MATTEL INC /DE/
Form 10-K
February 24, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2010

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $1.00 par value	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K. ¨

Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant calculated using the market price as of the close of business June 30, 2010 was $7,618,899,076.

Number of shares outstanding of registrant s common stock, $1.00 par value, as of February 17, 2011:

348,681,741 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Mattel, Inc. 2011 Notice of Annual Meeting of Stockholders and Proxy Statement, to be filed with the Securities and Exchange Commission (SEC) within 120 days after the close of the registrant s fiscal year (incorporated into Part III).

Table of Contents

MATTEL, INC. AND SUBSIDIARIES

Table of Contents

PART I

Item 1. Business.

Mattel, Inc. (Mattel) designs, manufactures, and markets a broad variety of toy products worldwide through sales to its customers and directly to consumers. Mattel s vision is creating the future of play. Management has set three key company strategies: (i) deliver consistent growth by continuing the momentum in its core brands, optimizing entertainment partnerships, building new franchises, and working to expand and leverage its international footprint; (ii) build on the progress it has made on improving operating margins through at least sustaining the gross margins and delivering another round of cost savings; and (iii) generate significant cash flow and continue its disciplined, opportunistic, and value-enhancing deployment.

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

Mattel Girls & Boys Brands including Barbie® fashion dolls and accessories (Barbie®), Polly Pocket®, Little Mommy®, Disney Classics®, and Monster High® (collectively Other Girls Brands), Hot Wheels®, Matchbox®, Battle Force 5®, and Tyco R/C® vehicles and play sets (collectively Wheels), and CARS , Radica®, Toy Story®, Max Steel®, WWE® Wrestling, and Batman® products, and games and puzzles (collectively Entertainment).

Fisher-Price Brands including Fisher-Price®, Little People®, BabyGear , and View-Master® (collectively Core Fisher-Price®), Dora the Explorer®, Go Diego Go!®, Thomas and Friends®, Sing-a-ma-jigs, and See N Say® (collectively Fisher-Price® Friends), and Power Wheels®.

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

Mattel was incorporated in California in 1948 and reincorporated in Delaware in 1968. Its executive offices are located at 333 Continental Blvd., El Segundo, California 90245-5012, telephone number (310) 252-2000.

Business Segments

Mattel refers to Mattel, Inc. and its subsidiaries as a whole, unless the context requires otherwise. This narrative discussion applies to all segments except where otherwise stated. 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.

For additional information on Mattel s operating segment reporting, including revenues, segment income, and assets, see Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Operating Segment Results and Item 8 Financial Statements and Supplementary Data Note 15 to the Consolidated Financial Statements Segment Information. For additional information regarding geographic areas, see Item 8 Financial Statements and Supplementary Data Note 15 to the Consolidated Financial Statements Segment Information. For a discussion of the risks inherent in the foreign operations of Mattel, which affect each segment, see Item 1A Risk Factors Factors That May Affect Future Results.

Domestic Segment

The Domestic segment develops toys that it markets and sells through the Mattel Girls & Boys Brands US, Fisher-Price Brands US, and American Girl Brands segments.

In the Mattel Girls & Boys Brands US segment, Barbie® includes brands such as Barbie® fashion dolls and accessories, and Polly Pocket®, Little Mommy®, Disney Classics®, and Monster High® are included within

Table of Contents

Other Girls Brands. Wheels includes Hot Wheels®, Matchbox®, Battle Force 5®, and Tyco R/C® vehicles and play sets. Entertainment includes CARS , Radica®, Toy Story®, WWE® Wrestling, and Batman® products, as well as games and puzzles.

In 2011, Mattel expects to introduce new products, as well as continue to leverage content within its core brands. For Mattel Girls Brands, Barbie® will be promoting Ken® s 50th anniversary with the Ken Campaign Will Barbie Take Him Back? The campaign will be supported by new product introductions as well as a live-action digital reality competition. Barbie® will continue to celebrate her aspirational career heritage with the I Can Be line and will introduce a new career of the year in 2011, including a partnership with The White House. Barbie® will continue to support the Fashionistas® line and will build the collector business with new introductions. New Barbie® product introductions will support the full-length animated launches of *Barbie: A Fairy Secret* in spring 2011 and *Barbie® Princess Charm School* in fall 2011. A new holiday title, *Barbie: A Perfect Christmas*, will be released during the 2011 holiday season. Monster High® will continue to expand in 2011, with the introduction of new characters, books, online content, and retail programs. Additionally, Disney Princess will feature new products to support the DVD release of the feature film, *Tangled.*

Also in 2011, Hot Wheels® will launch its first overarching brand campaign with Team Hot Wheels, which will be showcased through viral content, video, and web based communication. Hot Wheels® will introduce new product lines such as Rev-Ups, Wall Tracks, and Video Racer. Matchbox® will continue to develop its Big Rig Buddies product line and will focus more on adventure in 2011. Tyco R/C® will introduce new product lines such as Stealth Rides and Nitro Racers mini Hot Wheels R/C, as well as a full range of products supporting Disney/Pixar s upcoming CARS 2® movie. The Entertainment business will continue to grow in 2011 to include new products based on CARS 2® and Warner Bros./DC Comics new feature film, *Green Lantern®*. Mattel will continue to market new product extensions of Disney/Pixar s *Toy Story®* franchise as well as the DC Comics Batman® brand. Also, WWE® Wrestling will extend into mini-scale with the introduction of the new Rumblers® product line. For games and puzzles, Mattel will celebrate UNO® s 40th anniversary with new product extensions, activity across social media, retail promotions, and unique product offerings. Mattel will continue to support extensions of its popular Apples to Apples®, Whac-a-Mole®, and Blokus® product lines. Radica® will expand the Mindflex® and Loopz® product lines and introduce a new Girl Tech® toy, Fijit Friends.

The Fisher-Price Brands US segment includes Fisher-Price®, Little People®, BabyGear , View-Master®, Dora the Explorer®, Go Diego Go! ®, Thomas and Friends®, Mickey Mouse® Clubhouse, Handy Manny®, See N Say®, Sing-a-ma-jigs, The Penguins of Madagascar , Jungle Junction, and Power Wheels®. New product introductions for 2011 are expected to include the Dance & Play Puppy, Twirlin Whirlin Fun Park , Little People® Animal ID Zoo, See Yourself Camera, Imaginext® Mega T-Rex, Hero World , Big Action Construction, The® Hot Wheels® Stunt Ramp Builder, My Little Snuggabunny Cradle n Swing, Power Wheels® Dune Racer, Rock Star Mickey®, Learn Thru Music TouchPad, Dora® Fiesta Favorites Kitchen, and the Thomas and Friends® Cranky & Flynn Save the Day!.

The American Girl Brands segment is a direct marketer, children s publisher, and retailer best known for its flagship line of historical dolls, books, and accessories, as well as the My American Girl® and Bitty Baby® brands. American Girl Brands also publishes best-selling Advice & Activity books and the award-winning *American Girl®* magazine. In January 2011, American Girl® introduced Kanani, the newest Girl of the Year® doll. American Girl Brands products are sold only in the US and Canada.

International Segment

Products marketed by the International segment are generally the same as those developed and marketed by the Domestic segment, with the exception of American Girl Brands, although some are developed or adapted for particular international markets. Mattel s products are sold directly to retailers and wholesalers in most European, Latin American, and Asian countries, and in Australia, Canada, and New Zealand, and through agents and distributors in those countries where Mattel has no direct presence.

Table of Contents

Mattel s International segment revenue represented 46% of worldwide consolidated gross sales in 2010. Within the International segment, Mattel operates in four regional groups that generated the following gross sales during 2010:

	Amount	Percentage of International Gross Sales
	(In millions, except percentage information)	
Europe	$ 1,508.4	52%
Latin America	867.6	30
Asia Pacific	333.3	11
Other	211.5	7
	$ 2,920.8	100%

No individual country within the International segment exceeded 6% of worldwide consolidated gross sales during 2010.

The strength of the US dollar relative to other currencies can significantly affect the revenues and profitability of Mattel s international operations. Mattel enters into foreign currency forward exchange contracts, primarily to hedge its purchase and sale of inventory, and other intercompany transactions denominated in foreign currencies, to limit the effect of exchange rate fluctuations on its results of operations and cash flows. See Item 7A Quantitative and Qualitative Disclosures About Market Risk and Item 8 Financial Statements and Supplementary Data Note 11 to the Consolidated Financial Statements Derivative Instruments. For financial information by geographic area, see Item 8 Financial Statements and Supplementary Data Note 15 to the Consolidated Financial Statements Segment Information.

Manufacturing and Materials

Mattel manufactures toy products for all segments in both company-owned facilities and through third-party manufacturers. Products are also purchased from unrelated entities that design, develop, and manufacture those products. To provide greater flexibility in the manufacture and delivery of its products, and as part of a continuing effort to reduce manufacturing costs, Mattel has concentrated production of most of its core products in company-owned facilities and generally uses third-party manufacturers for the production of non-core products.

Mattel s principal manufacturing facilities are located in China, Indonesia, Thailand, Malaysia, and Mexico. To help avoid disruption of its product supply due to political instability, civil unrest, economic instability, changes in government policies, and other risks, Mattel produces its products in multiple facilities in multiple countries. Mattel believes that the existing production capacity at its own and its third-party manufacturers facilities is sufficient to handle expected volume in the foreseeable future. See Item 1A Risk Factors Factors That May Affect Future Results.

Mattel bases its production schedules for toy products on customer orders and forecasts, taking into account historical trends, results of market research, and current market information. Actual shipments of products ordered and order cancellation rates are affected by consumer acceptance of product lines, strength of competing products, marketing strategies of retailers, changes in buying patterns of both retailers and consumers, and overall economic conditions. Unexpected changes in these factors could result in a lack of product availability or excess inventory in a particular product line.

The majority of Mattel s raw materials is available from numerous suppliers, but may be subject to fluctuations in price.

Table of Contents

Competition and Industry Background

Competition in the manufacture, marketing, and sale of toys is based primarily on quality, play value, and price. Mattel offers a diverse range of products for children of all ages and families that include, among others, toys for infants and preschoolers, girls toys, boys toys, youth electronics, hand-held and other games, puzzles, educational toys, media-driven products, and fashion-related toys. The Mattel Girls & Boys Brands US and Fisher-Price Brands US segments compete with several large toy companies, including Bandai, Hasbro, Jakks Pacific, Leap Frog, Lego, Spin Master, MGA Entertainment, and VTech, many smaller toy companies, and several manufacturers of video games and consumer electronics. American Girl Brands competes with companies that manufacture girls toys and with children s book publishers and retailers. Mattel s International segment competes with global toy companies including Bandai, Hasbro, Lego, MGA Entertainment, Playmobile, and VTech, other national and regional toy companies, and manufacturers of video games and consumer electronics. Foreign regions may include competitors that are strong in a particular toy line or geographical area, but do not compete with Mattel or other international toy companies worldwide.

Competition among the above companies is intensifying due to recent trends towards shorter life cycles for individual toy products, the phenomenon of children outgrowing toys at younger ages, and an increasing use of high technology in toys. In addition, a small number of retailers account for a large portion of all toy sales, control the shelf space from which toys are viewed, and have direct contact with parents and children through in-store purchases, coupons, and print advertisements. Such retailers can and do promote their own private-label toys, facilitate the sale of competitors toys, and allocate shelf space to one type of toys over another.

Seasonality

Mattel s business is highly seasonal, with consumers making a large percentage of all toy purchases during the traditional holiday season. A significant portion of Mattel s customers purchasing occurs in the third and fourth quarters of Mattel s fiscal year in anticipation of such holiday buying. These seasonal purchasing patterns and requisite production lead times create risk to Mattel s business associated with the underproduction of popular toys and the overproduction of less popular toys that do not match consumer demand. Retailers are also attempting to manage their inventories more tightly in recent years, requiring Mattel to ship products closer to the time the retailers expect to sell the products to consumers. These factors increase the risk that Mattel may not be able to meet demand for certain products at peak demand times or that Mattel s own inventory levels may be adversely impacted by the need to pre-build products before orders are placed. Additionally, as retailers manage their inventories, Mattel experiences cyclical ordering patterns for products and product lines that may cause its sales to vary significantly from period to period.

In anticipation of retail sales in the traditional holiday season, Mattel significantly increases its production in advance of the peak selling period, resulting in a corresponding build-up of inventory levels in the first three quarters of its fiscal year. Seasonal shipping patterns result in significant peaks in the third and fourth quarters in the respective levels of inventories and accounts receivable, which result in seasonal working capital financing requirements. See Item 8 Financial Statements and Supplementary Data Note 7 to the Consolidated Financial Statements Seasonal Financing and Debt.

Product Design and Development

Through its product design and development group, Mattel regularly refreshes, redesigns, and extends existing toy product lines and develops innovative new toy product lines for all segments. Mattel believes its success is dependent on its ability to continue this activity effectively. See Item 1A Risk Factors Factors That May Affect Future Results. Product design and development activities are principally conducted by a group of professional designers and engineers employed by Mattel. During 2010, 2009, and 2008, Mattel incurred expenses of $173.9 million, $171.3 million, and $190.2 million, respectively, in connection with the design and development of products, exclusive of royalty payments. See Item 8 Financial Statements and Supplementary Data Note 16 to the Consolidated Financial Statements Supplemental Financial Information.

Table of Contents

Additionally, independent toy designers and developers bring concepts and products to Mattel and are generally paid a royalty on the net selling price of products licensed to Mattel. These independent toy designers may also create different products for other toy companies.

Advertising and Marketing

Mattel supports its product lines with extensive advertising and consumer promotions. Advertising takes place at varying levels throughout the year and peaks during the traditional holiday season. Advertising includes television and radio commercials, and magazine, newspaper, internet advertisements, and social media. Promotions include in-store displays, sweepstakes, merchandising materials, and major events focusing on products and tie-ins with various consumer products companies.

During 2010, 2009, and 2008, Mattel incurred expenses of $647.3 million (11.1% of net sales), $609.8 million (11.2% of net sales), and $719.2 million (12.2% of net sales), respectively, for advertising and promotion.

Sales

Mattel s products are sold throughout the world. Products within the Domestic segment are sold directly to retailers, including discount and free-standing toy stores, chain stores, department stores, other retail outlets, and, to a limited extent, wholesalers by Mattel Girls & Boys Brands US and Fisher-Price Brands US. Mattel also operates several small retail outlets, generally near or at its corporate headquarters and distribution centers as a service to its employees and as an outlet for its products. American Girl Brands products are sold directly to consumers and its children s publications are also sold to certain retailers. Mattel has nine retail stores, American Girl Place® in Chicago, Illinois, New York, New York, and Los Angeles, California, and American Girl® stores in Alpharetta, Georgia, Dallas, Texas, Natick, Massachusetts, Bloomington, Minnesota, Lone Tree, Colorado, and Overland Park, Kansas, each of which features children s products from the American Girl Brands segment. American Girl Brands also has a retail outlet in Oshkosh, Wisconsin that serves as an outlet for its products. Products within the International segment are sold directly to retailers and wholesalers in most European, Latin American, and Asian countries, and in Australia, Canada, and New Zealand, and through agents and distributors in those countries where Mattel has no direct presence. Mattel also has retail outlets in Latin America and Europe that serve as outlets for its products. Additionally, Mattel sells certain of its products online through its website.

During 2010, Mattel s three largest customers (Wal-Mart at $1.1 billion, Toys R Us at $0.8 billion, and Target at $0.5 billion) accounted for approximately 41% of worldwide consolidated net sales in the aggregate. Within countries in the International segment, there is also a concentration of sales to certain large customers that do not operate in the US, none of which exceed 10% of net sales. The customers and the degree of concentration vary depending upon the region or nation. See Item 1A Risk Factors Factors That May Affect Future Results and Item 8 Financial Statements and Supplementary Data Note 15 to the Consolidated Financial Statements Segment Information.

Licenses and Distribution Agreements

Mattel has license agreements with third parties that permit Mattel to utilize the trademark, characters, or inventions of the licensor in products that Mattel sells. A number of these licenses relate to product lines that are significant to Mattel s business and operations.

Mattel has entered into agreements to license entertainment properties from, among others, Disney Enterprises, Inc. (including Disney® characters such as Disney Princess , CARS and Toy Story® from Pixar, High School Musical®, Winnie the Pooh®, and all Disney® films and television properties for use in Mattel s games), Viacom International, Inc. relating to its Nickelodeon® properties (including Dora the Explorer®, Go Diego Go!®, and SpongeBob SquarePants®), Warner Bros. Consumer Products (including Batman®, Superman®,

Table of Contents

Justice League®, Speed Racer®, and Green Lantern®), Sesame Workshop® through December 31, 2010 (relating to its Sesame Street® properties including Elmo), WWE® Wrestling, and HIT Entertainment relating to its Thomas and Friends® properties.

Royalty expense for 2010, 2009, and 2008 was $245.9 million, $188.5 million, and $241.2 million, respectively. See Commitments and Item 8 Financial Statements and Supplementary Data Note 14 to the Consolidated Financial Statements Commitments and Contingencies.

Mattel also licenses a number of its trademarks, characters, and other property rights to others for use in connection with the sale of non-toy products that do not compete with Mattel s products. Mattel distributes some third-party finished products that are independently designed and manufactured.

Trademarks, Copyrights and Patents

Most of Mattel s products are sold under trademarks, trade names, and copyrights, and a number of those products incorporate patented devices or designs. Trade names and trademarks are significant assets of Mattel in that they provide product recognition and acceptance worldwide.

Mattel customarily seeks patent, trademark, or copyright protection covering its products, and it owns or has applications pending for US and foreign patents covering many of its products. A number of these trademarks and copyrights relate to product lines that are significant to Mattel s business and operations. Mattel believes its rights to these properties are adequately protected, but there can be no assurance that its rights can be successfully asserted in the future or will not be invalidated, circumvented, or challenged.

Commitments

In the normal course of business, Mattel enters into contractual arrangements for future purchases of goods and services to ensure availability and timely delivery, and to obtain and protect Mattel s right to create and market certain products. Certain of these commitments routinely contain provisions for guarantees or minimum expenditures during the term of the contracts. Current and future commitments for guaranteed payments reflect Mattel s focus on expanding its product lines through alliances with businesses in other industries. Additionally, Mattel routinely enters into noncancelable lease agreements for premises and equipment used in the normal course of business.

Purchase and service agreements with terms extending through 2015 and beyond contain future minimum payments aggregating approximately $445 million. Licensing and similar agreements with terms extending through 2015 contain provisions for future guaranteed minimum payments aggregating approximately $251 million. Lease commitments with terms extending through 2015 and beyond contain future minimum obligations aggregating approximately $546 million. See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Commitments and Item 8 Financial Statements and Supplementary Data Note 14 to the Consolidated Financial Statements Commitments and Contingencies.

Backlog

Mattel ships products in accordance with delivery schedules specified by its customers, which usually request delivery within three months. In the toy industry, orders are subject to cancellation or change at any time prior to shipment. In recent years, a trend toward just-in-time inventory practices in the toy industry has resulted in fewer advance orders and therefore less backlog of orders. Mattel believes that the amount of backlog orders at any given time may not accurately indicate future sales.

Financial Instruments

Currency exchange rate fluctuations may impact Mattel s results of operations and cash flows. Mattel seeks to mitigate its exposure to market risk by monitoring its foreign currency transaction exposure for the year and partially hedging such exposure using foreign currency forward exchange contracts primarily to hedge its

Table of Contents

purchase and sale of inventory, and other intercompany transactions denominated in foreign currencies. These contracts generally have maturity dates of up to 18 months. 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.

For additional information regarding foreign currency contracts, see International Segment above, Item 7A Quantitative and Qualitative Disclosures About Market Risk and Item 8 Financial Statements and Supplementary Data Note 11 to the Consolidated Financial Statements Derivative Instruments.

Seasonal Financing

See Item 8 Financial Statements and Supplementary Data Note 7 to the Consolidated Financial Statements Seasonal Financing and Debt.

Government Regulations and Environmental Quality

Mattel s toy products sold in the US are subject to the provisions of the Consumer Product Safety Act, the Federal Hazardous Substances Act, and the Consumer Product Safety Improvement Act of 2008, and may also be subject to the requirements of the Flammable Fabrics Act or the Food, Drug, and Cosmetics Act, and the regulations promulgated pursuant to such statutes. These statutes ban from the market consumer products that fail to comply with applicable product safety regulations. The Consumer Product Safety Commission (CPSC) may require the recall, repurchase, replacement, or repair of any such banned products or products that otherwise create a substantial risk of injury and may seek penalties for regulatory noncompliance under certain circumstances. Similar laws exist in some states and in many international markets.

Mattel maintains a quality control program to help ensure compliance with various US federal, state, and applicable foreign product safety requirements. Nonetheless, Mattel has experienced, and may in the future experience, issues in products that result in recalls, withdrawals, or replacements of products. A product recall could have a material adverse effect on Mattel s results of operations and financial condition, depending on the product affected by the recall and the extent of the recall efforts required. A product recall could also negatively affect Mattel s reputation and the sales of other Mattel products. See Item 1A Risk Factors Factors That May Affect Future Results and Item 8 Financial Statements and Supplementary Data Note 4 to the Consolidated Financial Statements Product Recalls and Withdrawals.

Mattel s advertising is subject to the Federal Trade Commission Act, The Children s Television Act of 1990, the rules and regulations promulgated by the Federal Trade Commission, and the Federal Communications Commission, as well as laws of certain countries that regulate advertising and advertising to children. In addition, Mattel s websites that are directed towards children are subject to the Children s Online Privacy Protection Act of 1998. Mattel is subject to various other federal, state, local and international laws and regulations applicable to its business. Mattel believes that it is in substantial compliance with these laws and regulations.

Mattel s worldwide operations are subject to the requirements of various environmental laws and regulations in the jurisdictions where those operations are located. Mattel believes that it is in substantial compliance with those laws and regulations. Mattel s operations are from time to time the subject of investigations, conferences, discussions, and negotiations with various federal, state and local environmental agencies within and outside the United States with respect to the discharge or cleanup of hazardous waste. Mattel is not aware of any material cleanup liabilities.

Employees

The total number of persons employed by Mattel and its subsidiaries at any one time varies because of the seasonal nature of its manufacturing operations. Mattel s total number of employees increased from approximately 27,000 at December 31, 2009 to approximately 31,000 at December 31, 2010 due to increased staffing levels at manufacturing facilities, resulting from higher production levels at the end of 2010 to support point of sale momentum and improve customer service levels.

Table of Contents

Executive Officers of the Registrant

The current executive officers of Mattel, all of whom are appointed annually by and serve at the pleasure of the Board of Directors, are as follows:

Name	Age	Position	Executive Officer Since
Robert A. Eckert	56	Chairman of the Board and Chief Executive Officer	2000
Bryan G. Stockton	57	Chief Operating Officer	2000
David Allmark	47	Executive Vice President, Fisher-Price Brands	2011
Ellen L. Brothers	55	Executive Vice President of Mattel and President, American Girl	2003
Thomas A. Debrowski	60	Executive Vice President, Worldwide Operations	2000
Kevin M. Farr	53	Chief Financial Officer	1996
Alan Kaye	57	Executive Vice President, Chief Human Resources Officer	2000
Timothy J. Kilpin	50	Executive Vice President, Mattel Brands El Segundo	2011
Geoff Massingberd	53	Executive Vice President, International	2007
Robert Normile	51	Executive Vice President, Chief Legal Officer and Secretary	1999
Christopher P. Schaden	58	Executive Vice President, North America	2011
Mandana Sadigh	51	Senior Vice President and Treasurer	2010
H. Scott Topham	50	Senior Vice President and Corporate Controller	2004

Mr. Eckert has been Chairman of the Board and Chief Executive Officer since May 2000. He was formerly President and Chief Executive Officer of Kraft Foods, Inc., the largest packaged food company in North America, from October 1997 until May 2000. From 1995 to 1997, Mr. Eckert was Group Vice President of Kraft Foods, Inc. From 1993 to 1995, Mr. Eckert was President of the Oscar Mayer foods division of Kraft Foods, Inc. Mr. Eckert worked for Kraft Foods, Inc. for 23 years prior to joining Mattel.

Mr. Stockton has been Chief Operating Officer since January 2011. He served as President, International from November 2007 to January 2011 and Executive Vice President, International from February 2003 to November 2007. He served as Executive Vice President, Business Planning and Development from November 2000 until February 2003. From April 1998 until November 2000, he was President and Chief Executive Officer of Basic Vegetable Products, the largest manufacturer of vegetable ingredients in the world. For more than 20 years prior to that, he was employed by Kraft Foods, Inc., the largest packaged food company in North America, and was President of Kraft North American Food Service from August 1996 to March 1998.

Mr. Allmark has been Executive Vice President, Fisher-Price Brands since February 2011. From January 2008 to February 2011, he served as Senior Vice President and General Manager of Mattel s United Kingdom, Canada, and Eastern European markets and, from October 2005 to December 2007, as Senior Vice President and General Manager of Fisher-Price Friends. Mr. Allmark served as a Vice President in Mattel s International group from August 2001 to October 2005 and as Marketing Director of Mattel s UK group from January 1999 to July 2001. From May 1995, he served as Director of UK Sales and Marketing of Bluebird Toys P.L.C., which was acquired by Mattel in 1998, and prior to that he spent 12 years working in sales and marketing for various companies in the toy industry.

Ms. Brothers has been Executive Vice President of Mattel and President, American Girl since July 2000. From November 1998 to July 2000, she was Senior Vice President of Operations, Pleasant Company (which merged with and into Mattel on December 31, 2003, followed immediately on January 1, 2004, by an asset

Table of Contents

transfer to Mattel s subsidiary American Girl). From January 1997 to November 1998, she was Vice President of the Catalogue Division, Pleasant Company. She joined Pleasant Company in 1995, prior to its acquisition by Mattel in July 1998, as Vice President of Catalogue Marketing.

Mr. Debrowski has been Executive Vice President, Worldwide Operations since November 2000. From February 1992 until November 2000, he was Senior Vice President-Operations and a director of The Pillsbury Company. From September 1991 until February 1992, he was Vice President of Operations for the Baked Goods Division of The Pillsbury Company. Prior to that, he served as Vice President and Director of Grocery Operations for Kraft U.S.A.

Mr. Farr has been Chief Financial Officer since February 2000. From September 1996 to February 2000, he was Senior Vice President and Corporate Controller. From June 1993 to September 1996, he served as Vice President, Tax. Prior to that, he served as Senior Director, Tax from August 1992 to June 1993.

Mr. Kaye has been Executive Vice President, Chief Human Resources Officer since February 2011. From July 1997 to February 2011, he was Senior Vice President, Human Resources. From June 1996 to June 1997, he was President, Texas Division of Kaufman and Broad Homes, a home building company. From June 1991 to June 1996, he served as Senior Vice President, Human Resources for Kaufman and Broad Homes. Prior to that, he worked for two years with the Hay Group, a compensation consulting firm and for 12 years with IBM in various human resources positions.

Mr. Kilpin has been Executive Vice President, Mattel Brands El Segundo since February 2011. From February 2010 to February 2011, he served as General Manager and Senior Vice President, Mattel Brands El Segundo. Mr. Kilpin served as General Manager and Senior Vice President for the Girls, Boys and Games groups from November 2008 to February 2010 and for the Boys group from October 2005 to November 2008. Prior to rejoining Mattel as a Senior Vice President, Marketing in 2003, Mr. Kilpin was Executive Vice President of Studio Franchise Management at The Walt Disney Company. Mr. Kilpin first joined Mattel in August 1984 and until October 1999, held various marketing positions, culminating as Executive Vice President and General Manager of the then Character Brands business unit.

Mr. Massingberd has been Executive Vice President, International since February 2011. Before that, he served as Senior Vice President, Corporate Responsibility from September 2007 to February 2011. From February 1998 to August 2007, he served as Senior Vice President and General Manager of Mattel s International divisions in Canada, Australia, New Zealand, Asia, and Latin America and from August 1997 to February 1998, he was Vice President, Sales for Mattel Canada. Prior to joining Mattel, Mr. Massingberd spent 18 years with Nestle S.A. and served in various roles, including Vice President, Sales and head of Nestle Canada s Confectionery division.

Mr. Normile has been Executive Vice President, Chief Legal Officer and Secretary since February 2011. From March 1999 to February 2011, he was Senior Vice President, General Counsel and Secretary. He served as Vice President, Associate General Counsel and Secretary from August 1994 to March 1999. From June 1992 to August 1994, he served as Assistant General Counsel. Prior to that, he was associated with the law firms of Latham & Watkins LLP and Sullivan & Cromwell LLP.

Mr. Schaden has been Executive Vice President, North America since February 2011. Mr. Schaden served as Senior Vice President, Sales for Mattel Brands from July 2006 to February 2011 and Senior Vice President, Sales for Fisher-Price from December 2001 to July 2006. From June 1999 to December 2001, he served as Vice President, Sales for Fisher-Price and Tyco Preschool Toys. Mr. Schaden began working at Mattel as Director of Sales for Tyco Preschool Toys in February 1998 and held that position until June 1999. Prior to joining Mattel, Mr. Schaden had more than 23 years of sales experience at other toy companies, including Lego Systems and Tonka Corporation.

Ms. Sadigh has been Senior Vice President and Treasurer since November 2010. She served as Senior Vice President, Mattel Brands Finance and Strategy from October 2005 to November 2010. From January 2001 to October 2005, she served as Senior Vice President in various leadership roles, including Corporate Strategic Planning, Sales Strategy, and International Finance. From December 1999 until January 2001, she served as Vice

Table of Contents

President and Assistant Controller. From August 1991 to December 1999, she served in various Corporate Finance positions. Prior to joining Mattel, Ms. Sadigh spent 8 years in the banking industry.

Mr. Topham has been Senior Vice President and Corporate Controller since September 2005. He served as Senior Vice President and Treasurer from March 2005 to August 2005 and as Vice President and Treasurer from March 2004 to March 2005. Prior to that, he served as Vice President and Assistant Controller from May 2001 to March 2004. From August 2000 to May 2001, he served as Vice President and Treasurer of Premier Practice Management, Inc. From June 1999 to August 2000, he served as Division Vice President of Dataworks, Inc., a specialized publishing company. Prior to that, he spent eight years with Total Petroleum (North America) Ltd., most recently as Vice President of Human Resources.

Available Information

Mattel files its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act) with the SEC. The public may read and copy any materials that Mattel files with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet website that contains reports, proxy and other information regarding issuers that file electronically with the SEC at http://www.sec.gov.

Mattel s Internet website address is http://corporate.mattel.com. Mattel makes available on its Internet website, free of charge, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the SEC.

Item 1A. Risk Factors.
Factors That May Affect Future Results

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

Mattel is including this Cautionary Statement to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (the Act) for forward-looking statements. This Annual Report on Form 10-K 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 conditional verbs, such as will, should, could, may, aims, intends, or projects. A forward-looking statement is neither a prediction nor guarantee of future events or circumstances, and those future events or circumstances may not occur. Investors should not place undue reliance on the forward-looking statements, which speak only as of the date of this Form 10-K. 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 discussed below.

If Mattel does not successfully identify or satisfy consumer preferences, its results of operations may be adversely affected.

Mattel s business and operating results depend largely upon the appeal of its toy products. Consumer preferences, particularly among end users of Mattel s products children are continuously changing. Significant, sudden shifts in demand are caused by hit toys and trends, which are often unpredictable. Mattel offers a diverse range of products for children of all ages and families that includes, among others, toys for infants and

Table of Contents

preschoolers, girls toys, boys toys, youth electronics, digital media, hand-held and other games, puzzles, educational toys, media-driven products, and fashion-related toys. Mattel competes domestically and internationally with a wide range of large and small manufacturers, marketers and sellers of toys, video games, consumer electronics and other play products, as well as retailers, which means that Mattel s market position is always at risk. Mattel s ability to maintain its current product sales, and increase its product sales or establish product sales with new, innovative toys, will depend on Mattel s ability to satisfy play preferences, enhance existing products, develop and introduce new products, and achieve market acceptance of these products. Competition for access to entertainment properties could lessen Mattel s ability to secure, maintain, and renew popular licenses to entertainment products developed by other parties and licensed to Mattel or requires Mattel to pay licensors higher royalties and higher minimum guaranteed payments in order to obtain or retain these licenses. Competition is intensifying due to recent trends towards shorter life cycles for individual toy products, the phenomenon of children outgrowing toys at younger ages, and an increasing use of more sophisticated technology in toys. If Mattel does not successfully meet the challenges outlined above in a timely and cost-effective manner, demand for its products could decrease, and Mattel s revenues, profitability and results of operations may be adversely affected.

Inaccurately anticipating changes and trends in popular culture, media and movies, fashion, or technology can negatively affect Mattel s sales.

Successful movies and characters in children s literature affect play preferences, and many toys depend on media-based intellectual property licenses. Media-based licenses can cause a line of toys to gain immediate success among children, parents, or families. Trends in media, movies, and children s characters change swiftly and contribute to the transience and uncertainty of play preferences. In addition, certain developments in the entertainment industry, including labor strikes, could cause delay or interruption in the release of new movies and television programs and could adversely affect the sales of Mattel s toys based on such movies and television programs. Mattel responds to such trends and developments by modifying, refreshing, extending, and expanding its product offerings on an annual basis. If Mattel does not accurately anticipate trends in popular culture, movies, media, fashion, or technology, its products may not be accepted by children, parents, or families and Mattel s revenues, profitability, and results of operations may be adversely affected.

Mattel s business is highly seasonal and its operating results depend, in large part, on sales during the relatively brief traditional holiday season. Any events that disrupt Mattel s business during its peak demand times could significantly, adversely and disproportionately affect Mattel s business.

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

In addition, as a result of the seasonal nature of Mattel s business, Mattel may be significantly and adversely affected, in a manner disproportionate to the impact on a company with sales spread more evenly throughout the year, by unforeseen events, such as terrorist attacks, economic shocks, earthquakes or other catastrophic events, that harm the retail environment or consumer buying patterns during its key selling season, or by events, such as strikes, disruptions in transportation or port delays, that interfere with the manufacture or shipment of goods during the critical months leading up to the holiday purchasing season.

Table of Contents

Mattel has significant customer concentration, so that economic difficulties or changes in the purchasing policies or patterns of its key customers could have a significant impact on Mattel s business and operating results.

A small number of customers account for a large share of Mattel s net sales. In 2010, Mattel s three largest customers, Wal-Mart, Toys R Us and Target, in the aggregate, accounted for approximately 41% of net sales, and its ten largest customers, in the aggregate, accounted for approximately 51% of net sales. The concentration of Mattel s business with a relatively small number of customers may expose Mattel to a material adverse effect if one or more of Mattel s large customers were to significantly reduce purchases for any reason, favor competitors or new entrants, or increase their direct competition with Mattel by expanding their private-label business. Customers make no binding long-term commitments to Mattel regarding purchase volumes and make all purchases by delivering one-time purchase orders. Any customer could reduce its overall purchases of Mattel s products, reduce the number and variety of Mattel s products that it carries and the shelf space allotted for Mattel s products, or otherwise seek to materially change the terms of the business relationship at any time. Any such change could significantly harm Mattel s business and operating results.

Liquidity problems or bankruptcy of Mattel s key customers could have a significant adverse effect on Mattel s business, financial condition and results of operations.

Mattel s sales to customers are typically made on credit without collateral. There is a risk that key customers will not pay, or that payment may be delayed, because of bankruptcy, contraction of credit availability to such customers, weak retail sales or other factors beyond the control of Mattel, which could increase Mattel s exposure to losses from bad debts. In addition, if key customers were to cease doing business as a result of bankruptcy or significantly reduce the number of stores operated, it could have a significant adverse effect on Mattel s business, financial condition, and results of operations.

Significant increases in the price of commodities, transportation or labor, if not offset by declines in other input costs, or a reduction or interruption in the delivery of raw materials, components and finished products from Mattel s vendors could negatively impact Mattel s financial results.

Cost increases, whether resulting from rising costs of materials, compliance with existing or future regulatory requirements, transportation, services and labor could impact the profit margins realized by Mattel on the sale of its products. Because of market conditions, timing of pricing decisions, and other factors, there can be no assurance that Mattel will be able to offset any of these increased costs by adjusting the prices of its products. Increases in prices of Mattel s products may not be sustainable, and could result in lower sales. Mattel s ability to meet customer demand depends, in part, on its ability to obtain timely and adequate delivery of materials, parts and components from its suppliers and internal manufacturing capacity. Mattel has experienced shortages in the past, including shortages of raw materials and components. Although Mattel works closely with suppliers to avoid these types of shortages, there can be no assurance that Mattel will not encounter these problems in the future. A reduction or interruption in supplies or in the delivery of finished products, whether resulting from more stringent regulatory requirements, suppliers, disruptions in transportation, port delays, labor strikes, lockouts, or otherwise, or a significant increase in the price of one or more supplies, such as fuel or resin (which is an oil-based product), could negatively impact Mattel s financial results.

Significant changes in currency exchange rates or the ability to transfer capital across borders could have a significant adverse effect on Mattel s business and results of operations.

Mattel s net investment in its foreign subsidiaries and its results of operations and cash flows are subject to changes in currency exchange rates and regulations. Countries with highly inflationary economies can result in foreign currency devaluation, which negatively impacts profitability. Mattel seeks to mitigate the exposure of its results of operations to fluctuations in currency exchange rates by aligning its prices with the local currency cost of acquiring inventory, distributing earnings in US Dollars, and partially hedging this exposure using foreign currency forward exchange contracts. These contracts are primarily used to hedge Mattel s purchase and sale of inventory, and other intercompany transactions denominated in foreign currencies. Government action may restrict Mattel s ability to transfer capital across borders and may also impact the fluctuation of currencies in the countries where Mattel conducts business or has invested capital. Significant changes in currency exchange rates, reductions in Mattel s ability to transfer its capital across borders, and changes in government-fixed currency exchange rates, including the Chinese yuan and Venezuelan bolivar fuerte, could have a significant adverse effect on Mattel s business and results of operations.

If global economic conditions deteriorate, Mattel s business and financial results could be adversely affected.

Mattel designs, manufactures, and markets a wide variety of toy products worldwide through sales to customers and directly to consumers. Mattel s performance is impacted by the level of discretionary consumer spending, which has deteriorated sharply in the United States and in many countries around the world in which Mattel does business. Consumers discretionary purchases of toy products may be impacted by job losses, foreclosures, bankruptcies, reduced access to credit, significantly falling home prices, lower consumer confidence and other macroeconomic factors that affect consumer spending behavior. Deterioration of global economic conditions could potentially have a material adverse effect on Mattel s liquidity and capital resources, including increasing Mattel s cost of capital or its ability to raise additional capital if needed, or otherwise adversely affect Mattel s business and financial results.

Failure to successfully implement new initiatives could have a significant adverse effect on Mattel s business, financial condition and results of operations.

Mattel has announced, and in the future may announce, initiatives to reduce its costs, increase its efficiency, improve the execution of its core business, globalize and extend Mattel s brands, catch new trends, create new brands, and offer new innovative products, enhance product safety, develop people, improve productivity, simplify processes, maintain customer service levels, as well as initiatives designed to drive sales growth, capitalize on Mattel s scale advantage, and improve its supply chain. These initiatives involve investment of capital and complex decision-making as well as extensive and intensive execution, and the success of these initiatives is not assured. Failure to successfully implement any of these initiatives, or the failure of any of these initiatives to produce the results anticipated by management, could have a significant adverse effect on Mattel s business, financial condition, and results of operations.

Mattel s business depends in large part on the success of its vendors and outsourcers, and Mattel s brands and reputation may be harmed by actions taken by third-parties that are outside Mattel s control. In addition, any material failure, inadequacy or interruption resulting from such vendors or outsourcings could harm Mattel s ability to effectively operate its business.

As a part of its efforts to cut costs, achieve better efficiencies and increase productivity and service quality, Mattel relies significantly on vendor and outsourcing relationships with third parties for services and systems including manufacturing, transportation, logistics and information technology. Any shortcoming of a Mattel vendor or outsourcer, particularly an issue affecting the quality of these services or systems, may be attributed by customers to Mattel, thus damaging Mattel s reputation, brand value and potentially affecting the results of operations. In addition, problems with transitioning these services and systems to or operating failures with these vendors and outsourcers could cause delays in product sales, reduce efficiency of Mattel s operations, and significant capital investments could be required to remediate the problem.

Increases in interest rates, reduction of Mattel s credit ratings, contraction of credit availability or the inability of Mattel to meet the debt covenant requirements in its credit facilities could negatively impact Mattel s ability to conduct its operations.

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

If Mattel is not able to adequately protect its proprietary intellectual property and information, its results of operations could be adversely affected.

The value of Mattel s business depends on its ability to protect its intellectual property and information, including its trademarks, trade names, copyrights, patents and trade secrets, in the US and around the world, as well as its customer, employee, and consumer data. If Mattel fails to protect its proprietary intellectual property and information, including any successful challenge to Mattel s ownership of its intellectual property or material infringements of its intellectual property, this failure could have a significant adverse effect on Mattel s business, financial condition, and results of operations.

Unfavorable resolution of pending and future litigation matters and disputes could have a significant adverse effect on Mattel s financial condition.

Mattel is involved in a number of litigation and regulatory matters. An unfavorable resolution of these pending matters could have a significant adverse effect on Mattel s financial condition and its operations. Regardless of its outcome, litigation may result in substantial costs and expenses, and significantly divert the attention of management. There can be no assurance that Mattel will be able to prevail in, or achieve a favorable settlement of, pending matters. In addition to the pending matters, future litigation, government proceedings, labor disputes, or environmental matters could lead to increased costs or interruption of Mattel s normal business operations.

Mattel is subject to various laws and government regulations, violation of which could subject it to sanctions. In addition, changes in such laws or regulations may lead to increased costs, changes in Mattel s effective tax rate, or the interruption of normal business operations that would negatively impact Mattel s financial condition and results of operations.

Mattel operates in a highly regulated environment in the US and international markets. US federal, state and local governmental entities, and foreign governments regulate many aspects of Mattel s business, including its products and the importation and exportation of its products. These regulations may include accounting standards, taxation requirements (including changes in applicable income tax rates, new tax laws and revised tax law interpretations), product safety and other safety standards, trade restrictions, duties and tariffs, and regulations regarding currency and financial matters, environmental matters, advertising directed toward children, product content, and privacy and data protection, as well as other administrative and regulatory restrictions. While Mattel takes all the steps it believes are necessary to comply with these laws and regulations, there can be no assurance that Mattel will be in compliance in the future. Failure to comply could result in monetary liabilities and other sanctions which could have a negative impact on Mattel s business, financial condition and results of operations.

In addition, changes in laws or regulations may lead to increased costs, changes in Mattel s effective tax rate, or the interruption of normal business operations that would negatively impact its financial condition and results of operations.

Issues with products may lead to product liability claims, recalls, withdrawals, replacements of products, or regulatory actions by governmental authorities that could divert resources, affect business operations, decrease sales, increase costs, and put Mattel at a competitive disadvantage, any of which could have a significant adverse effect on Mattel s financial condition.

Mattel has experienced, and may in the future experience, issues with products that may lead to product liability claims, recalls, withdrawals, replacements of products, or regulatory actions by governmental authorities. Any of these activities could result in increased governmental scrutiny, harm to Mattel s reputation, reduced demand by consumers for its products, decreased willingness by retailer customers to purchase or provide marketing support for those products, adverse impacts on Mattel s ability to enter into licensing agreements for products on competitive terms, absence or increased cost of insurance, or additional safety and testing requirements. Such results could divert development and management resources, adversely affect Mattel s business operations, decrease sales, increase legal fees and other costs, and put Mattel at a competitive disadvantage compared to other manufacturers not affected by similar issues with products, any of which could have a significant adverse effect on Mattel s financial condition.

Mattel s current and future operating procedures and product requirements may increase costs, significantly and adversely affect its relationship with vendors and make it more difficult for Mattel to produce, purchase and deliver products on a timely basis to meet market demands. Future conditions may require Mattel to adopt further changes that may increase its costs and further affect its relationship with vendors.

Mattel s current operating procedures and product requirements, including testing requirements and standards, have imposed costs on both Mattel and the vendors from which it purchases products. Changes in business conditions, including those resulting from new legislative and regulatory requirements, have caused and in the future could cause further revisions in Mattel s operating procedures and product requirements. Changes in Mattel s operating procedures and product requirements may delay delivery of products and increase costs. Mattel s relationship with its existing vendors may be adversely affected as a result of these changes, making Mattel more dependent on a smaller number of vendors. Some vendors may choose not to continue to do business with Mattel or not to accommodate Mattel s needs to the extent that they have done in the past. In addition, rising production costs, contraction of credit availability and labor shortages have caused a substantial contraction in the number of toy manufacturers in China, decreasing the number of potential vendors to manufacture Mattel s products. Because of the seasonal nature of Mattel s business and the demands of its customers for deliveries with short lead times, Mattel depends upon the cooperation of its vendors to meet market demand for its products in a timely manner. There can be no assurance that existing and future events will not require Mattel to adopt additional requirements and incur additional costs, and impose those requirements and costs on its vendors, which may adversely affect its relationship with those vendors and Mattel s ability to meet market demand in a timely manner.

Political developments, including trade relations, and the threat or occurrence of war or terrorist activities could adversely impact Mattel, its personnel and facilities, its customers and suppliers, retail and financial markets, and general economic conditions.

Mattel s business is worldwide in scope, including operations in 43 countries and territories. The deterioration of the political situation in a country in which Mattel has significant sales or operations, or the breakdown of trade relations between the US and a foreign country in which Mattel has significant manufacturing facilities or other operations, could adversely affect Mattel s business, financial condition, and results of operations. For example, a change in trade status for China could result in a substantial increase in the import duty of toys manufactured in China and imported into the US. In addition, the occurrence of war or hostilities between countries or threat of terrorist activities, and the responses to and results of these activities, could adversely impact Mattel, its personnel and facilities, its customers and suppliers, retail and financial markets, and general economic conditions.

Disruptions in Mattel s manufacturing operations due to political instability, civil unrest, or disease could negatively impact Mattel s business, financial position and results of operations.

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

Earthquakes or other catastrophic events out of Mattel s control may damage its facilities or those of its contractors and harm Mattel s results of operations.

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

The production and sale of private-label toys by Mattel s retail customers may result in lower purchases of Mattel-branded products by those retail customers.

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

Mattel s failure to successfully market or advertise its products could have an adverse effect on Mattel s business, financial condition and results of operations.

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

Mattel depends on key personnel and may not be able to hire, retain and integrate sufficient qualified personnel to maintain and expand its business.

Mattel s future success depends partly on the continued contribution of key executives, designers, technical, sales, marketing, manufacturing, and administrative personnel. The loss of services of any of Mattel s key personnel could harm Mattel s business. Recruiting and retaining skilled personnel is costly and highly competitive. If Mattel fails to retain, hire, train, and integrate qualified employees and contractors, Mattel may not be able to maintain or expand its business.

Mattel may engage in acquisitions, mergers or dispositions, which may affect the profit, revenues, profit margins, debt-to-capital ratio, capital expenditures or other aspects of Mattel s business. In addition, Mattel has certain anti-takeover provisions in its by-laws that may make it more difficult for a third party to acquire Mattel without its consent, which may adversely affect Mattel s stock price.

Mattel may engage in acquisitions, mergers or dispositions, which may affect the profit, revenues, profit margins, debt-to-capital ratio, capital expenditures, or other aspects of Mattel s business. There can be no assurance that Mattel will be able to identify suitable acquisition targets or merger partners or that, if identified, it will be able to acquire these targets on terms acceptable to Mattel and to potential merger partners. There can also be no assurance that Mattel will be successful in integrating any acquired company into its overall operations, or that any such acquired company will operate profitably or will not otherwise adversely impact Mattel s results of operations. Further, Mattel cannot be certain that key talented individuals at those acquired companies will continue to work for Mattel after the acquisition or that they will continue to develop popular and profitable products or services. In addition, Mattel has certain anti-takeover provisions in its bylaws that may make it more difficult for a third party to acquire Mattel without its consent, which may adversely affect Mattel s stock price.

Mattel relies extensively on information technology in its operations, and any material failure, inadequacy, interruption or security failure of that technology could harm its ability to effectively operate its business.

Mattel relies extensively on information technology systems, many of which are managed by third-party service providers, across its operations, including for management of its supply chain, sale and delivery of its products, and various other processes and transactions. Mattel s ability to effectively manage its business and coordinate the production, distribution, and sale of its products depends significantly on the reliability and capacity of these systems and third-party service providers. The failure of these systems to operate effectively, problems with transitioning to upgraded or replacement systems, or a breach in security of these systems could cause delays in product sales and reduced efficiency of its operations, and significant capital investments could be required to remediate the problem.

The level of returns on pension plan assets and the actuarial assumptions used for valuation purposes could affect Mattel s earnings in future periods. Changes in standards and government regulations could also affect its pension plan expense and funding requirements.

Assumptions used in determining projected benefit obligations and the fair value of plan assets for Mattel s pension plan are evaluated by Mattel in consultation with outside actuaries. In the event that Mattel determines that changes are warranted in the assumptions used, such as the discount rate, expected long term rate of return, or health care costs, its future pension benefit expenses could increase or decrease. Due to changing market conditions or changes in the participant population, the actuarial assumptions that Mattel uses may differ from actual results, which could have a significant impact on its pension and postretirement liability and related costs. Funding obligations are determined based on the value of assets and liabilities on a specific date as required under relevant government regulations for each plan. Future pension funding requirements, and the timing of funding payments, could be affected by legislation enacted by the relevant governmental authorities.

If Mattel s goodwill becomes impaired, Mattel s results of operations could be adversely affected.

Mattel tests goodwill for impairment annually, or more often if an event or circumstance indicates that an impairment may have occurred. For purposes of evaluating whether goodwill is impaired, goodwill is allocated to various reporting units, which are either at the operating segment level or one reporting level below the operating segment. Declines in profitability of Mattel s reporting units may impact the fair value of its reporting units, which could result in a write-down of its goodwill, negatively impacting its results of operations.

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

Table of Contents

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Mattel owns its corporate headquarters in El Segundo, California, consisting of approximately 335,000 square feet, and an adjacent office building consisting of approximately 55,000 square feet. Mattel also leases buildings in El Segundo consisting of approximately 327,000 square feet. All segments use these facilities. Mattel s Fisher-Price® subsidiary owns its headquarters facilities in East Aurora, New York, consisting of approximately 535,000 square feet, which is used by the Fisher-Price Brands US segment and for corporate support functions. American Girl Brands owns its headquarters facilities in Middleton, Wisconsin, consisting of approximately 180,000 square feet, a warehouse in Middleton, consisting of approximately 215,000 square feet, and distribution facilities in Middleton, DeForest, and Wilmot, Wisconsin, consisting of a total of approximately 948,000 square feet, all of which are used by the American Girl Brands segment. Mattel also owns its principal manufacturing facilities located in Indonesia, Thailand, Malaysia, and Mexico.

Mattel maintains leased sales offices in California, Illinois, Minnesota, New York, and Arkansas, and leased warehouse and distribution facilities in California, New Jersey, and Texas, all of which are used by the Domestic segment. Mattel has leased retail and related office space in Chicago, Illinois, New York, New York, and Los Angeles, California for its American Girl Place® stores, Dallas, Texas, Alpharetta, Georgia, Natick, Massachusetts, Bloomington, Minnesota, Lone Tree, Colorado, Overland Park, Kansas, and McLean, Virginia for its American Girl® stores, and leased retail space in Oshkosh, Wisconsin, which are used by the American Girl Brands segment, and Pomona, California, which is used by Mattel Brands. Mattel also has leased office space in Florida, which is used by the International segment. Internationally, Mattel has offices and/or warehouse space in Argentina, Australia, Austria, Belgium, Bermuda, Brazil, Canada, Chile, China, Colombia, Costa Rica, Czech Republic, Denmark, France, Germany, Greece, Hong Kong, Hungary, India, Italy, Japan, Macau, Malaysia, Mexico, the Netherlands, New Zealand, Peru, Poland, Portugal, Puerto Rico, South Korea, Spain, Switzerland, Taiwan, Turkey, the United Kingdom, and Venezuela, which are leased (with the exception of office and warehouse space in Chile and certain warehouse space in France that is owned by Mattel) and used by the International segment. Mattel also has leased retail and related office space and principal manufacturing facilities in China.

For leases that are scheduled to expire during the next twelve months, Mattel may negotiate new lease agreements, renew existing lease agreements, or utilize alternate facilities. See Item 8 Financial Statements and Supplementary Data Note 14 to the Consolidated Financial Statements Commitments and Contingencies. Mattel believes that its owned and leased facilities, in general, are suitable and adequate for its present and currently foreseeable needs.

Item 3. Legal Proceedings.

See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Litigation and Item 8 Financial Statements and Supplementary Data Note 14 to the Consolidated Financial Statements Commitments and Contingencies.

Table of Contents

PART II

Item 5. Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

For information regarding the markets in which Mattel s common stock, par value $1.00 per share, is traded, see the cover page hereof. For information regarding the high and low closing prices of Mattel s common stock for the last two calendar years, see Item 8 Financial Statements and Supplementary Data Note 17 to the Consolidated Financial Statements Quarterly Financial Information.

Holders of Record

As of February 17, 2011, Mattel had approximately 35,000 holders of record of its common stock.

Dividends

In 2010, 2009, and 2008, Mattel paid a dividend per share of $0.83, $0.75, and $0.75 to holders of its common stock, respectively. The Board of Directors declared the dividends in November, and Mattel paid the dividends in December of each year. The payment of dividends on common stock is at the discretion of the Board of Directors and is subject to customary limitations.

Recent Sales of Unregistered Securities

During the fourth quarter of 2010, Mattel did not sell any unregistered securities.

Issuer Purchases of Equity Securities

During 2010, Mattel repurchased 18.6 million shares of its common stock at a cost of $446.7 million. During 2009, Mattel did not repurchase any shares of its common stock. During 2008, Mattel repurchased 4.9 million shares of its common stock at a cost of $90.6 million. During both 2010 and 2008, the Board of Directors authorized Mattel to increase its share repurchase program by $500.0 million. At December 31, 2010, share repurchase authorizations of $463.6 million had not been executed. Repurchases will take place from time to time, depending on market conditions. Mattel s share repurchase program has no expiration date.

Table of Contents

This table provides certain information with respect to Mattel s purchases of its common stock during the fourth quarter of 2010:

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
October 1 31				
Repurchase program (1)	734,900	$ 22.81	734,900	$ 240,960,064
Employee transactions (2)	394	23.37	N/A	N/A
November 1 30				
Repurchase program (1)	9,032,370	25.44	9,032,370	511,216,559
Employee transactions (2)	8,398	25.08	N/A	N/A
December 1 31				
Repurchase program (1)	1,847,252	25.77	1,847,252	463,621,007
Employee transactions (2)	545	25.43	N/A	N/A
Total				
Repurchase program (1)	11,614,522	$ 25.32	11,614,522	$ 463,621,007
Employee transactions (2)	9,337	25.03	N/A	N/A

(1) In November 2010, Mattel s Board of Directors authorized a $500.0 million increase to Mattel s repurchase program. 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.

Table of Contents

Performance Graph

The following graph compares the performance of Mattel common stock with that of the S&P 500 Index and the S&P 500 Consumer Staples Index. The Cumulative Total Return listed below assumes an initial investment of $100 on December 31, 2005 and reinvestment of dividends.

Comparison of Five Year Cumulative Total Return

Mattel, Inc., S&P 500, and S&P 500 Consumer Staples Index

Cumulative Total Return	2006	2007	2008	2009	2010
Mattel, Inc.	$ 147.35	$ 128.68	$ 113.21	$ 146.67	$ 192.77
S&P 500	115.61	121.95	77.38	97.44	111.89
S&P 500 Consumer Staples	114.39	130.59	110.72	126.70	144.25

Table of Contents

Item 6. Selected Financial Data.

	For the Year Ended December 31,				
	2010	2009	2008	2007	2006
	(In thousands, except per share and percentage information)				
Operating Results:					
Net sales	$ 5,856,195	$ 5,430,846	$ 5,918,002	$ 5,970,090	$ 5,650,156
Gross profit	2,954,973	2,714,697	2,684,406	2,777,300	2,611,793
% of net sales	50.5%	50.0%	45.4%	46.5%	46.2%
Operating income	901,902	731,168	541,792	730,078	728,818
% of net sales	15.4%	13.5%	9.2%	12.2%	12.9%
Income before income taxes	846,825	660,047	487,964	703,398	683,756
Provision for income taxes (a)	161,962	131,343	108,328	103,405	90,829
Net income	$ 684,863	$ 528,704	$ 379,636	$ 599,993	$ 592,927
Net income per common share basic	$ 1.88	$ 1.45	$ 1.04	$ 1.55	$ 1.54
Net income per common share diluted	$ 1.86	$ 1.45	$ 1.04	$ 1.53	$ 1.53
Dividends declared per common share	$ 0.83	$ 0.75	$ 0.75	$ 0.75	$ 0.65

	December 31,				
	2010	2009	2008	2007	2006
	(In thousands)				
Financial Position:					
Total assets	$ 5,417,733	$ 4,780,555	$ 4,675,039	$ 4,805,455	$ 4,955,884
Noncurrent liabilities	1,438,867	1,188,692	1,297,930	928,284	940,390
Stockholders equity	2,628,584	2,530,989	2,117,135	2,306,742	2,432,974

(a) The provision for income taxes in 2010 was positively impacted by net tax benefits of $16.8 million, primarily related to the release of a valuation allowance related to the anticipated utilization of excess foreign tax credit carryforwards, reassessments of prior years tax liabilities based on the status of current audits and tax filings in various jurisdictions around the world, settlements, and enacted tax law changes, partially offset by the incremental tax cost to repatriate earnings from certain foreign subsidiaries for which income taxes had not been previously provided. The provision for income taxes in 2009 was positively impacted by net tax benefits of $28.8 million related to reassessments of prior years tax liabilities based on the status of audits in various jurisdictions around the world, settlements, and enacted tax law changes. The provision for income taxes in 2007 was positively impacted by net tax benefits of $42.0 million related to reassessments of prior years tax liabilities based on the status of audits in various jurisdictions around the world, including settlements, partially offset by enacted tax law changes. The provision for income taxes in 2006 was positively impacted by the Tax Increase Prevention and Reconciliation Act passed in May 2006, and tax benefits of $63.0 million related to tax settlements and refunds as a result of ongoing audits with foreign and state tax authorities.

Table of Contents

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the consolidated financial statements and the related notes. See Item 8 Financial Statements and Supplementary Data.

Overview

Mattel s objective is to continue to create long-term stockholder value by generating strong cash flow and deploying it in a disciplined and opportunistic manner as outlined in Mattel s capital and investment framework. To achieve this objective, management has established three overarching strategies.

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

The second strategy is to build on the progress it has made on improving operating margins through at least sustaining the gross margins and delivering another round of cost savings.

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

2010 Overview

Mattel s focus for 2010 was to build on its progress towards its long-term profitability goals, in light of what it expected to be a challenging cost environment and a continuation of a difficult economic environment. The three main objectives in achieving these goals included capitalizing on opportunities to increase revenues by continuing core brand performance, while maximizing the opportunities surrounding its new Entertainment properties, maintaining cost and expense controls, and delivering another strong year of profits and cash flow. In 2010, Mattel delivered strong financial results with solid revenue growth across its portfolio of brands and markets. Mattel sustained gross margin at its long-term target of approximately 50%. Mattel also successfully completed its Global Cost Leadership program, all of which resulted in an operating margin of 15.4%, which, for the first time in several years, is within its long-term goal range of 15% to 20%. In addition, Mattel generated significant cash flow, which it deployed to create value for its stockholders. More specifically:

- Net sales increased 8%, from $5.43 billion in 2009 to $5.86 billion in 2010.

- Gross profit, as a percentage of net sales, increased from 50.0% in 2009 to 50.5% in 2010, primarily due to effective pricing and net cost savings related to Mattel s Global Cost Leadership program, partially offset by higher royalty expense as a result of increased sales of products tied to licensed properties.

- Mattel s Global Cost Leadership program generated year-over-year incremental gross costs savings before severance charges of approximately $61 million during 2010 (or approximately $48 million net of 2010 severance charges of approximately $13 million), for cumulative gross cost savings before severance charges of approximately $225 million.

- Operating income increased from $731.2 million in 2009 to $901.9 million in 2010, primarily due to higher sales volume and higher gross profit, partially offset by higher advertising and promotion expenses and higher other selling and administrative expenses.

- Mattel increased its annual dividend to $0.83 per share, an increase of 11% from the prior year, and repurchased 18.6 million shares of its common stock.

Table of Contents

2011 and Beyond

Mattel s global strategic priorities for 2011 and beyond are to deliver consistent growth by continuing the momentum in its core brands, optimizing its entertainment partnerships, building new franchises, and working to expand and leverage its international footprint. Mattel aims to build on the progress it has made on improving operating margins through sustaining gross margins of at least 50% and delivering another round of cost savings, which includes targeting an additional cumulative cost savings of approximately $150 million to be achieved by the end of 2012. The additional cost savings are expected to include approximately $75 million in legal costs, which will reduce other selling and administrative expenses, and approximately $75 million of cost savings, which will be reflected in gross profit, advertising and promotion expenses, and other selling and administrative expenses, from the launch of the next phase of the Global Cost Leadership program. Mattel also expects to generate significant cash flow and continue its disciplined, opportunistic, and value enhancing deployment of its cash.

Results of Operations

2010 Compared to 2009

Consolidated Results

Net sales for 2010 were $5.86 billion, an 8% increase, as compared to $5.43 billion in 2009, including unfavorable changes in currency exchange rates of 2 percentage points. Net income for 2010 was $684.9 million, or $1.86 per diluted share, as compared to net income of $528.7 million, or $1.45 per diluted share, in 2009. As compared to 2009, net income for 2010 was positively impacted by higher net sales, higher gross profit, and a lower effective tax rate, partially offset by higher advertising and promotion expenses, higher other selling and administrative expenses, and unfavorable changes in foreign exchange rates.

Gross profit as a percentage of net sales increased to 50.5% in 2010 from 50.0% in 2009. The increase in gross profit as a percentage of net sales was primarily due to effective pricing and net cost savings related to the Global Cost Leadership program, partially offset by higher royalty expense as a result of increased sales of products tied to licensed properties.

The following table provides a summary of Mattel s consolidated results for 2010 and 2009 (in millions, except percentage and basis point information):

	For the Year					
	2010		2009		Year/Year Change	
	Amount	% of Net Sales	Amount	% of Net Sales	%	Basis Points of Net Sales
Net sales	$ 5,856.2	100.0%	$ 5,430.8	100.0%	8%	
Gross profit	$ 2,955.0	50.5%	$ 2,714.7	50.0%	9%	50
Advertising and promotion expenses	647.3	11.1	609.8	11.2	6%	(10)
Other selling and administrative expenses	1,405.8	24.0	1,373.7	25.3	2%	(130)
Operating income	901.9	15.4	731.2	13.5	23%	190
Interest expense	64.8	1.1	71.8	1.3	10%	(20)
Interest (income)	(8.4)	0.1	(8.1)	0.1	4%	
Other non-operating (income) expense, net	(1.3)		7.5			
Income before income taxes	$ 846.8	14.5%	$ 660.0	12.2%	28%	230

Sales

Net sales for 2010 were $5.86 billion, an 8% increase, as compared to $5.43 billion in 2009, including unfavorable changes in currency exchange rates of 2 percentage points. Gross sales within the US increased 9% in 2010, and accounted for 54% of consolidated gross sales in 2010 and 2009. Gross sales in international markets increased 6% in 2010, including unfavorable changes in currency exchange rates of 4 percentage points.

Table of Contents

Worldwide gross sales of Mattel Girls & Boys Brands increased 11% to $3.66 billion in 2010, including unfavorable changes in currency exchange rates of 3 percentage points. Domestic gross sales of Mattel Girls & Boys Brands increased 16% and international gross sales increased 8%, including unfavorable changes in currency exchange rates of 4 percentage points. Worldwide gross sales of Barbie® increased 7%, including unfavorable changes in currency exchange rates of 2 percentage points. Domestic gross sales of Barbie® increased 14% and international gross sales increased 2%, including unfavorable changes in currency exchange rates of 5 percentage points. Worldwide gross sales of Other Girls Brands increased 16%, including unfavorable changes in currency exchange rates of 2 percentage points, driven primarily by increased sales of Disney Princess products and the launch of Monster High®. Worldwide gross sales of Wheels products decreased 2%, including unfavorable changes in currency exchange rates of 1 percentage point, driven primarily by decreased sales of Tyco R/C® products and other Wheels products that did not continue into 2010, partially offset by increased sales of Hot Wheels® products. Worldwide gross sales of Hot Wheels® increased 3%, including unfavorable changes in currency exchange rates of 1 percentage point. Worldwide gross sales of Entertainment products increased 27%, including unfavorable changes in currency exchange rates of 4 percentage points, driven primarily by increased sales of Toy Story® 3, WWE® Wrestling, and Radica® products.

Worldwide gross sales of Fisher-Price Brands increased 2% to $2.22 billion in 2010, including unfavorable changes in currency exchange rates of 2 percentage points. Domestic gross sales of Fisher-Price Brands increased 3% and international gross sales increased 1%, including unfavorable changes in currency exchange rates of 4 percentage points. Worldwide gross sales of Core Fisher-Price® decreased 3%, including unfavorable changes in currency exchange rates of 2 percentage points. Domestic gross sales of Core Fisher-Price® decreased 2% and international gross sales decreased 3%, including unfavorable changes in currency exchange rates of 3 percentage points. Worldwide gross sales of Fisher-Price® Friends increased 24%, including unfavorable changes in currency exchange rates of 2 percentage points, driven primarily by sales of products supporting the Thomas and Friends® property and the launch of Sing-a-ma-jigs, partially offset by decreased sales of Sesame Street® and certain smaller licensed properties products. Domestic gross sales of Fisher-Price® Friends increased 29% and international gross sales increased 17%, including unfavorable changes in currency exchange rates of 6 percentage points.

American Girl Brands gross sales increased 5% to $486.6 million in 2010, driven primarily by sales of Lanie®, the 2010 Girl of the Year® doll, and Felicity® dolls, the benefit of two new American Girl® stores in Lone Tree, Colorado and Overland Park, Kansas, and the launch of the American Girl® virtual world.

Cost of Sales

Cost of sales as a percentage of net sales was 49.5% in 2010, as compared to 50.0% in 2009. Cost of sales increased by $185.1 million, or 7%, from $2.72 billion in 2009 to $2.90 billion in 2010, as compared to an 8% increase in net sales. Within cost of sales, freight and logistics expenses increased by $17.8 million, or 6%, from $295.9 million in 2009 to $313.7 million in 2010; royalty expense increased $57.4 million, or 30%, from $188.5 million in 2009 to $245.9 million in 2010; and other product costs increased by $109.9 million, or 5%, from $2.23 billion in 2009 to $2.34 billion in 2010

Gross Profit

Gross profit as a percentage of net sales increased from 50.0% in 2009 to 50.5% in 2010, driven primarily by effective pricing and net cost savings related to the Global Cost Leadership program, partially offset by higher royalty expense as a result of increased sales of products tied to licensed properties.

Advertising and Promotion Expenses

Advertising and promotion expenses decreased to 11.1% of net sales in 2010, as compared to 11.2% of net sales in 2009.

Table of Contents

Other Selling and Administrative Expenses

Other selling and administrative expenses were $1.41 billion in 2010, or 24.0% of net sales, as compared to $1.37 billion in 2009, or 25.3% of net sales. The dollar increase in other selling and administrative expenses primarily reflects higher employee-related costs, information technology and other infrastructure investments, and higher net legal and recall-related litigation costs of approximately $5 million, partially offset by savings related to the Global Cost Leadership program of approximately $20 million, lower bad debt expense, and lower severance charges. The increase in employee-related costs includes approximately $17 million in incremental share-based compensation expense, approximately $10 million in incremental annual incentive costs, and approximately $16 million related to annual merit increases that began during the second quarter of 2010.

Non-Operating Items

Interest expense was $64.8 million in 2010, as compared to $71.8 million in 2009, driven primarily by lower average borrowings, lower average interest rates, and the absence of domestic receivables factoring in 2010, partially offset by interest expense associated with the $500 million of senior notes issued in 2010. Interest income increased from $8.1 million in 2009 to $8.4 million in 2010, driven primarily by higher average invested cash balances, partially offset by lower average interest rates. Other non-operating income was $1.3 million in 2010, as compared to other non-operating expense of $7.4 million in 2009, driven primarily by other investment gains and lower foreign currency exchange losses.

Provision for Income Taxes

Mattel s effective tax rate on income before income taxes in 2010 was 19.1%, as compared to 19.9% in 2009. The 2010 income tax provision includes net tax benefits of $16.8 million, primarily related to the release of a valuation allowance related to the anticipated utilization of excess foreign tax credit carryforwards, reassessments of prior years tax liabilities based on the status of current audits and tax filings in various jurisdictions around the world, settlements, and enacted tax law changes, partially offset by the incremental tax cost to repatriate earnings from certain foreign subsidiaries for which income taxes had not been previously provided. The 2009 income tax provision includes net tax benefits of $28.8 million related to reassessments of prior years tax liabilities based on the status of audits in various jurisdictions around the world, settlements, and enacted law changes.

Operating Segment Results

Mattel s operating 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. Operating segment results should be read in conjunction with Item 8 Financial Statements and Supplementary Data Note 15 to the Consolidated Financial Statements Segment Information.

Domestic Segment

Mattel Girls & Boys Brands US gross sales were $1.63 billion in 2010, up $224.2 million or 16%, as compared to $1.40 billion in 2009. Within this segment, gross sales of Barbie® increased 14% and gross sales of Other Girls Brands increased 26%, driven primarily by increased sales of Disney Princess products and the launch of Monster High®. Gross sales of Wheels products decreased 4%, driven primarily by decreased sales of Tyco R/C®, other Wheels products that did not continue into 2010, and Hot Wheels® products. Gross sales of Hot Wheels® products decreased 1%. Gross sales of Entertainment products increased 33%, driven primarily by increased sales of Toy Story® 3, WWE® Wrestling, and Radica® products. Mattel Girls & Boys Brands US segment income increased 40% to $409.4 million in 2010 from $293.4 million in 2009, driven primarily by higher sales volume and higher gross margins, partially offset by higher advertising and promotion expenses.

Table of Contents

Fisher-Price Brands US gross sales were $1.35 billion in 2010, up $42.0 million or 3%, as compared to $1.31 billion in 2009. Within this segment, gross sales of Core Fisher-Price® products decreased 2% and gross sales of Fisher-Price® Friends products increased 29%, driven primarily by sales of products supporting the Thomas and Friends® property and the launch of Sing-a-ma-jigs, partially offset by decreased sales of Sesame Street® and certain smaller licensed properties products. Fisher-Price Brands US segment income decreased 4% to $222.0 million in 2010 from $231.9 million in 2009, driven primarily by lower gross margins, partially offset by lower other selling and administrative expenses.

American Girl Brands gross sales were $486.6 million in 2010, up $23.7 million or 5%, as compared to $462.9 million in 2009, driven primarily by sales of Lanie®, the 2010 Girl of the Year® doll, and Felicity® dolls, the benefit of two new American Girl® stores in Lone Tree, Colorado and Overland Park, Kansas, and the launch of the American Girl® virtual world. American Girl Brands segment operating income increased 9% to $112.9 million in 2010 from $103.4 million in 2009, driven primarily by higher sales volume and higher gross margins, partially offset by higher advertising and promotion expenses and higher other selling and administrative expenses.

International Segment

The following table provides a summary of percentage changes in gross sales within the International segment in 2010 versus 2009:

Non-US Regions:	% Change in Gross Sales	Impact of Change in Currency Rates (in % pts)
Total International	6	4
Europe	5	4
Latin America	1	8
Asia Pacific	23	7
Other	15	6

International gross sales were $2.92 billion in 2010, up $162.5 million or 6%, as compared to $2.76 billion in 2009, including unfavorable changes in currency exchange rates of 4 percentage points. Gross sales of Mattel Girls & Boys Brands increased 8%, including unfavorable change in currency exchange rates of 4 percentage points. Gross sales of Barbie® increased 2%, including unfavorable changes in currency exchange rates of 5 percentage points. Gross sales of Other Girls Brands increased 8%, including unfavorable changes in currency exchange rates of 4 percentage points, driven primarily by increased sales of Disney Princess products and the launch of Monster High®. Gross sales of Wheels remained flat in 2010, as compared to 2009, including unfavorable changes in currency exchange rates of 2 percentage points, driven primarily by increased sales of Hot Wheels® products, partially offset by decreased sales of Tyco R/C® products and other Wheels products that did not continue into 2010. Gross Sales of Hot Wheels® products increased 6%, including unfavorable changes in currency exchange rates of 2 percentage points. Gross sales of Entertainment products increased by 22%, including unfavorable changes in currency exchange rates of 7 percentage points, driven primarily by increased sales of Toy Story® 3 and WWE® Wrestling products. Fisher-Price Brands gross sales increased 1%, including unfavorable changes in currency exchange rates of 4 percentage points. Gross sales of Core Fisher-Price® products decreased 3%, including unfavorable change in currency exchange rates of 3 percentage points and gross sales of Fisher-Price® Friends products increased 17%, including unfavorable changes in currency exchange rates of 6 percentage points, driven primarily by sales of products supporting the Thomas and Friends® property and the launch of Sing-a-ma-jigs, partially offset by decreased sales of Sesame Street® and certain smaller licensed properties products. International segment income increased 26% to $531.0 million in 2010 from $422.5 million in 2009, driven primarily by higher sales volume and higher gross margins, partially offset by higher advertising and promotion expenses.

Table of Contents

2009 Compared to 2008

Consolidated Results

Net sales for 2009 were $5.43 billion, an 8% decrease as compared to $5.92 billion in 2008, including unfavorable changes in currency exchange rates of 2 percentage points. Net income for 2009 was $528.7 million, or $1.45 per diluted share as compared to net income of $379.6 million, or $1.04 per diluted share, for 2008. Net income for 2009 was positively impacted by net tax benefits of $28.8 million related to reassessments of prior years tax liabilities based on the status of audits in various jurisdictions around the world, settlements, and enacted tax law changes.

Gross profit as a percentage of net sales increased to 50.0% in 2009 from 45.4% in 2008. The increase in gross profit as a percentage of net sales was primarily due to price increases and net cost savings related to the Global Cost Leadership program, partially offset by unfavorable changes in foreign exchange rates.

Income before income taxes as a percentage of net sales increased to 12.2% in 2009 from 8.2% in 2008. Contributing to this increase were higher gross profit and lower advertising and promotion expenses, partially offset by higher other selling and administrative expenses.

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

	For the Year					
	2009		2008		Year/Year Change	
	Amount	% of Net Sales	Amount	% of Net Sales	%	Basis Points of Net Sales
Net sales	$ 5,430.8	100.0%	$ 5,918.0	100.0%	8%	
Gross profit	$ 2,714.7	50.0%	$ 2,684.4	45.4%	1%	460
Advertising and promotion expenses	609.8	11.2	719.2	12.2	15%	(100)
Other selling and administrative expenses	1,373.7	25.3	1,423.4	24.1	3%	120
Operating income	731.2	13.5	541.8	9.2	35%	430
Interest expense	71.8	1.3	81.9	1.4	12%	(10)
Interest (income)	(8.1)	0.1	(25.0)	0.4	68%	30
Other non-operating expense (income), net	7.5		(3.1)			
Income before income taxes	$ 660.0	12.2%	$ 488.0	8.2%	35%	400

Sales

Net sales for 2009 were $5.43 billion, an 8% decrease as compared to $5.92 billion in 2008, including unfavorable changes in currency exchange rates of 2 percentage points. Gross sales within the US decreased 4% from 2008, and accounted for 54% and 51% of consolidated gross sales in 2009 and 2008, respectively. Gross sales in international markets decreased 13% in 2009, including unfavorable changes in currency exchange rates of 4 percentage points.

Worldwide gross sales of Mattel Girls & Boys Brands decreased 10% to $3.29 billion in 2009 as compared to 2008, including unfavorable changes in currency exchange rates of 3 percentage points. Domestic gross sales of Mattel Girls & Boys Brands decreased 2% and international gross sales of Mattel Girls & Boys Brands decreased 15%, including unfavorable changes in currency exchange rates of 4 percentage points. Worldwide gross sales of Barbie® decreased 3%, including unfavorable changes in currency exchange rates of 3 percentage points. Domestic gross sales of Barbie® increased 4% and international gross sales of Barbie® decreased 6%, including unfavorable changes in currency exchange rates of 4 percentage points. Worldwide gross sales of Other Girls Brands decreased 20%, including unfavorable changes in currency exchange rates of 2 percentage points, 30

driven primarily by decreased sales of High School Musical® products. Worldwide gross sales of Wheels products decreased 7%, including unfavorable changes in currency exchange rates of 3 percentage points, driven primarily by decreased sales of Speed Racer® and Tyco R/C® products, partially offset by increased sales of Core Hot Wheels® and Matchbox® products. Worldwide gross sales of Entertainment products decreased by 14%, including unfavorable changes in currency exchange rates of 2 percentage points, driven primarily by decreased sales of Radica® products and products tied to last year s three key summer movie properties: Batman®, Speed Racer®, and Kung Fu Panda®, partially offset by sales of products tied to Toy Story® and Toy Story® 2 and increased sales of CARS products domestically.

Worldwide gross sales of Fisher-Price Brands decreased 8% to $2.17 billion in 2009 as compared to 2008, including unfavorable changes in currency exchange rates of 1 percentage point. Domestic gross sales of Fisher-Price Brands decreased 8% and international gross sales decreased 9%, including unfavorable changes in currency exchange rates of 4 percentage points. Worldwide gross sales of Core Fisher-Price® decreased 6%, including unfavorable changes in currency exchange rates of 1 percentage point. Domestic gross sales of Core Fisher-Price® decreased 4% and international gross sales decreased 9%, including unfavorable changes in currency exchange rates of 4 percentage points. Worldwide gross sales of Fisher-Price® Friends decreased 13%, with no impact from changes in currency exchange rates. Domestic gross sales of Fisher-Price® Friends decreased 18% and international gross sales decreased 5%, with no impact from changes in currency exchange rates.

American Girl Brands gross sales were flat during 2009 as compared to 2008, driven primarily by the November 2008 openings of the American Girl® stores in Natick, Massachusetts and Bloomington, Minnesota, offset by softness resulting primarily from a difficult comparison to strong entertainment-related sales in 2008.

Cost of Sales

Cost of sales decreased by $517.4 million, or 16%, from $3.23 billion in 2008 to $2.72 billion in 2009 as compared to an 8% decrease in net sales. On an overall basis, cost of sales decreased from 2008 primarily due to lower sales volume, cost savings from Mattel s Global Cost Leadership program, and lower input costs. Within cost of sales, freight and logistics expenses decreased by $98.2 million, or 25%, which included net cost savings from the Global Cost Leadership program, from $394.1 million in 2008 to $295.9 million in 2009; royalty expense decreased $52.7 million, or 22%, from $241.2 million in 2008 to $188.5 million in 2009; and other product costs decreased by $366.5 million, or 14%, from $2.60 billion in 2008 to $2.23 billion in 2009.

Gross Profit

Gross profit as a percentage of net sales increased from 45.4% in 2008 to 50.0% in 2009. The increase in gross profit as a percentage of net sales was primarily driven by price increases and net cost savings related to the Global Cost Leadership program, partially offset by unfavorable changes in currency exchange rates.

Advertising and Promotion Expenses

Advertising and promotion expenses decreased to 11.2% of net sales in 2009, from 12.2% of net sales in 2008, due primarily to lower than expected sales volume in 2008 and savings of approximately $14 million related to Mattel s Global Cost Leadership program.

Other Selling and Administrative Expenses

Other selling and administrative expenses were $1.37 billion in 2009, or 25.3% of net sales in 2009 as compared to $1.42 billion in 2008, or 24.1% of net sales. The dollar decrease in other selling and administrative expenses was primarily due to incremental year-over-year savings related to the Global Cost Leadership program (approximately $88 million in gross savings along with approximately $3 million of lower severance in 2009),

Table of Contents

the impact of foreign currency exchange benefits, and lower litigation and legal settlement-related costs of approximately $27 million, partially offset by higher incentive compensation expense of approximately $81 million and higher equity compensation expense of approximately $14 million.

Non-Operating Items

Interest expense was $71.8 million in 2009 as compared to $81.9 million in 2008, due primarily to lower average borrowings and lower average interest rates. Interest income decreased from $25.0 million in 2008 to $8.1 million in 2009 due to lower average interest rates on lower average cash balances. Other non-operating expense was $7.4 million in 2009 as compared to other non-operating income of $3.1 million in 2008. The change in other non-operating income/expense relates primarily to foreign currency exchange gains and losses, largely caused by revaluations of US dollar cash balances held by Mattel s Venezuelan subsidiary.

Provision for Income Taxes

Mattel s effective tax rate on income before income taxes in 2009 was 19.9% as compared to 22.2% in 2008. The 2009 income tax provision includes net tax benefits of $28.8 million related to reassessments of prior years tax liabilities based on the status of audits in various jurisdictions around the world, settlements, and enacted law changes.

Operating Segment Results

Mattel s operating 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. Operating segment results should be read in conjunction with Item 8 Financial Statements and Supplementary Data Note 15 to the Consolidated Financial Statements Segment Information.

Domestic Segment

Mattel Girls & Boys Brands US gross sales decreased 2% in 2009 as compared to 2008. Within this segment, gross sales of Barbie® increased 4% and gross sales of Other Girls Brands decreased 11%, driven primarily by decreased sales of High School Musical® products. Gross sales of Wheels products increased 1%, driven primarily by increased sales of Core Hot Wheels® and Matchbox® products, partially offset by decreased sales of Speed Racer® and Tyco R/C® products. Gross sales of Entertainment products decreased 7%, driven primarily by decreased sales of Radica® products and products tied to last year s three key summer movie properties: Batman®, Speed Racer®, and Kung Fu Panda®, partially offset by sales of products tied to Toy Story® and Toy Story® 2 and increased sales of CARS products. Mattel Girls & Boys Brands US segment income increased 85% to $293.4 million in 2009 from $158.2 million in 2008, primarily driven by higher gross profit and lower other selling and administrative expenses.

Fisher-Price Brands US gross sales decreased 8% in 2009 as compared to 2008. Within this segment, gross sales of Core Fisher-Price® products decreased 4% and gross sales of Fisher-Price® Friends products decreased 18%. Fisher-Price Brands US segment income increased 44% to $231.9 million in 2009 from $161.0 million in 2008, driven primarily by higher gross profit, lower other selling and administrative expenses, and lower advertising and promotion expenses, partially offset by lower sales volume.

American Girl Brands gross sales were flat during 2009 as compared to 2008, driven primarily by the November 2008 openings of the American Girl® stores in Natick, Massachusetts and Bloomington, Minnesota offset by softness resulting primarily from a difficult comparison to strong entertainment-related sales in 2008. American Girl Brands segment operating income increased 19% to $103.4 million in 2009 from $86.6 million in 2008, driven primarily by higher gross profit, lower other selling and administrative expenses, and lower advertising and promotion expenses.

Table of Contents

International Segment

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

Non-US Regions:	% Change in Gross Sales	Impact of Change in Currency Rates (in % pts)
Total International	13	4
Europe	15	4
Latin America	12	6
Asia Pacific	7	2
Other	11	1

International gross sales decreased 13% in 2009 as compared to 2008, including unfavorable changes in currency exchange rates of 4 percentage points. Gross sales of Mattel Girls & Boys Brands decreased 15%, including unfavorable change in currency exchange rates of 4 percentage points. Gross sales of Barbie® decreased 6%, including unfavorable changes in currency exchange rates of 4 percentage points. Gross sales of Other Girls Brands decreased 26%, including unfavorable changes in currency exchange rates of 3 percentage points, driven primarily by decreased sales of High School Musical® products. Gross sales of Wheels products decreased 13%, including unfavorable changes in currency exchange rates of 5 percentage points driven primarily by decreased sales of Speed Racer® and Tyco R/C® products. Gross sales of Entertainment products decreased by 19%, including unfavorable changes in currency exchange rates of 4 percentage points, driven primarily by decreased sales of products tied to last year s three key summer movie properties: Batman®, Speed Racer®, and Kung Fu Panda®, along with CARS products, and Radica® products, partially offset by sales of products tied to Toy Story® and Toy Story® 2. Fisher-Price Brands gross sales decreased 9%, including unfavorable changes in currency exchange rates of 4 percentage points. Gross sales of Core Fisher-Price® products decreased 9%, including unfavorable change in currency exchange rates of 4 percentage points and gross sales of Fisher-Price® Friends products decreased 5%, with no impact from changes in currency exchange rates. International segment income increased 18% to $422.5 million in 2009 from $357.6 million in 2008, driven primarily by higher gross margin, lower advertising and promotion expenses, and lower other selling and administrative expenses, partially offset by lower sales volume.

Global Cost Leadership Program

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

- A global reduction in Mattel s professional workforce of approximately 1,000 employees that was initiated in November 2008, which resulted in severance and other termination-related charges of approximately $34 million, and an additional reduction in Mattel s professional workforce initiated in the third quarter of 2009, which resulted in severance and other termination-related charges of approximately $32 million.

- 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 additional clustering of management in international markets.

- 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.

Mattel s Global Cost Leadership program was intended 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

Table of Contents

savings by the end of 2010. Mattel exceeded its 2009 goal by realizing approximately $164 million of gross cost savings before severance charges of approximately $32 million (or approximately $132 million in net cost savings). Of the gross cost savings realized in 2009, approximately $88 million was reflected within other selling and administrative expenses, approximately $62 million within gross profit, and approximately $14 million within advertising and promotion expenses.

In addition, Mattel exceeded its 2010 goal by realizing approximately $61 million of year-over-year incremental gross cost savings before severance charges of approximately $13 million (or approximately $48 million in net cost savings), for cumulative gross cost savings before severance charges of approximately $225 million. Of the gross cost savings realized in 2010, approximately $27 million was reflected within gross profit, approximately $20 million within other selling and administrative expenses, and approximately $14 million within advertising and promotion expenses.

Mattel will continue its focus on margin and efficiency sustainability by targeting additional cumulative cost savings of approximately $150 million to be achieved by the end of 2012, which is expected to include cost savings of approximately $75 million in legal costs, which will reduce other selling and administrative expenses, and approximately $75 million of cost savings, which will be reflected in gross profit, advertising and promotion expenses, and other selling and administrative expenses, from the launch of the next phase of the Global Cost Leadership program. Mattel will evaluate its operations for opportunities to identify work streams in which the company can work together better across geographies, functions, and brands, to leverage its scale more effectively and efficiently. Mattel is focused on identifying smart solutions and sustainable cost savings. Mattel expects cost savings from streamlining the more complex work stream initiatives to be back-end loaded and to require near-term investments, and that its legal costs reflect the fact that Mattel is currently in trial. Mattel expects to realize the majority of the $150 million savings goal in 2012.

Income Taxes

Mattel s effective tax rate on income before income taxes in 2010 was 19.1%, as compared to 19.9% in 2009. The 2010 income tax provision includes net tax benefits of $16.8 million, primarily related to the release of a valuation allowance related to the anticipated utilization of excess foreign tax credit carryforwards, reassessments of prior years tax liabilities based on the status of current audits and tax filings in various jurisdictions around the world, settlements, and enacted tax law changes, partially offset by the incremental tax cost to repatriate earnings from certain foreign subsidiaries for which income taxes had not been previously provided.

Mattel s effective tax rate on income before income taxes in 2009 was 19.9%, as compared to 22.2% in 2008. The 2009 income tax provision includes net tax benefits of $28.8 million related to reassessments of prior years tax liabilities based on the status of audits in various jurisdictions around the world, settlements, and enacted tax law changes.

Liquidity and Capital Resources

Mattel s primary sources of liquidity are its cash and equivalents balances, access to short-term borrowing facilities, including its $1.08 billion domestic unsecured committed revolving credit facility, and issuances of long-term debt securities. Cash flows from operating activities could be negatively impacted by decreased demand for Mattel s products, which could result from factors such as adverse economic conditions and changes in public and consumer preferences, or by increased costs associated with manufacturing and distribution of products or shortages in raw materials or component parts. Additionally, Mattel s ability to issue long-term debt and obtain seasonal financing could be adversely affected by factors such as a global economic crisis that creates a tight credit environment, an inability to meet its debt covenant requirements, which include maintaining consolidated debt-to-earnings before interest, taxes, depreciation, and amortization (EBITDA) and interest coverage ratios, or a deterioration of Mattel s credit ratings. Mattel s ability to conduct its operations could be negatively impacted should these or other adverse conditions affect its primary sources of liquidity.

Table of Contents

Current Market Conditions

Mattel is exposed to financial market risk resulting from changes in interest and foreign currency rates. Mattel believes that it has ample liquidity to fund its business needs, including beginning of the year cash and equivalents, cash flows from operations, and access to its $1.08 billion domestic unsecured committed revolving credit facility, which it uses for seasonal working capital requirements. As of December 31, 2010, Mattel had available incremental borrowing resources totaling $1.08 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 risks. As of December 31, 2009 and 2008, Mattel had a money market investment fund with an original cost basis of approximately $85 million, which was classified within other assets as a result of the money market investment fund halting redemption requests during 2008. During 2010, Mattel reversed approximately $3 million of impairment charges recorded in 2009 and 2008, when Mattel recorded impairment charges of approximately $1 million and $4 million, respectively, associated with this investment. Mattel received cash proceeds of approximately $73 million in 2009 and $10 million in 2010 related to this investment, for total proceeds of approximately $83 million on Mattel s investment of approximately $85 million.

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

Mattel expects that some of its customers and vendors may experience difficulty in obtaining the liquidity required to buy inventory or raw materials. Mattel monitors its customers financial condition and their liquidity in order to mitigate Mattel s accounts receivable collectibility risks and customer terms and credit limits are adjusted, if necessary. Additionally, Mattel uses a variety of financial arrangements to ensure collectibility of accounts receivable of customers deemed to be a credit risk, including requiring letters of credit, factoring 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. Actual returns below the expected rate of return, along with changes in interest rates that affect the measurement of the liability, would impact the amount and timing of Mattel s future contributions to these plans.

Capital and Investment Framework

To guide future capital deployment decisions, with a goal of maximizing stockholder value, Mattel s Board of Directors 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 opportunistic acquisitions; and
- To return excess funds to stockholders through dividends and share repurchases.

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

Operating Activities

Cash flows generated from operating activities were $528.0 million during 2010, as compared to $945.0 million during 2009 and $436.3 million in 2008. The decrease in cash flows from operating activities in 2010 from 2009 was primarily due to the decision not to factor $300 million of domestic receivables in 2010, as well as growth in accounts receivable due to increased sales volume, and the rebuild of inventory to support point of sale momentum and customer service levels, partially offset by higher net income. The increase in cash flows from operating activities in 2009 from 2008 was primarily the result of higher profitability and lower working capital requirements, mainly due to lower levels of accounts receivable and inventories.

Investing Activities

Cash flows used for investing activities were $146.7 million during 2010, as compared to $33.5 million during 2009 and $311.7 million during 2008. The increase in cash flows used for investing activities in 2010 from 2009 was primarily due to lower proceeds received from the redemption of a money market investment fund, lower net proceeds received relating to settled foreign currency forward exchange contracts, and higher purchases of tools, dies, and molds and other property, plant, and equipment. The decrease in cash flows used for investing activities in 2009 from 2008 was primarily due to lower purchases of other property, plant, and equipment, an increase in other investments in 2008, of which the proceeds of the investments were received in 2009, and lower payments for businesses acquired.

Financing Activities

Cash flows used for financing activities were $224.8 million during 2010, as compared to $376.1 million during 2009 and $395.7 million during 2008. The decrease in cash flows used for financing activities in 2010 from 2009 primarily reflects net proceeds received from the $500.0 million issuance of senior notes in September 2010 and higher proceeds from the exercise of stock options, partially offset by higher share repurchases. The decrease in cash flows used for financing activities in 2009 from 2008 was primarily due to lower share repurchases, lower tax benefits from share-based payment arrangements, and higher proceeds from the exercise of stock options, partially offset by higher net payments of borrowings.

During both 2010 and 2008, the Board of Directors authorized Mattel to increase its share repurchase program by $500.0 million. During 2010, Mattel repurchased 18.6 million shares of its common stock at a cost of $446.7 million. During 2009, Mattel did not repurchase any shares of its common stock. During 2008, Mattel repurchased 4.9 million shares of its common stock at a cost of $90.6 million. At December 31, 2010, share repurchase authorizations of $463.6 million had not been executed. Repurchases will take place from time to time, depending on market conditions. Mattel s share repurchase program has no expiration date.

In 2010, 2009, and 2008, Mattel paid a dividend per share of $0.83, $0.75, and $0.75 to holders of its common stock, respectively. The Board of Directors declared the dividends in November and Mattel paid the dividends in December of each year. The dividend payments were $291.3 million, $271.4 million, and $268.9 million in 2010, 2009, and 2008, respectively.

Seasonal Financing

See Item 8 Financial Statements and Supplementary Data Note 7 to the Consolidated Financial Statements Seasonal Financing and Debt.

Table of Contents

Financial Position

Mattel s cash and equivalents were $1.28 billion at December 31, 2010, an increase of $164.1 million from 2009. The increase was primarily driven by net proceeds received from the $500.0 million issuance of senior notes in September 2010, the timing and amount of accounts payable and accrued liabilities payments, and proceeds received from the exercise of stock options. The increase was partially offset by seasonal increases in accounts receivable and inventory, $446.7 million of share repurchases, $291.3 million of dividend payments, and $136.7 million of purchases of tools, dies, and molds, and other property, plant, and equipment.

Accounts receivable increased $396.8 million from December 31, 2009 to $1.15 billion at December 31, 2010, driven primarily by the decision not to factor $300 million of domestic receivables in 2010, as well as increased sales volume.

Inventories increased $108.2 million from December 31, 2009 to $463.8 million at December 31, 2010, driven primarily by the rebuild of inventory to support point of sale momentum and improve customer service levels, as compared to a significant liquidation of inventories in 2009 due to economic uncertainty.

Accounts payable and accrued liabilities increased $79.9 million from December 31, 2009 to $1.05 billion at December 31, 2010, primarily due to the timing and amount of payments of accounts payable and various accrued liability balances, including advertising and royalty obligations.

At December 31, 2010 and 2009, Mattel s total short-term borrowings totaled $0 and $2.0 million, respectively. The current portion of long-term debt increased $200.0 million to $250.0 million at December 31, 2010, as compared to $50.0 million at December 31, 2009 due to the reclassification of $200.0 million of 2006 Senior Notes and $50.0 million of Medium-term notes from noncurrent to current, offset by $50.0 million of scheduled repayments of Medium-term notes in May and October 2010.

A summary of Mattel s capitalization is as follows:

	December 31,			
	2010		2009	
	(In millions, except percentage information)			
Medium-term notes	$ 100.0	2%	$ 150.0	4%
2006 Senior Notes			200.0	5
2008 Senior Notes	350.0	9	350.0	10
2010 Senior Notes	500.0	12		
Total noncurrent long-term debt	950.0	23	700.0	19
Other noncurrent liabilities	488.9	12	488.7	13
Stockholders equity	2,628.6	65	2,531.0	68
	$ 4,067.5	100%	$ 3,719.7	100%

Total noncurrent long-term debt increased $250.0 million at December 31, 2010, as compared to December 31, 2009, due primarily to the $500.0 million issuance of senior notes in September 2010, partially offset by the reclassification of $200.0 million of 2006 Senior Notes and $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.

Stockholders equity of $2.63 billion at December 31, 2010 increased $97.6 million from December 31, 2009, primarily as a result of net income, partially offset by share repurchases during 2010 and payment of the annual dividend on common stock in the fourth quarter of 2010.

Mattel s debt-to-capital ratio, including short-term borrowings and the current portion of long-term debt, increased to 31.3% at December 31, 2010 from 22.9% at December 31, 2009, due to the $500.0 million issuance

37

of senior notes in September 2010, partially offset by an increase in stockholders equity. Mattel s objective is to maintain a year-end debt-to-capital ratio of approximately 25%.

Off-Balance Sheet Arrangements

Mattel has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material.

Commitments

In the normal course of business, Mattel enters into debt agreements, contractual arrangements to obtain and protect Mattel s right to create and market certain products, and for future purchases of goods and services to ensure availability and timely delivery. These arrangements include commitments for future inventory and service purchases and royalty payments pursuant to licensing agreements. Certain of these commitments routinely contain provisions for guarantees or minimum expenditures during the term of the contracts.

	Total	2011	2012	2013	2014	2015	Thereafter
				(In millions)			
Long-term debt	$ 1,200.0	$ 250.0	$ 50.0	$ 400.0	$	$	$ 500.0
Interest on long-term debt	647.4	61.6	51.7	39.5	26.4	26.4	441.8
Capital leases*	2.7	0.3	0.3	0.3	0.3	0.3	1.2
Operating leases	546.0	92.0	83.0	65.0	56.0	46.0	204.0
Licensing and similar agreements minimum guarantees	251.0	64.0	74.0	55.0	37.0	21.0	
Defined benefit and postretirement benefit plans	365.1	61.5	39.5	28.5	29.2	30.2	176.2
Purchases of inventory, other assets, and services	445.0	378.0	18.0	17.0	15.0	14.0	3.0
Total	$ 3,457.2	$ 907.4	$ 316.5	$ 605.3	$ 163.9	$ 137.9	$ 1,326.2

* *Represents total obligation, including imputed interest of $0.8 million.*

Liabilities for uncertain tax positions for which a cash tax payment is not expected to be made in the next twelve months are classified as other noncurrent liabilities. Due to the uncertainty about the periods in which examinations will be completed and limited information related to current audits, Mattel is not able to make reasonably reliable estimates of the periods in which cash settlements will occur with taxing authorities for the noncurrent liabilities.

Litigation

The content of Item 8 Financial Statements and Supplementary Data Note 14 to the Consolidated Financial Statements Commitments and Contingencies is hereby incorporated by reference in its entirety in this Item 7.

Effects of Inflation

Inflation rates in the US and in major foreign countries where Mattel does business have not had a significant impact on its results of operations or financial position during 2010, 2009, or 2008. Mattel receives some protection from the impact of inflation from high turnover of inventories and its ability, under certain circumstances and at certain times, to pass on higher prices to its customers.

Employee Savings Plan

Mattel sponsors a 401(k) savings plan, the Mattel, Inc. Personal Investment Plan (the Plan), for its domestic employees. Contributions to the Plan include voluntary contributions by eligible employees and

employer automatic and matching contributions by Mattel. The Plan allows employees to allocate both their voluntary contributions and their employer automatic and matching contributions to a variety of investment funds, including a fund that is fully invested in Mattel common stock (the Mattel Stock Fund). Employees are not required to allocate any of their Plan account balance to the Mattel Stock Fund, which allows employees to limit or eliminate their exposure to market changes in Mattel s stock price. Furthermore, the Plan limits the percentage of the employee s total account balance that may be allocated to the Mattel Stock Fund to 25%. Employees may generally reallocate their account balances on a daily basis. However, pursuant to Mattel s insider trading policy, employees classified as insiders and restricted personnel under Mattel s insider trading policy are limited to certain periods in which they may make allocations into or out of the Mattel Stock Fund.

Application of Critical Accounting Policies and Estimates

Mattel makes certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses. The accounting policies and estimates described below are those Mattel considers most critical in preparing its consolidated financial statements. Management has discussed the development and selection of these critical accounting policies and estimates with the Audit Committee of its Board of Directors, and the Audit Committee has reviewed the disclosures included below. The following is a review of the accounting policies and estimates that include significant judgments made by management using information available at the time the estimates are made. As described below, however, these estimates could change materially if different information or assumptions were used instead.

Note 1 to the consolidated financial statements includes a summary of Mattel s significant accounting policies, estimates, and methods used in the preparation of Mattel s consolidated financial statements. In most instances, Mattel must use an accounting policy or method because it is the only policy or method permitted under accounting principles generally accepted in the United States of America. See Item 8 Financial Statements and Supplementary Data Note 1 to the Consolidated Financial Statements Summary of Significant Accounting Policies.

Accounts Receivable Allowance for Doubtful Accounts

The allowance for doubtful accounts represents adjustments to customer trade accounts receivable for amounts deemed partially or entirely uncollectible. Management believes the accounting estimate related to the allowance for doubtful accounts is a critical accounting estimate because significant changes in the assumptions used to develop the estimate could materially affect key financial measures, including other selling and administrative expenses, net income, and accounts receivable. In addition, the allowance requires a high degree of judgment since it involves estimation of the impact of both current and future economic factors in relation to its customers ability to pay amounts owed to Mattel.

Mattel s products are sold throughout the world. Products within the Domestic segment are sold directly to retailers, including discount and free-standing toy stores, chain stores, department stores, other retail outlets and, to a limited extent, wholesalers, and directly to consumers. Products within the International segment are sold directly to retailers and wholesalers in most European, Latin American, and Asian countries, and in Australia, Canada, and New Zealand, and through agents and distributors in those countries where Mattel has no direct presence.

In recent years, the mass-market retail channel has experienced significant shifts in market share among competitors, causing some large retailers to experience liquidity problems. In 2008, certain of Mattel s customers filed for bankruptcy, including KB Toys in the US and Woolworth s in the UK, and many other retailers were negatively impacted by deteriorated economic conditions. Mattel s sales to customers are typically made on credit without collateral and are highly concentrated in the third and fourth quarters due to the cyclical nature of toy sales, which results in a substantial portion of trade receivables being collected during the latter half of the

Table of Contents

year and the first quarter of the following year. There is a risk that customers will not pay, or that payment may be delayed, because of bankruptcy or other factors beyond the control of Mattel. This could increase Mattel s exposure to losses from bad debts.

A small number of customers account for a large share of Mattel s net sales and accounts receivable. In 2010, Mattel s three largest customers, Wal-Mart, Toys R Us, and Target, in the aggregate, accounted for approximately 41% of net sales, and its ten largest customers, in the aggregate, accounted for approximately 51% of net sales. As of December 31, 2010, Mattel s three largest customers accounted for approximately 50% of net accounts receivable, and its ten largest customers accounted for approximately 60% of net accounts receivable. The concentration of Mattel s business with a relatively small number of customers may expose Mattel to a material adverse effect if one or more of Mattel s large customers were to experience financial difficulty.

Mattel has procedures to mitigate its risk of exposure to losses from bad debts. Revenue is recognized upon shipment or upon receipt of products by the customer, depending on the terms, provided that: there are no uncertainties regarding customer acceptance; persuasive evidence of an agreement exists documenting the specific terms of the transaction; the sales price is fixed or determinable; and collectibility is reasonably assured. Credit limits and payment terms are established based on the underlying criteria that collectibility must be reasonably assured at the levels set for each customer. Extensive evaluations are performed on an ongoing basis throughout the fiscal year of each customer s financial performance, cash generation, financing availability, and liquidity status. Customers are reviewed at least annually, with more frequent reviews being performed, if necessary, based on the customer s financial condition and the level of credit being extended. For customers who are experiencing financial difficulties, management performs additional financial analyses prior to shipping to those customers on credit. Customer terms and credit limits are adjusted, if necessary, to reflect the results of the review. 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.

The following table summarizes Mattel s allowance for doubtful accounts at December 31:

	2010	2009	2008
	(In millions, except percentage information)		
Allowance for doubtful accounts	$ 21.8	$ 24.5	$ 25.9
As a percentage of total accounts receivable	1.9%	3.2%	2.9%

Mattel s allowance for doubtful accounts is based on management s assessment of the business environment, customers financial condition, historical collection experience, accounts receivable aging, and customer disputes. Changes in the allowance for doubtful accounts reflect management s assessment of the factors noted above, including past due accounts, disputed balances with customers, and the financial condition of customers. The allowance for doubtful accounts is also affected by the time at which uncollectible accounts receivable balances are actually written off.

Mattel believes that its allowance for doubtful accounts at December 31, 2010 is adequate and proper. However, as described above, Mattel s business is greatly dependent on a small number of customers. Should one or more of Mattel s major customers experience liquidity problems, then the allowance for doubtful accounts may not be sufficient to cover such losses. Any incremental bad debt charges would negatively affect the results of operations of one or more of Mattel s business segments.

Inventories Allowance for Obsolescence

Inventories, net of an allowance for excess quantities and obsolescence, are stated at the lower of cost or market. Inventory obsolescence reserves are recorded for damaged, obsolete, excess and slow-moving inventory. Management believes that the accounting estimate related to the allowance for obsolescence is a critical accounting estimate because changes in the assumptions used to develop the estimate could materially affect key financial measures, including gross profit, net income, and inventories. As more fully described below, valuation of Mattel s inventory could be impacted by changes in public and consumer preferences, demand for product, or changes in the buying patterns of both retailers and consumers and inventory management of customers.

In the toy industry, orders are subject to cancellation or change at any time prior to shipment since actual shipments of products ordered and order cancellation rates are affected by consumer acceptance of product lines, strength of competing products, marketing strategies of retailers, changes in buying patterns of both retailers and consumers, and overall economic conditions. Unexpected changes in these factors could result in excess inventory in a particular product line, which would require management to record a valuation allowance on such inventory.

Mattel bases its production schedules for toy products on customer orders and forecasts, taking into account historical trends, results of market research, and current market information. Mattel ships products in accordance with delivery schedules specified by its customers, who usually request delivery within three months. In anticipation of retail sales in the traditional holiday season, Mattel significantly increases its production in advance of the peak selling period, resulting in a corresponding build-up of inventory levels in the first three quarters of its fiscal year. These seasonal purchasing patterns and requisite production lead times create risk to Mattel s business associated with the underproduction of popular toys and the overproduction of toys that do not match consumer demand. Retailers are also attempting to manage their inventories more tightly, requiring Mattel to ship products closer to the time the retailers expect to sell the products to consumers. These factors increase inventory valuation risk since Mattel s inventory levels may be adversely impacted by the need to pre-build products before orders are placed.

When current conditions in the domestic and global economies become uncertain, it is difficult to estimate the level of growth or contraction for the economy as a whole. It is even more difficult to estimate growth or contraction in various parts of the economy, including the economies in which Mattel participates. Because all components of Mattel s budgeting and forecasting are dependent upon estimates of growth or contraction in the markets it serves and demand for its products, economic uncertainty makes estimates of future demand for product more difficult. Such economic changes may affect the sales of Mattel s products and its corresponding inventory levels, which could potentially impact the valuation of its inventory.

At the end of each quarter, management within each business segment, Mattel Girls & Boys Brands US, Fisher-Price Brands US, American Girl Brands, and International, performs a detailed review of its inventory on an item-by-item basis and identifies products that are believed to be impaired. Management assesses the need for, and the amount of, an obsolescence reserve based on the following factors:

- Customer and/or consumer demand for the item;
- Overall inventory positions of Mattel s customers;
- Strength of competing products in the market;
- Quantity on hand of the item;
- Standard retail price of the item;
- Mattel s cost for the item; and
- Length of time the item has been in inventory.

The time frame between when an estimate is made and the time of disposal depends on the above factors and may vary significantly. Generally, slow-moving inventory is liquidated during the next annual selling cycle.

Table of Contents

The following table summarizes Mattel s obsolescence reserve at December 31:

	2010	2009	2008
	(In millions, except percentage information)		
Allowance for obsolescence	$ 46.9	$ 40.8	$ 59.1
As a percentage of total inventory	9.2%	10.3%	10.8%

The increase in the allowance for obsolescence from 2009 to 2010 was mainly due to higher levels of excess inventory in 2010. Management believes that its allowance for obsolescence at December 31, 2010 is adequate and proper. However, the impact resulting from the aforementioned factors could cause actual results to vary. Any incremental obsolescence charges would negatively affect the results of operations of one or more of Mattel s business segments.

Recoverability of Goodwill and Nonamortizable Intangible Assets

Mattel tests goodwill and nonamortizable intangible assets for impairment annually, or more often if an event or circumstance indicates that an impairment may have occurred. Management believes that the accounting estimate related to the recoverability of its goodwill and nonamortizable intangible assets is a critical accounting estimate because significant changes in the assumptions used to develop the estimates could materially affect key financial measures, including net income, goodwill, and other intangible assets.

The recoverability of goodwill involves a high degree of judgment since the first step of the required impairment test consists of a comparison of the fair value of a reporting unit with its book value. Based on the assumptions underlying the valuation, impairment is determined by estimating the fair value of a reporting unit and comparing that value to the reporting unit s book value. If the fair value is more than the book value of the reporting unit, an impairment loss is not recognized. If an impairment exists, the fair value of the reporting unit is allocated to all of its assets and liabilities excluding goodwill, with the excess amount representing the fair value of goodwill. An impairment loss is measured as the amount by which the book value of the reporting unit s goodwill exceeds the estimated fair value of that goodwill.

For purposes of evaluating whether goodwill is impaired, goodwill is allocated to various reporting units, which are either at the operating segment level or one reporting level below the operating segment. Mattel s reporting units are: Mattel Girls Brands US, Mattel Boys Brands US, Fisher-Price Brands US, American Girl Brands, and International. Goodwill is allocated to Mattel s reporting units based on an allocation of brand-specific goodwill to the reporting units selling those brands. Mattel utilizes the fair value based upon the discounted cash flows that the business can be expected to generate in the future (the Income Approach) when evaluating goodwill for impairment. The Income Approach valuation method requires Mattel to make projections of revenue, operating costs, and working capital investment for the reporting unit over a multi-year period. Additionally, management must make an estimate of a weighted average cost of capital that a market participant would use as a discount rate. Changes in these projections or estimates could result in a reporting unit either passing or failing the first step of the impairment model, which could significantly change the amount of any impairment ultimately recorded. As of September 30, 2010, Mattel performed the annual impairment test for goodwill as required and determined that its goodwill was not impaired since, for each of the reporting units, the fair value of the reporting unit substantially exceeded its carrying amount. Mattel also considered events and circumstances subsequent to the annual impairment tests in concluding there was no impairment at December 31, 2010.

Testing nonamortizable intangible assets for impairment also involves a high degree of judgment due to the assumptions that underlie the valuation. Mattel evaluates nonamortizable intangible assets, including trademarks and trade names, for impairment by comparing the estimated fair values with the carrying values. The fair value is measured using a multi-period royalty savings method, which reflects the savings realized by owning the trademarks and trade names, and thus not having to pay a royalty fee to a third party. As of September 30, 2010, Mattel performed the annual impairment test for nonamortizable intangible assets as required and determined that its nonamortizable intangible assets were not impaired since the fair value of the nonamortizable intangible assets exceeded its carrying value. Mattel also considered events and circumstances subsequent to these impairment tests in concluding there was no impairment at December 31, 2010. During 2009, Mattel recorded impairment charges of approximately $6 million related to its nonamortizable intangible assets.

Sales Adjustments

Mattel routinely enters into arrangements with its customers to provide sales incentives, support customer promotions, and provide allowances for returns and defective merchandise. Such programs are based primarily on customer purchases, customer performance of specified promotional activities, and other specified factors such as sales to consumers. Accruals for these programs are recorded as sales adjustments that reduce gross revenue in the period the related revenue is recognized. Sales adjustments for such programs totaled $530.4 million, $503.5 million, and $568.0 million during 2010, 2009, and 2008, respectively.

The above-described programs primarily involve fixed amounts or percentages of sales to customers. Accruals for such programs are calculated based on an assessment of customers purchases and performance under the programs and any other specified factors. While the majority of sales adjustment amounts are readily determinable at period end and do not require estimates, certain of the sales adjustments require management to make estimates. In making these estimates, management considers all available information, including the overall business environment, historical trends, and information from customers. Management believes that the accruals recorded for customer programs at December 31, 2010 are adequate and proper.

Product Recalls and Withdrawals

Mattel establishes a reserve for product recalls and withdrawals on a product-specific basis when circumstances giving rise to the recall or withdrawal become known. Facts and circumstances related to the recall or withdrawal, including where the product affected by the recall or withdrawal is located (e.g., with consumers, in customers inventory, or in Mattel s inventory), cost estimates for shipping and handling for returns, whether the product is repairable, cost estimates for communicating the recall or withdrawal to consumers and customers, and cost estimates for parts and labor if the recalled or withdrawn product is deemed to be repairable, are considered when establishing a product recall or withdrawal reserve. These factors are updated and reevaluated each period and the related reserves are adjusted when these factors indicate that the recall or withdrawal reserve is either not sufficient to cover or exceeds the estimated product recall or withdrawal expenses.

Significant changes in the assumptions used to develop estimates for product recall or withdrawal reserves could affect key financial measures, including accounts receivable, inventory, net sales, cost of sales, other selling and administrative expenses, and net income. In addition, estimating product recall or withdrawal reserves requires a high degree of judgment in areas such as estimating the portion of recalled or withdrawn products sold to end consumers and the portion held by retailers, return rates, shipping and handling for returns, the way in which affected products held by consumers may be remediated (e.g., through redeemable vouchers, or a repair kit being provided), and the costs of meeting regulatory requirements in various countries (e.g., public notification).

Mattel believes that its reserves for product recalls and withdrawals at December 31, 2010 are adequate and proper.

Benefit Plan Assumptions

Mattel and certain of its subsidiaries have retirement and other postretirement benefit plans covering substantially all employees of these companies. See Item 8 Financial Statements and Supplementary Data Note 6 to the Consolidated Financial Statements Employee Benefit Plans.

Actuarial valuations are used in determining amounts recognized in the financial statements for retirement and other postretirement benefit plans. These valuations incorporate the following significant assumptions:

- Weighted average discount rate to be used to measure future plan obligations and interest cost component of plan income or expense;
- Rate of future compensation increases (for defined benefit pension plans);
- Expected long-term rate of return on plan assets (for funded plans); and
- Health care cost trend rates (for other postretirement benefit plans).

Management believes that these assumptions are critical accounting estimates because significant changes in these assumptions could impact Mattel s results of operations and financial position. Management believes that the assumptions utilized to record its obligations under its plans are reasonable based on the plans experience and advice received from its outside actuaries. Mattel reviews its benefit plan assumptions annually and modifies its assumptions based on current rates and trends as appropriate. The effects of such changes in assumptions are amortized as part of plan income or expense in future periods.

At the end of each fiscal year, Mattel determines the weighted average discount rate used to calculate the projected benefit obligation. The discount rate is an estimate of the current interest rate at which the benefit plan liabilities could be effectively settled at the end of the year. The discount rate also impacts the interest cost component of plan income or expense. At December 31, 2010, Mattel determined the discount rate for its domestic benefit plans used in determining the projected and accumulated benefit obligations to be 5.2%, as compared to 5.6% and 5.4% for December 31, 2009 and 2008, respectively. In estimating this rate, Mattel reviews rates of return on high-quality, corporate bond indices, which approximate the timing and amount of benefit payments. Assuming all other benefit plan assumptions remain constant, the decrease in the discount rate from 5.6% to 5.2% would result in an increase in benefit plan expense during 2011 of approximately $2 million.

The rate of future compensation increases used by Mattel for the benefit obligation and the net periodic pension cost of its domestic defined benefit pension plans averaged 3.8% for 2010, 2009, and 2008, based on plan demographics. These assumptions are reviewed annually based on historical salary increases for participants in the defined benefit pension plans. This assumption impacts the service and interest cost components of plan income or expense.

The long-term rate of return on plan assets is based on management s expectation of earnings on the assets that secure Mattel s funded defined benefit pension plans, taking into account the mix of invested assets, the arithmetic average of past returns, economic and stock market conditions and future expectations, and the long-term nature of the projected benefit obligation to which these investments relate. The long-term rate of return is used to calculate the expected return on plan assets that is used in calculating pension income or expense. The difference between this expected return and the actual return on plan assets is deferred, net of tax, and is included in accumulated other comprehensive loss. The net deferral of past asset gains or losses affects the calculated value of plan assets and, ultimately, future pension income or expense. Mattel s long-term rate of return for its domestic defined benefit pension plans was 8.0% in 2010, 2009, and 2008. Assuming all other benefit plan assumptions remain constant, a one percentage point decrease in the expected return on plan assets would result in an increase in benefit plan expense during 2011 of approximately $2 million.

The health care cost trend rates used by Mattel for its other postretirement benefit plans reflect management s best estimate of expected claim costs over the next ten years. These trend rates impact the service and interest cost components of plan expense. Rates ranging from 6% in 2010 to 5% in 2011, with rates assumed to stabilize in 2011 and thereafter, were used in determining plan expense for 2010. These rates are reviewed annually and are estimated based on historical costs for participants in the other postretirement benefit plans as well as estimates based on current economic conditions. As of December 31, 2010, Mattel adjusted the health

Table of Contents

care cost trend rates for its other postretirement benefit plan obligation to range from 8% in 2010 reducing to 5% in 2017, with rates assumed to stabilize in 2017 and thereafter. Assuming all other postretirement benefit plan assumptions remain constant, a one percentage point increase in the assumed health care cost trend rates would increase benefit plan expense during 2011 by $0.2 million.

A one percentage point increase/(decrease) in the assumed health care cost trend rate for each future year would impact the postretirement benefit obligation as of December 31, 2010 by approximately $3 million and $(3) million, respectively, while a one percentage point increase/(decrease) would impact the service and interest cost recognized for 2010 by $0.2 million and $(0.2) million, respectively.

Share-Based Payments

Mattel recognizes the cost of employee share-based payment awards on a straight-line attribution basis over the requisite employee service period, net of estimated forfeitures. In determining when additional tax benefits associated with share-based payment exercises are recognized, Mattel follows the ordering of deductions under the tax law, which allows deductions for share-based payment exercises to be utilized before previously existing net operating loss carryforwards. In computing dilutive shares under the treasury stock method, Mattel does not reduce the tax benefit amount within the calculation for the amount of deferred tax assets that would have been recognized had Mattel previously expensed all share-based payment awards.

Determining the fair value of share-based awards at the measurement date requires judgment, including estimating the expected term that stock options will be outstanding prior to exercise, the associated volatility, and the expected dividends. Mattel estimates the fair value of options granted using the Black-Scholes valuation model. The expected life of the options used in this calculation is the period of time the options are expected to be outstanding and has been determined based on historical exercise experience. Expected stock price volatility is based on the historical volatility of Mattel s stock for a period approximating the expected life, the expected dividend yield is based on Mattel s most recent actual annual dividend payout, and the risk-free interest rate is based on the implied yield available on US Treasury zero-coupon issues approximating the expected life. Judgment is also required in estimating the amount of share-based awards that will be forfeited prior to vesting. Management believes that these assumptions are critical accounting estimates because significant changes in the assumptions used to develop the estimates could materially affect key financial measures, including net income.

The weighted average grant date fair value of options granted during 2010, 2009, and 2008 was $4.84, $3.71, and $3.67, respectively. The following weighted average assumptions were used in determining the fair value of options granted:

	2010	**2009**	**2008**
Options granted at market price			
Expected life (in years)	5.0	4.9	4.8
Risk-free interest rate	1.7%	2.5%	3.2%
Volatility factor	34.3%	33.6%	25.6%
Dividend yield	3.5%	4.3%	3.7%

Table of Contents

The following table summarizes the sensitivity of valuation assumptions within the calculation of stock option fair values, if all other assumptions are held constant:

	Increase in Assumption Factor	Increase (Decrease) in Fair Value (in % pts)
Expected life (in years)	1 year	4.3
Risk-free interest rate	1%	6.2
Volatility factor	1%	3.1
Dividend yield	1%	(11.0)

	(Decrease) in Assumption Factor	Increase (Decrease) in Fair Value (in % pts)
Expected life (in years)	(1) year	(6.2)
Risk-free interest rate	(1)%	(6.4)
Volatility factor	(1)%	(3.3)
Dividend yield	(1)%	11.8

Mattel recognized compensation expense of $13.4 million, $13.0 million, and $9.5 million for stock options during 2010, 2009, and 2008, respectively, which is included within other selling and administrative expenses. Compensation expense recognized related to grants of restricted stock units was $53.8 million, $37.0 million, and $26.2 million in 2010, 2009, and 2008, respectively, and is also included within other selling and administrative expenses. As of December 31, 2010, total unrecognized compensation cost related to unvested share-based payments totaled $63.7 million and is expected to be recognized over a weighted-average period of 2.0 years.

Income Taxes

Mattel s income tax provision and related income tax assets and liabilities are based on actual and expected future income, US and foreign statutory income tax rates, and tax regulations and planning opportunities in the various jurisdictions in which Mattel operates. Management believes that the accounting estimate related to income taxes is a critical accounting estimate because significant judgment is required in interpreting tax regulations in the US and in foreign jurisdictions, evaluating Mattel s worldwide uncertain tax positions, and assessing the likelihood of realizing certain tax benefits. Actual results could differ materially from those judgments, and changes in judgments could materially affect Mattel s consolidated financial statements.

Certain income and expense items are accounted for differently for financial reporting and income tax purposes. As a result, the tax expense reflected in Mattel s consolidated statements of operations is different than that reported in Mattel s tax returns filed with the taxing authorities. Some of these differences are permanent, such as expenses that are not deductible in Mattel s tax return, and some differences reverse over time, such as depreciation expense. These timing differences create deferred income tax assets and liabilities. Deferred income tax assets generally represent items that can be used as a tax deduction or credit in Mattel s tax returns in future years for which Mattel has already recorded a tax benefit in its consolidated statement of operations. Mattel records a valuation allowance to reduce its deferred income tax assets if, based on the weight of available evidence, management believes expected future taxable income is not likely to support the use of a deduction or credit in that jurisdiction. Management evaluates the level of Mattel s valuation allowances at least annually, and more frequently if actual operating results differ significantly from forecasted results.

Mattel records unrecognized tax benefits for US federal, state, local, and foreign tax positions related primarily to transfer pricing, tax credits claimed, tax nexus, and apportionment. For each reporting period, management applies a consistent methodology to measure unrecognized tax benefits and all unrecognized tax benefits are reviewed periodically and adjusted as circumstances warrant. Mattel s measurement of its

Table of Contents

unrecognized tax benefits is based on management s assessment of all relevant information, including prior audit experience, the status of current audits, conclusions of tax audits, lapsing of applicable statutes of limitations, identification of new issues, and any administrative guidance or developments. Mattel recognizes unrecognized tax benefits in the first financial reporting period in which information becomes available indicating that such benefits will more-likely-than-not be realized.

Mattel s effective tax rate on income before income taxes in 2010 was 19.1% as compared to 19.9% in 2009. The 2010 income tax provision includes net tax benefits of $16.8 million, primarily related to the release of a valuation allowance related to the anticipated utilization of excess foreign tax credit carryforwards, reassessments of prior years tax liabilities based on the status of current audits and tax filings in various jurisdictions around the world, settl