable changes in currency exchange rates, partially offset by lower other selling and administrative expenses and lower advertising and promotion expenses.

Results of Operations First Half

Consolidated Results

Net sales for the first half of 2009 were $1.68 billion, down 17% as compared to $2.03 billion in 2008, including unfavorable changes in currency exchange rates of 6 percentage points. Net loss for the first half of 2009 was $29.5 million, or $0.08 per diluted share, as compared to net loss of $34.9 million, or $0.10 per diluted share, for the first half of 2008. Net loss for the first half of 2009 was positively impacted by gross margin improvement, lower other selling and administrative expenses, and lower advertising and promotion expenses, partially offset by lower sales, unfavorable changes in currency exchange rates, and net charges for legal settlements of product liability-related litigation of $16.0 million.

The following table provides a summary of Mattel s consolidated results for the first half of 2009 and 2008 (in millions, except percentage and basis point information):

	For the Six Months Ended June 30, 2009		2008		Year/Year Change	
	Amount	% of Net Sales	Amount	% of Net Sales	%	Basis Points of Net Sales
Net sales	$ 1,683.8	100.0%	$ 2,031.7	100.0%	17%	
Gross profit	$ 751.9	44.7%	$ 892.2	43.9%	16%	80
Advertising and promotion expenses	173.9	10.3	219.8	10.8	21%	(50)
Other selling and administrative expenses	600.7	35.7	678.3	33.4	11%	230
Operating loss	(22.7)	1.3	(5.9)	0.3	283%	(100)
Interest expense	33.4	2.0	32.6	1.6	2%	40
Interest (income)	(6.0)	0.4	(15.8)	0.8	62%	40
Other non-operating (income) expense, net	(8.5)	0.5	22.2	1.1	138%	(160)
Loss before income taxes	$ (41.6)	2.5%	$ (44.9)	2.2%		(30)

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Sales

Net sales for the first half of 2009 were $1.68 billion, down 17% as compared to $2.03 billion in 2008, including unfavorable changes in currency exchange rates of 6 percentage points. Gross sales within the US decreased 9% in the first half of 2009, as compared to 2008, and accounted for 52% of consolidated gross sales in the first half of 2009, as compared to 47% in 2008. Gross sales in international markets decreased 25% in the first half of 2009, as compared to 2008, including unfavorable changes in currency exchange rates of 12 percentage points.

Worldwide gross sales of Mattel Girls & Boys Brands decreased 21% in the first half of 2009 to $1.04 billion, with unfavorable changes in currency exchange rates of 8 percentage points. Domestic gross sales of Mattel Girls & Boys Brands decreased 11% and international gross sales decreased 26%, with unfavorable changes in currency exchange rates of 12 percentage points. Worldwide gross sales of Barbie® decreased 10%, with unfavorable changes in currency exchange rates of 9 percentage points. Domestic gross sales of Barbie® increased 6%, primarily driven by both core lines and products supporting Barbie s 50th anniversary. International gross sales of Barbie® decreased 18%, including unfavorable changes in currency exchange rates of 13 percentage points. Worldwide gross sales of Other Girls products decreased 25%, including unfavorable changes in currency exchange rates of 8 percentage points, driven primarily by sales declines in High School Musical and Polly Pocket® products, partially offset by growth in Little Mommy® products. Worldwide gross sales of Wheels products decreased 22%, including unfavorable changes in currency exchange rates of 7 percentage points, driven primarily by sales declines in Speed Racer® products. Worldwide gross sales of Entertainment products decreased 28%, including unfavorable changes in currency exchange rates of 7 percentage points, driven primarily by lower sales of products tied to last year s three key summer movie properties: Batman®, Speed Racer®, and Kung Fu Panda®, and lower sales of CARS internationally.

Worldwide gross sales of Fisher-Price Brands were $653.7 million, down 15% in the first half of 2009, including unfavorable changes in currency exchange rates of 5 percentage points. International gross sales of Fisher-Price Brands decreased 22%, including unfavorable changes in currency exchange rates of 11 percentage points and domestic gross sales decreased 9%. Worldwide gross sales of Core Fisher-Price® decreased 15%, including unfavorable changes in currency exchange rates of 6 percentage points. International gross sales of Core Fisher-Price® decreased 22%, including unfavorable changes in currency exchange rates of 11 percentage points and domestic gross sales of Core Fisher-Price® decreased 8%. Worldwide gross sales of Fisher-Price® Friends decreased 11%, including unfavorable changes in currency exchange rates of 4 percentage points. International gross sales of Fisher-Price® Friends decreased 19%, including unfavorable changes in currency exchange rates of 8 percentage points and domestic gross sales of Fisher-Price® Friends decreased 4%.

American Girl Brands gross sales were $127.5 million, down 2% in the first half of 2009, as compared to $130.2 million in the first half of 2008, driven by lower sales of products tied to last year s Kit Kittredge® movie, partially offset by the benefit of the November 2008 opening of the American Girl Boutique and Bistros® in Boston and Minneapolis.

Cost of Sales

Cost of sales in the first half of 2009 were $931.9 million, down $207.6 million, or 18%, from $1.14 billion in 2008, as compared to a 17% decrease in net sales. Cost of sales decreased primarily due to lower sales as compared to the first half of 2008. Within cost of sales, product costs decreased by $138.3 million, or 15%, from $903.0 million in the first half of 2008 to $764.7 million in the first half of 2009; freight and logistics expenses decreased by $37.5 million, or 25%, from $152.2 million in the first half of 2008 to $114.7 million in the first half of 2009; and royalty expense decreased $31.8 million, or 38%, from $84.3 million in the first half of 2008 to $52.5 million in first half of 2009.

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Gross Profit

Gross profit as a percentage of net sales was 44.7% in the first half of 2009 as compared to 43.9% in the first half of 2008. The increase in gross profit as a percentage of net sales was primarily due to the benefit of price increases that were effective January 1, 2009, lower royalty expense, and net cost savings related to the Global Cost Leadership program, partially offset by input cost pressures and unfavorable changes in foreign currency exchange rates.

Advertising and Promotion Expenses

Advertising and promotion expenses were 10.3% of net sales in the first half of 2009 as compared to 10.8% of net sales in the first half of 2008.

Other Selling and Administrative Expenses

Other selling and administrative expenses were $600.7 million, or 35.7% of net sales, in the first half of 2009 as compared to $678.3 million, or 33.4% of net sales, in the first half of 2008. The absolute dollar decrease in other selling and administrative expenses is primarily due to net cost savings related to the Global Cost Leadership program of approximately $35 million, lower litigation-related expenses of approximately $33 million, and the impact of foreign currency exchange benefit of approximately $27 million, partially offset by net charges for legal settlements of product liability-related litigation of $16.0 million.

Non-Operating Income (Expense)

Interest expense increased from $32.6 million in the first half of 2008 to $33.4 million in the first half of 2009 due primarily to higher average interest rates. Interest income decreased from $15.8 million in the first half of 2008 to $6.0 million in the first half of 2009, due to lower average interest rates and lower average invested cash balances. Other non-operating income was $8.5 million in the first half of 2009 and primarily related to foreign currency exchange gains caused by local currency revaluation of US dollar cash balances held by Mattel s Venezuelan subsidiary. Other non-operating expense was $22.1 million in the first half of 2008 and primarily related to foreign currency exchange losses caused by local currency revaluation of US dollar cash balances held by Mattel s Venezuelan subsidiary.

Provision for Income Taxes

Mattel s income tax benefit was $12.1 million in the first half of 2009, as compared to an income tax benefit of $10.0 million in the first half of 2008. During the second quarter of 2009, Mattel recognized discrete tax benefits of $2.5 million related to a change in estimate for a previously unrecognized tax benefit, along with the impact of a newly enacted tax law. Mattel expects its full year 2009 effective tax rate to be approximately 22 to 23 percent.

Business Segment Results

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

Domestic Segment

Mattel Girls & Boys Brands US gross sales were $433.6 million in the first half of 2009, down $52.9 million or 11%, as compared to $486.5 million in the first half of 2008. Within this segment, gross sales of Barbie® products increased 6%, primarily driven by both core lines and products supporting Barbie s 50th

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anniversary. Gross sales of Other Girls products decreased 8%, primarily due to sales declines in High School Musical products, partially offset by growth in Little Mommy® products. Gross sales of Wheels products decreased 13%, primarily due to sales declines in Speed Racer® products. Gross sales of Entertainment products decreased 23% primarily due to lower sales of products tied to last year s three key summer movie properties: Batman®, Speed Racer®, and Kung Fu Panda®. Mattel Girls & Boys Brands US segment income increased $17.4 million, from $14.5 million in the first half of 2008 to $31.9 million in the first half of 2009, primarily driven by higher gross margin and lower other selling and administrative expenses, partially offset by lower sales volume.

Fisher-Price Brands US gross sales decreased 9% in the first half of 2009, as compared to the first half of 2008. Within this segment, gross sales of Core Fisher-Price® products decreased 8%, gross sales of Fisher-Price® Friends products decreased 4%, and gross sales of Power Wheels® products decreased 23%. Fisher-Price Brands US segment income increased $6.9 million to $18.6 million in the first half of 2009 from $11.7 million in the first half of 2008, primarily driven by lower other selling and administrative expenses and higher gross margin, partially offset by lower sales volume.

American Girl Brands gross sales decreased 2% in the first half of 2009, as compared to the first half of 2008, driven by lower sales of products tied to last year s Kit Kittredge® movie, partially offset by the benefit of the November 2008 opening of the American Girl Boutique and Bistros® in Boston and Minneapolis. American Girl Brands segment operating loss decreased from $7.4 million in the first half of 2008 to $5.2 million in the first half of 2009, primarily driven by lower other selling and administrative expenses and higher gross profit, partially offset by lower sales volume.

International Segment

The following table provides a summary of percentage changes in gross sales within the International segment for the first half of 2009 versus 2008:

Non-US Regions:	**% Change in Gross Sales**	**Impact of Change in Currency (in % pts)**
Total International	(25)	(12)
Europe	(28)	(11)
Latin America	(22)	(14)
Asia Pacific	(18)	(10)
Other	(26)	(9)

International gross sales decreased by 25% in the first half of 2009, as compared to the first half of 2008, including unfavorable changes in currency exchange rates of 12 percentage points. Gross sales of Mattel Girls & Boys Brands decreased 26% in the first half of 2009, including unfavorable changes in currency exchange rates of 12 percentage points. Gross sales of Barbie® decreased 18%, including unfavorable changes in currency exchange rates of 13 percentage points. Gross sales of Other Girls products decreased 33%, including unfavorable changes in currency exchange rates of 12 percentage points, primarily driven by sales declines in High School Musical and Polly Pocket® products. Gross sales of Wheels products decreased 28%, including unfavorable changes in currency exchange rates of 12 percentage points, primarily due to sales declines in Speed Racer® products. Gross sales of Entertainment products decreased 31%, including unfavorable changes in currency exchange rates of 12 percentage points, driven primarily by lower sales of products tied to last year s three key summer movie properties: Batman®, Speed Racer®, and Kung Fu Panda® and lower sales of CARS. Gross sales of Fisher-Price Brands decreased 22% in the first half of 2009, including unfavorable changes in currency exchange rates of 11 percentage points. Gross sales of Core Fisher-Price® products decreased 22%, including unfavorable change in currency exchange rates of 11 percentage points. Gross sales of Fisher-Price® Friends products decreased 19%, including unfavorable changes in currency exchange rates of 8 percentage points. International segment income was $36.6 million in the first half of 2009, down $45.3 million from $81.9 million in the first half of 2008, primarily due to lower sales volume, partially offset by lower advertising and promotion expenses and lower other selling and administrative expenses.

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Global Cost Leadership Program

During the middle of 2008, Mattel initiated its Global Cost Leadership program, which is designed to improve operating efficiencies and leverage Mattel s global scale to improve profitability and operating cash flows. The major initiatives of Mattel s Global Cost Leadership program include:

A global reduction in Mattel s professional workforce of approximately 1,000 employees that was implemented beginning in November 2008, which is expected to generate approximately $60 million in annualized compensation-related savings during 2009.

A coordinated efficiency strategic plan that includes structural changes designed to lower costs and improve efficiencies; for example, offshoring and outsourcing certain back office functions, and more clustering of management for international markets.

Additional procurement initiatives designed to fully leverage Mattel s global scale in areas such as creative agency partnerships, legal services, and distribution, including ocean carriers and over-the-road freight vendors.

In connection with the Global Cost Leadership program, Mattel recorded severance and other termination-related charges of $2.5 million in the second quarter of 2009 and $7.2 million in the first half of 2009, which is included in other selling and administrative expenses.

Mattel s Global Cost Leadership program is intended to generate approximately $90 million to $100 million of net cost savings during 2009, and approximately $180 million to $200 million of cumulative net cost savings by the end of 2010. During the second quarter of 2009, Mattel realized approximately $32 million in net cost savings, of which, approximately $20 million is reflected within other selling and administrative expenses, approximately $9 million within costs of sales, and approximately $3 million within advertising and promotion expenses. During the first half of 2009, Mattel realized approximately $50 million in net cost savings, of which, approximately $35 million is reflected within other selling and administrative expenses, approximately $12 million within costs of sales, and approximately $3 million within advertising and promotion expenses. Based on current projections, Mattel expects to meet its 2009 goal of $90 to $100 million of net cost savings.

Income Taxes

Mattel s income tax benefit was $12.1 million in the first half of 2009, as compared to an income tax benefit of $10.0 million in the first half of 2008. During the second quarter of 2009, Mattel recognized discrete tax benefits of $2.5 million related to a change in estimate for a previously recognized tax benefit, along with the impact of a newly enacted tax law. Mattel expects its full year 2009 effective tax rate to be approximately 22 to 23 percent.

During the normal course of business, Mattel is regularly audited by federal, state, and foreign tax authorities. The Internal Revenue Service (IRS) is currently auditing Mattel s 2006 and 2007 federal income tax returns. The IRS audit plan calls for the completion of the current examination in the second quarter of 2010. At this time, there is insufficient information related to current IRS, state, and foreign audits to quantify any possible changes in the unrecognized tax benefits that may occur during the next twelve months.

Liquidity and Capital Resources

Mattel s primary sources of liquidity are its cash and equivalents balances, access to short-term borrowing facilities, and issuances of long-term debt securities. Cash flows from operating activities could be negatively impacted by decreased demand for Mattel s products, which could result from factors such as adverse economic conditions and changes in public and consumer preferences, or by increased costs associated with manufacturing and distribution of products or shortages in raw materials or component parts. Additionally, Mattel s ability to issue long-term debt and obtain seasonal financing could be adversely affected by factors such as the current global economic crisis and tight credit environment, an inability to meet its debt covenant requirements, which include maintaining consolidated debt-to-EBITDA and interest coverage ratios, or a deterioration of Mattel s credit ratings. Mattel s ability to conduct its operations could be negatively impacted should these or other adverse conditions affect its primary sources of liquidity.

Current Market Conditions

Mattel is exposed to financial market risk resulting from changes in interest and foreign currency rates, and recent developments in the financial markets have increased Mattel s exposure to the possible liquidity and credit risks of its counterparties. Mattel believes that it has ample liquidity to fund its business needs, including beginning of the year cash and equivalents, cash flows from operations, and access to its $1.035 billion domestic unsecured committed revolving credit facility (including the $60.0 million and $95.0 million increases in April 2009 and July 2009, respectively), which it uses for seasonal working capital requirements. Mattel s domestic credit facility was amended and restated effective March 23, 2009 and expires on March 23, 2012, as more fully described below. As of June 30, 2009, Mattel had available incremental borrowing resources totaling approximately $569 million under this unsecured committed revolving credit facility, and Mattel has not experienced any limitations on its ability to access this source of liquidity. Market conditions could affect certain terms of other debt instruments that Mattel enters into from time to time.

Mattel monitors the third-party depository institutions that hold the company s cash and equivalents. Mattel s emphasis is primarily on safety and liquidity of principal and secondarily on maximizing the yield on those funds. Mattel diversifies its cash and equivalents among counterparties and securities to minimize exposure. During the first half of 2009, Mattel received proceeds of approximately $67 million, relating to a money market investment fund held as of December 31, 2008, which was classified as other current assets as a result of the money market investment fund halting redemption requests during 2008. Mattel expects to receive the remaining proceeds of approximately $14 million by the end of 2009, when the underlying securities will have matured. As of June 30, 2009, June 30, 2008, and December 31, 2008, Mattel also had additional long-term investments of $35.0 million.

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

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

Mattel sponsors defined benefit pension plans and postretirement benefit plans for employees of the company. During the first half of 2009, actual returns for Mattel s defined benefit pension plans were below the expected rate of return due to adverse conditions in the equity and debt markets. Continued actual returns below the expected rate of return, along with changes in interest rates that affect the measurement of the liability, would impact the amount and timing of Mattel s future contributions to these plans.

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Capital and Investment Framework

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

- To maintain approximately $800 million to $1 billion in year-end cash available to fund a substantial portion of seasonal working capital;
- To maintain a year-end debt-to-capital ratio of about 25%;
- To invest approximately $180 million to $200 million in capital expenditures annually to maintain and grow the business;
- To make strategic acquisitions consistent with Mattel s vision of providing the world s premier toy brands today and tomorrow ; and
- To return excess funds to shareholders through dividends and share repurchases.

Mattel s focus for 2009 is on strengthening its balance sheet and managing costs in line with realistic revenues with the goal of improving the profitability and cash flows generated by its business. As a result, management expects to conserve cash and lower debt, including tightly managing its capital expenditures to a level that is more consistent with its levels of capital expenditures in 2003 through 2007. In addition, given the current volatile global economic environment, Mattel is prioritizing protecting its dividend to shareholders and minimizing strategic acquisitions and share repurchases in 2009.

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

Operating Activities

Cash flows used for operating activities were $349.8 million in the first half of 2009, as compared to $529.7 million used in the first half of 2008. The decrease in cash flows used for operating activities was primarily due to lower seasonal working capital requirements.

Investing Activities

Cash flows provided by investing activities in the first half of 2009 were $8.7 million, as compared to $35.7 million used in the first half of 2008. The increase in cash flows provided by investing activities was primarily due to proceeds received from the redemption of a money market investment fund and lower purchases of other property, plant, and equipment, partially offset by lower net proceeds received relating to settled foreign currency forward exchange contracts.

Financing Activities

Cash flows provided by financing activities in the first half of 2009 were $143.3 million, as compared to $40.9 million in the first half of 2008. The increase in cash flows provided by financing activities is primarily due to higher net proceeds from borrowings and lower share repurchases.

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Seasonal Financing

Mattel maintains and periodically amends or replaces its domestic unsecured committed revolving credit facility with a commercial bank group that is used as the primary source of financing for the seasonal working capital requirements of its domestic subsidiaries. The agreement in effect was amended and restated on March 23, 2009 to, among other things, (i) extend the maturity date of the credit facility to March 23, 2012, (ii) reduce aggregate commitments under the credit facility from $1.3 billion to $880 million, with an accordion feature, which would allow Mattel to increase the availability under the credit facility to $1.08 billion under certain circumstances, (iii) add an interest rate floor equal to 30 day LIBOR plus 1.00% for base rate loans under the credit facility, (iv) increase the applicable interest rate margins to a range of 2.00% to 3.00% above the applicable base rate for base rate loans, and 2.5% to 3.5% above the applicable LIBOR rate for Eurodollar rate loans, depending on Mattel s senior unsecured long-term debt rating, (v) increase commitment fees to a range of 0.25% to 0.75% of the unused commitments under the credit facility (treating purchases of receivables under the receivables sales facility, as described below, as uses of commitments), and (vi) replace the consolidated debt-to-capital ratio with a consolidated debt-to-EBITDA ratio. On April 29, 2009, Mattel utilized the accordion feature of the credit facility to increase the aggregate commitments under the credit facility by $60.0 million. On July 9, 2009, Mattel further increased the aggregate commitments under the credit facility by $95.0 million, from $940.0 million to $1.035 billion, also through the accordion feature of the credit facility. The remaining accordion feature availability is $45.0 million.

The credit facility contains a variety of covenants, including financial covenants that Mattel is required to meet at the end of each fiscal quarter and fiscal year, using the formulae specified in the credit agreement to calculate the ratios. Mattel was in compliance with such covenants at the end of the first half of 2009. As of June 30, 2009, Mattel s consolidated debt-to-EBITDA ratio, as calculated per the terms of the credit agreement, was 1.5 to 1 (compared to a maximum allowed of 3.0 to 1) and Mattel s interest coverage ratio was 9.0 to 1 (compared to a minimum required of 3.50 to 1).

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

To finance seasonal working capital requirements of certain foreign subsidiaries, Mattel avails itself of individual short-term credit lines with a number of banks. Mattel expects to extend the majority of these credit lines throughout 2009.

Mattel believes its cash on hand, amounts available under its domestic unsecured committed revolving credit facility, and its foreign credit lines will be ample to meet its seasonal financing requirements in 2009.

Mattel has a $300.0 million domestic receivables sales facility that is a sub-facility of Mattel s domestic unsecured committed revolving credit facility, which was also amended in connection with the amendment of the credit facility. The amendment to the receivables sales facility, among other things, (i) extended the maturity date of the receivables sales facility to March 23, 2012, and (ii) incorporated the credit facility s increased applicable interest rate margins described above. The outstanding amount of receivables sold under the domestic receivables facility may not exceed $300.0 million at any given time, and the amount available to be borrowed under the credit facility is reduced to the extent of any such outstanding receivables sold. Under the domestic receivables facility, certain trade receivables are sold to a group of banks, which currently include, among others, Bank of America, N.A., as administrative agent, The Royal Bank of Scotland PLC, Wells Fargo Bank, N.A. and Societe Generale, as co-syndication agents, and Citicorp USA, Inc., Mizuho Corporate Bank, Ltd. and Manufacturers & Traders Trust Company, as co-managing agents. Pursuant to the domestic receivables facility, Mattel Sales Corp. and Fisher-Price, Inc. (which are wholly-owned subsidiaries of Mattel) can sell eligible trade receivables from Wal-Mart and Target to Mattel Factoring, Inc. (Mattel Factoring), a Delaware corporation and wholly-owned, consolidated subsidiary of Mattel. Mattel Factoring is a special purpose entity whose activities are limited to purchasing and selling receivables under this facility. Pursuant to the terms of the domestic receivables facility and simultaneous with each receivables purchase, Mattel Factoring sells those receivables to the bank group. Mattel records the transaction, reflecting cash proceeds and sale of accounts receivable in its consolidated balance sheet, at the time of the sale of the receivables to the bank group.

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

	June 30, 2009	June 30, 2008 (In millions)	December 31, 2008
Receivables sold pursuant to the:			
Domestic receivables facility	$ 81.0	$ 73.4	$ 217.8
Other factoring arrangements			35.5
	$ 81.0	$ 73.4	$ 253.3

Financial Position

Mattel s cash and equivalents decreased by $195.0 million to $422.7 million at June 30, 2009, as compared to December 31, 2008, due primarily to Mattel s seasonal working capital needs. More specifically, the decrease in cash and equivalents during the six months ended June 30, 2009 is primarily driven by the timing of accrued liabilities and accounts payable payments, long-term debt repayment of $140.0 million, increased inventory, and $61.8 million of purchases of tools, dies, and molds, and other property, plant, and equipment, partially offset by accounts receivable collections and proceeds received from the redemption of a money market investment fund.

Accounts payable and accrued liabilities decreased by $367.8 million from December 31, 2008 to $703.3 million at June 30, 2009, mainly due to the timing of payments of various accrued liability balances, including royalties and advertising obligations, and a decrease in receivable collections due bank related to the domestic receivables facility.

The current portion of long-term debt decreased $100.0 million to $50.0 million at June 30, 2009, as compared to $150.0 million at December 31, 2008, due to the repayment of $100.0 million of the 2006 Senior Notes and $40.0 million of Medium-term notes, offset by the reclassification of $40.0 million of Medium-term notes to current.

A summary of Mattel s capitalization is as follows:

	June 30, 2009		June 30, 2008 (In millions, except percentage information)		December 31, 2008	
Medium-term notes	$ 160.0	5%	$ 210.0	6%	$ 200.0	6%
2006 Senior Notes	200.0	6	200.0	6	200.0	6
2008 Senior Notes	350.0	10	350.0	10	350.0	10
Total noncurrent long-term debt	710.0	21	760.0	22	750.0	22
Other noncurrent liabilities	550.4	16	382.3	11	547.9	16
Stockholders equity	2,169.7	63	2,329.3	67	2,117.1	62
	$ 3,430.1	100%	$ 3,471.6	100%	$ 3,415.0	100%

Total noncurrent long-term debt decreased by $50.0 million at June 30, 2009, as compared to June 30, 2008, due to the reclassification of $50.0 million of Medium-term notes to current. Mattel expects to satisfy its future long-term capital needs through the generation of corporate earnings and issuance of long-term debt instruments, as needed.

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Other noncurrent liabilities increased $168.1 million at June 30, 2009, as compared to June 30, 2008, due primarily to increases in long-term defined benefit pension plan obligations.

Stockholders equity of $2.17 billion decreased $159.6 million from June 30, 2008, primarily as a result of unfavorable currency translation adjustments, payment of the annual dividend in the fourth quarter of 2008, an increase in Mattel s net defined benefit pension plan obligations, and share repurchases, partially offset by net income.

Mattel s debt-to-capital ratio, including short-term borrowings and current portion of long-term debt, increased from 30.4% at June 30, 2008 to 32.7% at June 30, 2009 due to the aforementioned decrease in stockholder s equity. Mattel s objective is to maintain a year-end debt-to-capital ratio of approximately 25%.

Litigation

See Part II, Item 1 Legal Proceedings.

Application of Critical Accounting Policies and Estimates

Mattel s critical accounting policies and estimates are included in its Annual Report on Form 10-K for the year ended December 31, 2008 and did not change during the first half of 2009.

New Accounting Pronouncements

See Item 1 Financial Statements Note 25 to the Consolidated Financial Statements New Accounting Pronouncements.

Non-GAAP Financial Measure

In this Quarterly Report on Form 10-Q, Mattel includes a non-GAAP financial measure, gross sales, which it uses to analyze its continuing operations and to monitor, assess and identify meaningful trends in its operating and financial performance. Net sales, as reported in the consolidated statements of operations, include the impact of sales adjustments, such as trade discounts and other allowances. Gross sales represent sales to customers, excluding the impact of sales adjustments, the 2007 Product Recalls, and the 2008 Product Withdrawal.

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
	(In thousands)			
Worldwide Revenues				
Mattel Girls & Boys Brands	$ 540,571	$ 721,727	$ 1,044,595	$ 1,314,507
Fisher-Price Brands	369,937	428,014	653,672	769,322
American Girl Brands	61,040	61,085	127,470	130,171
Other	3,487	3,614	6,437	7,107
Gross sales	975,035	1,214,440	1,832,174	2,221,107
Sales adjustments	(76,838)	(102,009)	(148,331)	(189,377)
Net sales	$ 898,197	$ 1,112,431	$ 1,683,843	$ 2,031,730

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Foreign Currency Exchange Rate Risk

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

Mattel s financial position is also impacted by currency exchange rate fluctuations on translation of its net investment in subsidiaries with non-US dollar functional currencies. Assets and liabilities of subsidiaries with non-US dollar functional currencies are translated into US dollars at fiscal period-end exchange rates. Income, expense, and cash flow items are translated at weighted average exchange rates prevailing during the fiscal year. The resulting currency translation adjustments are recorded as a component of accumulated other comprehensive loss within stockholders equity. Mattel s primary currency translation exposures for the second quarter of 2009 were related to its net investment in entities having functional currencies denominated in the Euro, British pound sterling, and Mexican peso.

There are numerous factors impacting the amount by which Mattel s financial results are affected by foreign currency transaction and translation gains and losses resulting from changes in currency exchange rates, including but not limited to the level of foreign currency forward exchange contracts in place at a given time and the volume of foreign currency denominated transactions in a given period. However, assuming that such factors were held constant, Mattel estimates that a 1 percent change in the U.S. dollar Trade-Weighted Index would impact Mattel s net sales by approximately 0.5% and its full year earnings per share by approximately $0.01 to $0.02.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of June 30, 2009, Mattel s disclosure controls and procedures were evaluated to provide reasonable assurance that information required to be disclosed by Mattel in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to management, as appropriate, in a timely manner that would alert them to material information relating to Mattel that would be required to be included in Mattel s periodic reports and to provide reasonable assurance that such information was recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms. Based on this evaluation, Robert A. Eckert, Mattel s principal executive officer, and Kevin M. Farr, Mattel s principal financial officer, concluded that these disclosure controls and procedures were effective as of June 30, 2009.

Changes in Internal Control Over Financial Reporting

Mattel made no changes to its internal control over financial reporting or in other factors that materially affected, or were reasonably likely to have materially affected, its internal control over financial reporting during the quarter ended June 30, 2009.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings.

The content of Note 23, Contingencies to the Consolidated Financial Statements of Mattel in Part I of this Quarterly Report on Form 10-Q is hereby incorporated by reference in its entirety in this Item 1.

Derivative Litigation

A consolidated stockholder derivative action was filed in Los Angeles County Superior Court in California, captioned In re Mattel, Inc. Derivative Litigation, consolidating three derivative actions filed in September 2007 (the Superior Court Action), asserting claims ostensibly on behalf and for the benefit of Mattel. A second consolidated derivative action in US District Court, Central District of California, captioned In re Mattel, Inc. Derivative Litigation, consolidating three federal derivative actions filed in October 2007, asserting claims ostensibly on behalf and for the benefit of Mattel, was dismissed with prejudice by the federal court in August 2008. Another derivative action, filed in the Court of Chancery of Delaware in October 2007, has been voluntarily dismissed.

The Superior Court Action alleges that past and present members of Mattel s Board of Directors breached their fiduciary duties in connection with product safety and reporting practices allegedly related to Mattel s product recalls during August and September 2007. Plaintiffs also sue certain executive officers of Mattel, and allege that certain officers and current and former directors who sold stock during the first half of 2007 breached their fiduciary duties by selling while allegedly in possession of non-public information relating to alleged product defects and seek disgorgement of unspecified amounts of profits from such sales. Defendants filed a demurrer to the entire complaint, which was sustained with leave to amend on December 22, 2008. Plaintiffs filed a First Amended Consolidated Complaint on January 20, 2009 (and a corrected version on February 13, 2009). Defendants filed a demurrer to the amended complaint on March 6, 2009, which the Court sustained without leave to amend. The Court entered an order of dismissal of the action with prejudice on July 7, 2009.

Item 1A. Risk Factors.
There have been no material changes to the risk factors disclosed under Part I, Item 1A. Risk Factors in Mattel s 2008 Annual Report on Form 10-K.

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

During the second quarter of 2009, Mattel did not sell any unregistered securities.

Issuer Purchases of Equity Securities

This table provides certain information with respect to Mattel s purchases of its common stock during the second quarter of 2009:

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
April 1 30				
Repurchase program (1)		$		$ 410,324,916
Employee transactions (2)	5,016	12.05	N/A	N/A
May 1 31				
Repurchase program (1)				410,324,916
Employee transactions (2)	306	15.32	N/A	N/A
June 1 30				
Repurchase program (1)				410,324,916
Employee transactions (2)	50	16.11	N/A	N/A
Total				
Repurchase program (1)		$		410,324,916
Employee transactions (2)	5,372	12.27	N/A	N/A

(1) During the second quarter of 2009, Mattel did not repurchase any shares of its common stock in the open market. Repurchases will take place from time to time, depending on market conditions. Mattel s share repurchase program has no expiration date.
(2) Includes the sale of restricted shares for employee tax withholding obligations that occur upon vesting.
N/A Not applicable.

Item 3. Defaults Upon Senior Securities.
None.

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

The Annual Meeting of Stockholders of Mattel was held on May 13, 2009. Proxies for the meeting were solicited pursuant to Regulation 14A of the Securities Exchange Act of 1934, and there was no solicitation in opposition to that of management.

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All of the nominees for director listed in Proposal 1 in the proxy statement were elected by a majority of the votes cast, as follows:

Name of Nominee	Votes Cast FOR	Votes Cast AGAINST	Abstentions	Broker Non-Votes
Michael J. Dolan	321,707,812	1,852,957	181,571	
Robert A. Eckert	315,462,973	6,566,683	1,712,684	
Dr. Frances D. Fergusson	321,610,906	1,953,581	177,853	
Tully M. Friedman	313,892,873	9,671,475	177,992	
Dominic Ng	315,060,589	8,512,119	169,632	
Vasant M. Prabhu	321,639,630	1,923,474	179,236	
Dr. Andrea L. Rich	315,029,085	8,547,787	165,468	
Ronald L. Sargent	320,241,473	3,318,845	182,022	
Dean A. Scarborough	321,649,625	1,917,443	175,272	
Christopher A. Sinclair	317,578,204	5,989,905	174,231	
G. Craig Sullivan	283,311,048	40,258,982	172,310	
Kathy Brittain White	315,112,357	8,460,066	169,917	

Proposal 2, a proposal to ratify the selection of PricewaterhouseCoopers LLP as Mattel s independent registered public accounting firm for the year ending December 31, 2009, was approved by the following vote:

Votes Cast FOR	Votes Cast AGAINST	Abstentions	Broker Non-Votes
316,600,849	6,956,575	184,916	

Proposal 3, a stockholder proposal regarding certain reports by the Board of Directors, was defeated by the following vote:

Votes Cast FOR	Votes Cast AGAINST	Abstentions	Broker Non-Votes
14,839,631	246,905,456	40,318,068	21,679,185

Proposal 4, a stockholder proposal regarding special share-owner meetings, was approved by the following vote:

Votes Cast FOR	Votes Cast AGAINST	Abstentions	Broker Non-Votes
196,607,797	105,164,610	290,748	21,679,185

Shares that abstain from voting on a proposal and broker non-votes are not counted as votes cast on that proposal, and thus have no effect as to whether the proposal is approved.

Item 5. Other Information.

None.

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Item 6. Exhibits.

Exhibit No.	Exhibit Description
10.1*	Form of Grant Agreement as of May 12, 2009 for grants to employees of Non-Qualified Stock Options under the Mattel, Inc. 2005 Equity Compensation Plan (the 2005 Plan)
10.2*	Form of Grant Agreement as of May 12, 2009 for grants to employees of Restricted Stock Units under the 2005 Plan
11.0*	Computation of Income per Common and Potential Common Share
12.0*	Computation of Earnings to Fixed Charges
31.0*	Certification of Principal Executive Officer dated July 29, 2009 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.1*	Certification of Principal Financial Officer dated July 29, 2009 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.0**	Certification of Principal Executive Officer and Principal Financial Officer dated July 29, 2009 pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(1)
101.0**	The following materials from Mattel, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements, tagged as blocks of text.

* *Filed herewith.*
** *Furnished herewith.*

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

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SIGNATURE

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

MATTEL, INC.
Registrant

By:

H. Scott Topham
Senior Vice President and Corporate

Controller (Duly authorized officer and

chief accounting officer)

Date: July 29, 2009