MATTEL INC /DE/
Form 10-Q
August 03, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2007

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 001-05647

MATTEL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**95-1567322**

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

333 Continental Blvd.

El Segundo, CA 90245-5012

(Address of principal executive offices)

(310) 252-2000

(Registrant s telephone number)

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

NONE

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

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

Number of shares outstanding of registrant s common stock, $1.00 par value, as of August 2, 2007:

393,914,099 shares

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

MATTEL, INC. AND SUBSIDIARIES

CO NSOLIDATED BALANCE SHEETS

	June 30, 2007	June 30, 2006	December 31, 2006
	(Unaudited; in thousands, except share data)		
ASSETS			
Current Assets			
Cash and equivalents	$ 742,621	$ 625,050	$ 1,205,552
Accounts receivable, net	860,673	743,701	943,813
Inventories	606,735	538,525	383,149
Prepaid expenses and other current assets	224,929	266,752	317,624
Total current assets	2,434,958	2,174,028	2,850,138
Property, plant and equipment, net	512,688	535,935	536,749
Goodwill	853,672	728,184	845,324
Other noncurrent assets	846,706	745,618	723,673
Total Assets	$ 4,648,024	$ 4,183,765	$ 4,955,884
LIABILITIES AND STOCKHOLDERS EQUITY			
Current Liabilities			
Short-term borrowings	$ 15,113	$ 33,391	$
Current portion of long-term debt	60,000	100,000	64,286
Accounts payable	316,390	295,340	375,882
Accrued liabilities	508,340	504,527	980,435
Income taxes payable	20,591	109,896	161,917
Total current liabilities	920,434	1,043,154	1,582,520
Noncurrent Liabilities			
Long-term debt	560,000	795,000	635,714
Other noncurrent liabilities	442,085	291,779	304,676
Total noncurrent liabilities	1,002,085	1,086,779	940,390

Stockholders Equity			
Common stock $1.00 par value, 1.0 billion shares authorized; 441.4 million shares issued	441,369	441,369	441,369
Additional paid-in capital	1,616,098	1,588,879	1,613,307
Treasury stock at cost; 44.4 million shares, 61.2 million shares and 57.1 million shares, respectively	(769,677)	(1,072,127)	(996,981)
Retained earnings	1,686,907	1,377,372	1,652,140
Accumulated other comprehensive loss	(249,192)	(281,661)	(276,861)
Total stockholders equity	2,725,505	2,053,832	2,432,974
Total Liabilities and Stockholders Equity	$ 4,648,024	$ 4,183,765	$ 4,955,884

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

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MATTEL, INC. AND SUBSIDIARIES

CONSOLIDATED STATE MENTS OF OPERATIONS

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	(Unaudited; in thousands, except per share amounts)			
Net Sales	$ 1,002,625	$ 957,655	$ 1,942,890	$ 1,751,002
Cost of sales	559,463	541,535	1,081,042	1,002,924
Gross Profit	443,162	416,120	861,848	748,078
Advertising and promotion expenses	107,106	100,554	212,416	189,407
Other selling and administrative expenses	299,207	265,655	591,952	540,751
Operating Income	36,849	49,911	57,480	17,920
Interest expense	14,132	16,078	28,615	31,281
Interest (income)	(10,482)	(6,441)	(22,442)	(15,261)
Other non-operating (income), net	(3,266)	(2,080)	(796)	(3,959)
Income Before Income Taxes	36,465	42,354	52,103	5,859
Provision (benefit) for income taxes	13,661	4,974	17,336	(61,691)
Net Income	$ 22,804	$ 37,380	$ 34,767	$ 67,550
Net Income Per Common Share Basic	$ 0.06	$ 0.10	$ 0.09	$ 0.17
Weighted average number of common shares	396,196	386,191	393,057	387,472
Net Income Per Common Share Diluted	$ 0.06	$ 0.10	$ 0.09	$ 0.17
Weighted average number of common and common equivalent shares	402,840	388,777	399,679	390,026

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

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MATTEL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Six Months Ended June 30, 2007	June 30, 2006
	(Unaudited; in thousands)	
Cash Flows From Operating Activities:		
Net income	$ 34,767	$ 67,550
Adjustments to reconcile net income to net cash flows used for operating activities:		
Loss on disposal of other property, plant and equipment	2,150	1,709
Depreciation	78,060	83,518
Amortization	5,573	1,940
Deferred income taxes	(26,928)	(33,154)
Share-based compensation	6,877	1,430
Changes in assets and liabilities:		
Accounts receivable	96,851	28,689
Inventories	(215,917)	(157,202)
Prepaid expenses and other current assets	92,393	10,478
Accounts payable, accrued liabilities and income taxes payable	(543,985)	(373,337)
Other, net	(21,424)	10,460
Net cash flows used for operating activities	(491,583)	(357,919)
Cash Flows From Investing Activities:		
Purchases of tools, dies and molds	(31,378)	(31,730)
Purchases of other property, plant and equipment	(26,831)	(34,320)
Payments for businesses acquired	(78,913)	(695)
Proceeds from disposal of other property, plant and equipment	174	283
Net cash flows used for investing activities	(136,948)	(66,462)
Cash Flows From Financing Activities:		
Proceeds from short-term borrowings	15,061	111,466
Repayments of short-term borrowings		(195,990)
Proceeds from long-term borrowings		298,356
Repayments of long-term borrowings	(80,000)	(30,000)
Share repurchases		(155,633)
Proceeds from exercises of stock options	217,224	14,991
Other, net	9,930	3,933
Net cash flows from financing activities	162,215	47,123
Effect of Currency Exchange Rate Changes on Cash	3,385	4,574
Decrease in Cash and Equivalents	(462,931)	(372,684)
Cash and Equivalents at Beginning of Period	1,205,552	997,734
Cash and Equivalents at End of Period	$ 742,621	$ 625,050

Supplemental Cash Flow Information:		
Cash paid during the period for:		
Income taxes, gross	$ 47,408	$ 116,515
Interest	32,084	34,920
Non-cash investing and financing activities:		
Asset write-downs	1,400	450

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

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MATTEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

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

Certain amounts in the consolidated financial statements for prior years have been reclassified to conform to the current year presentation.

The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The financial information included herein should be read in conjunction with Mattel s consolidated financial statements and related notes in its 2006 Annual Report on Form 10-K.

2. Change in Accounting Principle

Effective January 1, 2007, Mattel adopted Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of SFAS No. 109. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold an uncertain tax position is required to meet before tax benefits associated with such uncertain tax positions are recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 excludes income taxes from the scope of Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies*. FIN 48 also requires that amounts recognized in the balance sheet related to uncertain tax positions be classified as a current or noncurrent liability, based upon the expected timing of the payment to a taxing authority.

Prior to January 1, 2007, Mattel recorded reserves related to uncertain tax positions as a current liability, whereas upon adoption of FIN 48, Mattel reclassified tax reserves related to uncertain tax positions for which a cash tax payment is not expected within the next twelve months to noncurrent liabilities. Mattel s adoption of FIN 48 did not require a cumulative effect adjustment to the opening balance of its retained earnings. Mattel classifies interest and penalties related to unrecognized tax benefits as a component of income tax expense.

3. Accounts Receivable

Accounts receivable are net of allowances for doubtful accounts of $19.8 million, $20.3 million and $19.4 million as of June 30, 2007, June 30, 2006, and December 31, 2006, respectively.

4. Inventories

Inventories include the following:

	June 30, 2007	June 30, 2006	December 31, 2006
		(In thousands)	
Raw materials and work in process	$ 75,844	$ 63,445	$ 45,470
Finished goods	530,891	475,080	337,679
	$ 606,735	$ 538,525	$ 383,149

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5. Property, Plant and Equipment

Property, plant and equipment, net include the following:

	June 30, 2007	June 30, 2006	December 31, 2006
		(In thousands)	
Land	$ 29,556	$ 29,042	$ 39,445
Buildings	238,860	234,281	227,935
Machinery and equipment	770,525	755,404	759,467
Tools, dies and molds	558,988	566,188	537,463
Capital leases	23,271	23,271	23,271
Leasehold improvements	134,416	123,771	128,668
	1,755,616	1,731,957	1,716,249
Less: accumulated depreciation	(1,242,928)	(1,196,022)	(1,179,500)
	$ 512,688	$ 535,935	$ 536,749

6. Goodwill

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

The change in the carrying amount of goodwill by reporting unit for the six months ended June 30, 2007 is shown below. Brand-specific goodwill held by foreign subsidiaries is allocated to the US reporting units selling those brands, thereby causing foreign currency translation impact to the US reporting units.

	December 31, 2006	Additions	Impact of Currency Exchange Rate Changes	June 30, 2007
			(In thousands)	
Mattel Girls Brands US	$ 38,278	$	$ 903	$ 39,181
Mattel Boys Brands US	126,193	2,641	70	128,904
Fisher-Price Brands US	217,291		174	217,465
American Girl Brands	207,571			207,571
International	255,991	1,321	3,239	260,551
	$ 845,324	$ 3,962	$ 4,386	$ 853,672

7. Other Noncurrent Assets

Other noncurrent assets include the following:

	June 30, 2007	June 30, 2006	December 31, 2006
		(In thousands)	
Deferred income taxes	$ 524,466	$ 531,004	$ 503,168
Identifiable intangibles (net of amortization of $47.2 million, $39.9 million and $42.7 million, respectively)	50,733	19,181	55,193
Nonamortizable identifiable intangibles	128,152		15,400
Other	143,355	195,433	149,912
	$ 846,706	$ 745,618	$ 723,673

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On May 23, 2007, Mattel acquired Origin Products Limited (Origin), which owns the Polly Pocket! trademark and tradename rights, for $78.9 million in cash, including acquisition costs. Prior to the acquisition, Mattel had exclusive rights to manufacture, design and distribute Polly Pocket! products. In connection with the acquisition of Origin, Mattel recorded indefinite-lived identifiable intangible assets totaling $112.8 million, including the $78.9 million for the purchase price and acquisition costs, along with related deferred tax liabilities.

8. Accrued Liabilities

Accrued liabilities include the following:

	June 30, 2007	June 30, 2006	December 31, 2006
		(In thousands)	
Royalties	$ 62,341	$ 78,549	$ 125,581
Advertising and promotion	61,248	44,338	76,799
Receivable collections due bank	11,563	44,705	245,545
Other	373,188	336,935	532,510
	$ 508,340	$ 504,527	$ 980,435

9. Long-term Debt

Long-term debt includes the following:

	June 30, 2007	June 30, 2006	December 31, 2006
		(In thousands)	
Medium-term notes due July 2007 to November 2013	$ 320,000	$ 370,000	$ 350,000
Senior Notes due June 2009 to June 2011	300,000	300,000	300,000
MAPS term loan facility		225,000	50,000
	620,000	895,000	700,000
Less: current portion	(60,000)	(100,000)	(64,286)
	$ 560,000	$ 795,000	$ 635,714

In January 2007, Mattel repaid the remaining $50.0 million of the MAPS term loan facility and, as a result of the repayment, the MAPS term loan facility terminated. In May 2007, Mattel repaid $30.0 million of the Medium-term notes.

10. Other Noncurrent Liabilities

Other noncurrent liabilities include the following:

	June 30, 2007	June 30, 2006	December 31, 2006
		(In thousands)	
Noncurrent tax liabilities	$ 163,220	$ 19,034	$ 8,735
Benefit plan liabilities	184,427	175,411	176,584
Other	94,438	97,334	119,357
	$ 442,085	$ 291,779	$ 304,676

In connection with the January 1, 2007 adoption of FIN 48, tax reserves for which a cash tax payment is not expected in the next twelve months were reclassified from current income taxes payable to other noncurrent liabilities.

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11. Comprehensive Income (Loss)

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	(In thousands)			
Net income	$ 22,804	$ 37,380	$ 34,767	$ 67,550
Currency translation adjustments	26,631	21,623	33,026	31,989
Amortization of prior service cost	978		978	
Net unrealized gain (loss) on derivative instruments:				
Unrealized holding (losses)	(4,884)	(13,612)	(4,536)	(11,888)
Reclassification adjustment for realized (losses) gains included in net income	(842)	2,021	(1,799)	1,266
	(5,726)	(11,591)	(6,335)	(10,622)
	$ 44,687	$ 47,412	$ 62,436	$ 88,917

The components of accumulated other comprehensive loss are as follows:

	June 30, 2007	June 30, 2006	December 31, 2006
		(In thousands)	
Currency translation adjustments	$ (135,901)	$ (206,570)	$ (168,927)
Minimum pension liability adjustments, net of tax		(68,715)	
Net unrealized (loss) on derivative instruments, net of tax	(12,876)	(6,376)	(6,541)
Defined benefit plan adjustments, net of tax	(100,415)		(101,393)
	$ (249,192)	$ (281,661)	$ (276,861)

Currency Translation Adjustments

Mattel s reporting currency is the US dollar. The translation of its results of operations and financial position of subsidiaries with non-US dollar functional currencies subjects Mattel to currency exchange rate fluctuations in its results of operations and financial position. Assets and liabilities of subsidiaries with non-US dollar functional currencies are translated into US dollars at fiscal period-end exchange rates. Income, expense and cash flow items are translated at weighted average exchange rates prevailing during the fiscal period. The resulting currency translation adjustments are recorded as a component of accumulated other comprehensive loss within stockholders equity. Mattel s primary currency translation exposures were related to entities having functional currencies denominated in the Euro, British pound sterling, Mexican peso, and Brazilian real. For the six months ended June 30, 2007, currency translation adjustments resulted in a net gain of $33.0 million, with gains from the strengthening of the Euro, British pound sterling and Brazilian real against the US dollar. For the six months ended June 30, 2006, currency translation adjustments resulted in a net gain of $32.0 million, with gains from the strengthening of the Euro and British pound sterling against the US dollar, partially offset by the weakening of the Mexican peso against the US dollar.

12. Income Taxes

As of January 1, 2007, Mattel had $122.0 million of liabilities for unrecognized tax benefits, of which $101.1 million would, if recognized, affect the effective tax rate. As of January 1, 2007, Mattel had $12.2 million of accrued liabilities for interest and penalties recognized in its consolidated balance sheet related to unrecognized tax benefits, of which $4.2 million would, if recognized, affect the effective tax rate.

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In the normal course of business, Mattel is regularly audited by federal, state and foreign tax authorities. The Internal Revenue Service (IRS) has completed audits through the 2003 tax year and is currently auditing the Mattel s 2004 and 2005 federal income tax returns. The IRS audit plan calls for the completion of the current examination in the first quarter of 2008. At this time, there is insufficient information related to current IRS, state, and foreign audits to quantify any possible changes in the unrecognized tax benefits that may occur during the next twelve months.

Mattel s federal income tax returns remain subject to examination for the 2004 through 2007 tax years. Mattel files multiple state income tax returns and remains subject to examination in major state jurisdictions, including California for the 2003 through 2007 tax years, New York for the 1998 through 2007 tax years, and Wisconsin for the 2004 through 2007 tax years. Mattel files multiple foreign income tax returns and remains subject to examination in major foreign jurisdictions, including Hong Kong and the Netherlands for the 2002 through 2007 tax years and in Mexico for the 2001 through 2007 tax years.

During the three months ended June 30, 2007, the state of New York enacted corporate tax law changes, effective retroactive to January 1, 2007, reducing its corporate tax rate from 7.5% to 7.1% and modifying its method of apportioning income to a single weighted sales factor. As a result of the law changes, Mattel s effective New York state tax rate decreased, resulting in a reduction of $5.3 million to previously recorded deferred tax assets during the three months ended June 30, 2007.

During the six months ended June 30, 2006, Mattel recognized income tax benefits of $63.0 million related to settlements with taxing authorities, including $56.8 million as a result of settlements with foreign tax authorities during the three months ended March 31, 2006 and $6.2 million primarily due to a settlement with a state tax authority for tax years 1997 and 1998 during the three months ended June 30, 2006.

13. Foreign Currency Transaction Gains and Losses

Currency exchange rate fluctuations may impact Mattel s results of operations and cash flows. Mattel s currency transaction exposures include gains and losses realized on unhedged inventory purchases and unhedged receivables and payables balances that are denominated in a currency other than the applicable functional currency. Gains and losses on unhedged inventory purchases and other transactions associated with operating activities are recorded in the components of operating income in the consolidated statements of operations. Gains and losses on unhedged intercompany loans and advances are recorded as a component of other non-operating (income), net in the consolidated statements of operations in the period in which the currency exchange rate changes. Inventory purchase transactions denominated in the Euro, British pound sterling, Mexican peso, and Hong Kong dollar are the primary transactions that cause foreign currency transaction exposure for Mattel.

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	(In thousands)			
Operating (income)	$ (21,216)	$ (1,772)	$ (27,732)	$ (4,972)
Other non-operating (income), net	(3,404)	(1,827)	(2,181)	(1,431)
Net transaction (gains)	$ (24,620)	$ (3,599)	$ (29,913)	$ (6,403)

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14. Other Selling and Administrative Expenses

Other selling and administrative expenses include the following:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	(In thousands)			
Design and development	$ 46,872	$ 40,590	$ 90,806	$ 79,771
Identifiable intangible asset amortization	2,230	560	4,460	1,124

15. Earnings Per Share

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

Diluted net income per common share is computed by dividing reported net income by the weighted average number of common shares and other common equivalent shares outstanding during each period. The calculation of common equivalent shares assumes the exercise of dilutive stock options, net of assumed treasury share repurchases at average market prices. Nonqualified stock options totaling 1.4 million shares were excluded from the calculation of diluted net income per common share for the three months and six months ended June 30, 2007, because they were anti-dilutive. Nonqualified stock options totaling 30.6 million were excluded from the calculation of diluted net income per common share for the three months and six months ended June 30, 2006, because they were anti-dilutive.

16. Employee Benefit Plans

Mattel and certain of its subsidiaries have qualified and nonqualified retirement plans covering substantially all employees of these companies, which are more fully described in Note 4 to the Consolidated Financial Statements in Mattel s 2006 Annual Report on Form 10-K.

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	(In thousands)			
Service cost	$ 2,935	$ 2,902	$ 5,921	$ 5,603
Interest cost	4,954	5,738	11,231	11,339
Expected return on plan assets	(5,034)	(5,366)	(11,397)	(11,476)
Amortization of prior service cost	489	883	978	1,366
Recognized actuarial loss	2,139	1,716	4,279	4,503

	$ 5,483	$ 5,873	$ 11,012	$ 11,335

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	(In thousands)			
Service cost	$ 27	$ 23	$ 54	$ 53
Interest cost	688	565	1,376	1,345
Recognized actuarial loss	185	68	370	459
	$ 900	$ 656	$ 1,800	$ 1,857

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During the three and six months ended June 30, 2007, Mattel made cash contributions totaling approximately $3 million and $6 million, respectively, to its defined benefit pension and postretirement benefit plans. Mattel expects to make cash contributions totaling approximately $15 million to its defined benefit pension and postretirement benefit plans during 2007, including approximately $10 million to cover benefit payments for its unfunded plans.

17. Share-Based Payments

Mattel has various stock compensation plans, which are more fully described in Note 7 to the Consolidated Financial Statements in its 2006 Annual Report on Form 10-K. Under the Mattel, Inc. 2005 Equity Compensation Plan (the 2005 Plan), Mattel has the ability to grant nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units (RSUs), dividend equivalent rights and shares of common stock to officers, employees, and other persons providing services to Mattel. Stock options expire no later than ten years from the date of grant and generally provide for vesting over a period of three years from the date of grant. Such stock options under the 2005 Plan were granted with exercise prices at or above the fair market value of Mattel s common stock on the applicable measurement dates.

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	(In thousands)			
Stock option compensation expense	$ 857	$ 522	$ 2,067	$ 1,137
RSU compensation expense	2,364	144	4,810	293
	$ 3,221	$ 666	$ 6,877	$ 1,430

As of June 30, 2007, total unrecognized compensation cost related to unvested share-based payments totaled $23.1 million and is expected to be recognized over a weighted-average period of 2.2 years.

Mattel uses treasury shares purchased under its share repurchase program to satisfy stock option exercises. Cash received for stock options exercises during the six months ended June 30, 2007 and 2006 was $217.2 million and $15.0 million, respectively, and the tax benefit recognized as additional paid-in capital during the six months ended June 30, 2007 and 2006 was $3.8 million and $0.8 million, respectively.

18. Contingencies

Litigation Related to LeapFrog Enterprises, Inc.

Fisher-Price, Inc. (Fisher-Price), a subsidiary of Mattel, was sued for patent infringement by LeapFrog Enterprises, Inc. in a lawsuit filed in October 2003 in the United States District Court for the District of Delaware, and in September 2004, Mattel was joined to the lawsuit as a

defendant. The lawsuit alleged that Fisher-Price s PowerTouch system infringed a LeapFrog patent relating to an electronic learning device for teaching phonics. A 10-day trial commenced on May 16, 2005, which resulted in a deadlocked jury. As an alternative to retrying the case, the parties agreed to submit the case for decision, based on the existing trial record, to the presiding judge. The plaintiff in this lawsuit asserted a total damages claim of up to approximately $90 million, which was reduced to approximately $58 million pursuant to rulings by the Court, and sought an injunction preventing the further sale of the PowerTouch system; the damages could possibly have been trebled if a willful infringement had been found. On March 30, 2006, the Court issued a Memorandum and Order holding that Mattel and Fisher-Price did not infringe LeapFrog s patent and furthermore holding that LeapFrog s patent claim, which was the basis of LeapFrog s lawsuit, was invalid due to obviousness. On May 1, 2006,

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LeapFrog filed an appeal of the Court s ruling with the Court of Appeals for the Federal Circuit. On March 7, 2007, oral argument with regard to the appeal took place before a three-judge panel of the Court of Appeals. On May 9, 2007, the Federal Circuit Court of Appeals affirmed the Delaware District Court s ruling of non-infringement in favor of Mattel and its subsidiary Fisher-Price and also affirmed the holding that the LeapFrog patent claim was invalid. LeapFrog did not request a rehearing before a larger panel of the Federal Circuit Court of Appeals within the time period permitted for requesting such a rehearing. LeapFrog has until August 7, 2007 (90 days from the entry of judgment of the Federal Circuit Court of Appeals) to petition the United States Supreme Court by writ of certiorari to consider hearing an appeal of the Court of Appeals decision. Mattel and Fisher-Price continue to believe the claims against them are without merit and intend to continue defending themselves vigorously against such claims.

Litigation Related to Carter Bryant and MGA Entertainment, Inc.

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

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

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

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

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

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19. Segment Information

Mattel s operating segments are separately managed business units and are divided on a geographic basis between domestic and international. On October 10, 2005, Mattel announced the consolidation of its domestic Mattel Girls & Boys Brands and Fisher-Price Brands divisions into one division. The creation of the Mattel Brands division, which resulted in the consolidation of some management and support functions, preserved the natural marketing and design groups that are empowered to create and market toys based on gender and age groups and is expected to more effectively and efficiently leverage Mattel s scale. These changes are consistent with Mattel s ongoing strategy to enhance innovation and improve execution. In connection with this consolidation, Mattel executed an initiative in 2006 to streamline its workforce, primarily in El Segundo, California. The consolidation of these divisions did not change Mattel s operating segments.

Mattel s domestic operating segments include:

Mattel Girls & Boys Brands including Barbie® fashion dolls and accessories (Barbie®), Polly Pocket!, Pixel Chix, Winx Club and Disney Classics (collectively Other Girls Brands), Hot Wheels®, Matchbox® and Tyco® R/C vehicles and playsets (collectively Wheels) and Batman, CARS, Superman, Radica®, and games and puzzles (collectively Entertainment).

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

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

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

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	(In thousands)			
Revenues				
Domestic:				
Mattel Girls & Boys Brands US	$ 242,403	$ 264,178	$ 472,195	$ 493,877
Fisher-Price Brands US	241,682	231,614	491,717	431,254
American Girl Brands	55,768	61,639	118,686	123,507
Total Domestic	539,853	557,431	1,082,598	1,048,638
International	568,840	483,889	1,050,931	858,134
Gross sales	1,108,693	1,041,320	2,133,529	1,906,772
Sales adjustments	(106,068)	(83,665)	(190,639)	(155,770)
	$ 1,002,625	$ 957,655	$ 1,942,890	$ 1,751,002

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	(In thousands)			
Segment Income				
Domestic:				
Mattel Girls & Boys Brands US	$ 18,648	$ 34,380	$ 28,346	$ 47,787
Fisher-Price Brands US	7,217	19,692	30,111	18,910
American Girl Brands	(2,065)	523	(2,733)	564
Total Domestic	23,800	54,595	55,724	67,261
International	37,345	34,764	75,698	40,204
	61,145	89,359	131,422	107,465
Corporate and other expense (a)	24,296	39,448	73,942	89,545
Operating income	36,849	49,911	57,480	17,920
Interest expense	14,132	16,078	28,615	31,281
Interest (income)	(10,482)	(6,441)	(22,442)	(15,261)
Other non-operating (income), net	(3,266)	(2,080)	(796)	(3,959)
Income before income taxes	$ 36,465	$ 42,354	$ 52,103	$ 5,859

(a)

Corporate and other expense includes (i) charges related to severance of $0.9 million and $1.4 million for the three and six months ended June 30, 2007, respectively, and $2.2 million and $15.2 million for the three and six months ended June 30, 2006, respectively, and (ii) stock compensation expense of $3.2 million and $6.9 million for the three and six months ended June 30, 2007, respectively, and $0.7 million and $1.4 million for the three and six months ended June 30, 2006, respectively. The 2006 severance charge was related to the January 2006 reduction of over 200 positions, primarily in connection with streamlining of the Mattel Brands organization.

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	June 30, 2007	June 30, 2006	December 31, 2006
		(In thousands)	
Assets			
Domestic:			
Mattel Girls & Boys Brands US	$ 254,927	$ 258,020	$ 296,533
Fisher-Price Brands US	248,891	244,651	217,124
American Girl Brands	76,852	76,560	61,014
Total Domestic	580,670	579,231	574,671
International	800,939	616,176	663,393
	1,381,609	1,195,407	1,238,064
Corporate and other	85,799	86,819	88,898
Accounts receivable and inventories	$ 1,467,408	$ 1,282,226	$ 1,326,962

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
		(In thousands)		
Worldwide Revenues				
Mattel Girls & Boys Brands	$ 638,361	$ 609,627	$ 1,205,409	$ 1,102,834
Fisher-Price Brands	410,382	365,717	801,633	672,955
American Girl Brands	55,768	61,639	118,686	123,507
Other	4,182	4,337	7,801	7,476
Gross sales	1,108,693	1,041,320	2,133,529	1,906,772
Sales adjustments	(106,068)	(83,665)	(190,639)	(155,770)
Net sales	$ 1,002,625	$ 957,655	$ 1,942,890	$ 1,751,002

20. New Accounting Pronouncements

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which provides guidance for using fair value to measure assets and liabilities. The standard also responds to investors requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. Under SFAS No. 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to

quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity s own data. Fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS No. 157 is effective for Mattel as of January 1, 2008. Mattel does not expect the adoption of SFAS No. 157 to have a material impact on its results of operations and financial position.

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SFAS No. 159

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS No. 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for Mattel as of January 1, 2008. Mattel does not expect the adoption of SFAS No. 159 to have a material impact on its results of operations or financial position.

21. Subsequent Events

In July 2007, Mattel determined that certain products, manufactured by a third-party contract manufacturer in China, were produced using a non-approved paint containing lead in excess of applicable regulatory and Mattel standards. Mattel has initiated the process of recalling these products. Accordingly, during the three months ended June 30, 2007, Mattel reversed sales associated with these products, recorded an impairment of the affected inventory, and accrued other recall-related costs.

Mattel has launched a thorough investigation and expanded its testing programs to ensure that painted finished goods, at third-party contract manufacturers as well as facilities operated by Mattel, are systematically tested prior to being shipped to customers. Additionally, information became available in July 2007 on other smaller product recalls and similar charges were recorded. These recalls resulted in a total reduction to operating income of $28.8 million for the three and six months ended June 30, 2007. Although management is not aware of any additional significant issues associated with lead in paints used on its products, there can be no assurance that additional issues will not be identified in the future.

Mattel believes that it has some of the most rigorous quality and safety testing procedures in the toy industry. Management also believes that Mattel s history of acting responsibly and quickly will maintain the trust of its customers and consumers. However, these recalls may have a negative impact on both customer and consumer demand for Mattel s products in the future.

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

MATTEL, INC. AND SUBSIDIARIES

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Overview

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

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

Mattel Girls & Boys Brands including Barbie® fashion dolls and accessories (Barbie®), Polly Pocket!, Pixel Chix, Winx Club and Disney Classics (collectively Other Girls Brands), Hot Wheels®, Matchbox® and Tyco® R/C vehicles and playsets (collectively Wheels) and Batman, CARS, Superman, Radica®, and games and puzzles (collectively Entertainment).

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

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

On October 10, 2005, Mattel announced the consolidation of its domestic Mattel Girls & Boys Brands and Fisher-Price Brands divisions into one division. The creation of the Mattel Brands division, which resulted in the consolidation of some management and support functions, preserved the natural marketing and design groups that are empowered to create and market toys based on gender and age groups and is expected to more effectively and efficiently leverage Mattel s scale. These changes are consistent with Mattel s ongoing goals to enhance innovation and improve execution. In connection with this consolidation, Mattel executed an initiative in 2006 to streamline its workforce, primarily in El Segundo, California. The consolidation of these divisions did not change Mattel s operating segments.

Management believes that the business environment for Mattel for the remainder of 2007 will be similar to that of 2006. Mattel expects to continue facing challenges both domestically and internationally as retailers continue to tightly manage inventory. Additionally, Mattel has experienced continued cost pressures in the areas of product costs, including oil-based resin and zinc, and employee-related costs. Management believes that Mattel will continue to encounter a challenging retail environment as well as cost pressures.

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

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

The second goal is to improve execution in areas including manufacturing, distribution and selling. In 2007, Mattel is continuing to focus on improving the efficiency of its supply chain using lean supply chain initiatives. The objective of the lean program is to improve the flow of processes, do more with less, and focus on the value chain from beginning to end.

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

Results of Operations Second Quarter

Consolidated Results

Net sales for the second quarter of 2007 were $1.0 billion, up 5% compared to $957.7 million in 2006, including favorable changes in currency exchange rates of 3 percentage points. Net income for the second quarter of 2007 was $22.8 million, or $0.06 per diluted share, as compared to $37.4 million in the second quarter of 2006, or $0.10 per diluted share.

In July 2007, Mattel determined that certain products, manufactured by a third-party contract manufacturer in China, were produced using a non-approved paint containing lead in excess of applicable regulatory and Mattel standards. Mattel has initiated the process of recalling these products. Accordingly, during the three months ended June 30, 2007, Mattel reversed sales associated with these products, recorded an impairment of the affected inventory, and accrued other recall-related costs. Mattel has launched a thorough investigation and expanded its testing programs to ensure that painted finished goods, at third-party contract manufacturers as well as facilities operated by Mattel, are systematically tested prior to being shipped to customers. Additionally, information became available in July 2007 on other smaller product recalls and similar charges were recorded. These recalls resulted in a total reduction to operating income of $28.8 million for the second quarter of 2007 (collectively the Product Recalls). Although management is not aware of any additional significant issues associated with lead in paints used on its products, there can be no assurance that additional issues will not be identified in the future. Mattel believes that it has some of the most rigorous quality and safety testing procedures in the toy industry. Management also believes that Mattel s history of acting responsibly and quickly will maintain the trust of its customers and consumers. However, these recalls may have a negative impact on both customer and consumer demand for Mattel s products in the future.

Net income for the second quarter of 2006 was positively impacted by $6.2 million of income tax benefits, primarily related to an audit settlement with a state tax authority.

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The following table provides a summary of Mattel s consolidated results for the second quarter of 2007 and 2006 (in millions, except percentage and basis point information):

	For the Three Months Ended June 30,					
	2007		2006		Year/Year Change	
	Amount	% of Net Sales	Amount	% of Net Sales	%	Basis Points of Net Sales
Net sales	$ 1,002.6	100.0%	$ 957.7	100.0%	5%	
Gross profit	$ 443.2	44.2%	$ 416.1	43.5%	6%	70
Advertising and promotion expenses	107.1	10.7	100.6	10.5	7%	20
Other selling and administrative expenses	299.3	29.8	265.6	27.7	13%	210
Operating income	36.8	3.7	49.9	5.2		(150)
Interest expense	14.1	1.4	16.1	1.7	12%	(30)
Interest (income)	(10.5)	1.0	(6.4)	0.7	63%	(30)
Other non-operating (income), net	(3.3)		(2.2)			
Income before income taxes	$ 36.5	3.6%	$ 42.4	4.4%		(80)

Sales

Net sales for the second quarter of 2007 were $1.0 billion, up 5% compared to $957.7 million in 2006, including favorable changes in currency exchange rates of 3 percentage points. Gross sales within the US decreased 3%, as compared to 2006, and accounted for 48.7% of consolidated gross sales in 2007, as compared to 53.5% in 2006. In 2007, gross sales in international markets increased 18%, as compared to 2006, including favorable changes in currency exchange rates of 7 percentage points.

Worldwide gross sales of Mattel Girls & Boys Brands increased 5% in the second quarter of 2007 to $638.4 million, with favorable changes in currency exchange rates of 4 percentage points. Domestic gross sales of Mattel Girls & Boys Brands decreased 8% compared to the second quarter of 2006 and international gross sales increased 15%, with favorable changes in currency exchange rates of 7 percentage points. Worldwide gross sales of Barbie® increased 6% from the second quarter of 2006, with favorable changes in currency exchange rates of 4 percentage points, primarily driven by higher sales of Barbie® Reality and Barbie® Collector products, partially offset by lower sales of Barbie® Fantasy products. International gross sales of Barbie® increased 13%, including favorable changes in currency exchange rates of 6 percentage points, while domestic gross sales of Barbie® decreased 5% in the second quarter of 2007. Worldwide gross sales of Other Girls products decreased 1%, including favorable changes in currency exchange rates of 4 percentage points, with sales declines in Pixel Chix worldwide and Polly Pocket! domestically. Worldwide gross sales of Wheels products increased 20%, including favorable changes in currency exchange rates of 5 percentage points, primarily as a result of strong sales growth in Hot Wheels® internationally and Matchbox® worldwide. Worldwide gross sales of Entertainment products decreased 2%, including favorable changes in currency exchange rates of 4 percentage points, primarily driven by lower sales of Superman® products, which was partially offset by continued strong worldwide sales of CARS products and the inclusion of $17.4 million of Radica® sales.

Worldwide gross sales of Fisher-Price Brands increased 12% in the second quarter of 2007 to $410.4 million, including favorable changes in currency exchange rates of 2 percentage points. Worldwide sales of Core Fisher-Price® increased 22%, including favorable changes in currency exchange rates of 3 percentage points, primarily driven by continued strength in preschool, infant, newborn, and BabyGear products. Worldwide gross sales of Fisher-Price® Friends decreased 3%, including a 1 percentage point benefit from changes in currency exchange rates, primarily driven by lower sales of Dora the Explorer, which were partially offset by strong sales of T.M.X. Elmo and Go, Diego, Go!.

American Girl Brands gross sales decreased 10% in the second quarter of 2007 to $55.8 million, as compared to $61.6 million in the second quarter of 2006, driven by declining sales of the historical characters.

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Cost of Sales

Cost of sales increased by $18.0 million, or 3%, from $541.5 million in the second quarter of 2006 to $559.5 million in the second quarter of 2007, as compared to a 5% increase in net sales. On an overall basis, cost of sales increased primarily due to increased sales volume. Within cost of sales, product costs increased by $20.7 million, or 5%, from $427.8 million in the second quarter of 2006 to $448.5 million in the second quarter of 2007, which was primarily driven by increased sales volume, partially offset by cost savings realized from supply chain efficiency initiatives. Royalty expense decreased by $5.3 million, or 11%, from $49.1 million in the second quarter of 2006 to $43.8 million in second quarter of 2007, and is primarily reflective of product mix. Freight and logistics expenses increased by $2.6 million, or 4%, from $64.6 million in the second quarter of 2006 to $67.2 million in the second quarter of 2007. The increase in freight and logistics expenses was due to increased sales volume, partially offset by cost savings from supply chain and distribution center efficiency initiatives. The Product Recalls increased cost of sales by $10.1 million in the second quarter of 2007.

Gross Profit

Gross profit, as a percentage of net sales, was 44.2% in the second quarter of 2007, as compared to 43.5% in the second quarter of 2006. The improvement in gross profit was driven by favorable exchange rates, modest price increases, lower royalty costs, and supply chain savings, partially offset by the impact of the Product Recalls and external cost pressures. Certain items affecting gross profit are discrete to the period, and may not be indicative of future results. The Product Recalls had the effect of decreasing gross profit as a percentage of net sales by 190 basis points.

Advertising and Promotion Expenses

Advertising and promotion expenses were 10.7% of net sales in the second quarter of 2007 as compared to 10.5% of net sales in the second quarter of 2006.

Other Selling and Administrative Expenses

Other selling and administrative expenses were $299.2 million, or 29.8% of net sales, in the second quarter of 2007, as compared to $265.7 million, or 27.7% of net sales, in the second quarter of 2006. In absolute dollars, other selling and administrative expenses increased in 2007 primarily due to higher investments in the business, including design and development costs and expansion in international markets, the impact of foreign currency exchange rates, increases in employee-related costs, and the inclusion of Radica® costs. Compensation expense related to stock options and RSUs totaled $3.2 million in the second quarter of 2007 as compared to $0.7 million in the second quarter of 2006.

Non-Operating Items

Interest expense decreased from $16.1 million in the second quarter of 2006 to $14.1 million in the second quarter of 2007, due to lower average borrowings. Interest (income) increased from $6.4 million in the second quarter of 2006 to $10.5 million in the second quarter of 2007 due to

overall higher average cash balances. Other non-operating (income) was $3.3 million in the second quarter of 2007 as compared to other non-operating (income) of $2.1 million in the second quarter of 2006.

Provision for Income Taxes

Mattel s provision for income taxes for the second quarter of 2007 includes income tax expense of $5.3 million relating to a change in a New York state tax law. During the second quarter of 2006, Mattel recognized income tax benefits of $6.2 million, primarily due to a settlement with a state tax authority for tax years 1997 and 1998. Mattel s effective tax rate for 2007 is expected to be approximately 24% to 25%, which could be positively or negatively impacted by the results of routine audits by federal, state, and foreign tax authorities.

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Business Segment Results

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

Domestic Segment

Mattel Girls & Boys Brands US gross sales decreased to $242.4 million in the second quarter of 2007 compared to $264.2 million in the second quarter of 2006. Within this segment, gross sales of Barbie® products decreased 5%, primarily driven by sales declines in Barbie® Fantasy, partially offset by higher sales of Barbie® Collector products. Gross sales of Other Girls products decreased 17%, primarily driven by lower sales of Polly Pocket! and Pixel Chix products. Gross sales of Wheels products decreased 1%, primarily driven by lower sales of Hot Wheels® products, partially offset by higher sales of Matchbox® products. Gross sales of Entertainment products decreased 13%, primarily driven by lower sales of Superman, partially offset by continued strong sales of CARS products, and the inclusion of Radica® sales of $12.7 million. Mattel Girls & Boys Brands US segment operating income decreased $15.7 million to $18.6 million in the second quarter of 2007, largely driven by lower sales volume, the impact of the Product Recalls, and higher other selling and administrative expenses. The Product Recalls decreased Mattel Girls & Boys Brands US segment income by approximately $4.2 million during the second quarter of 2007.

Fisher-Price Brands US gross sales increased 4% in the second quarter of 2007 compared to the second quarter of 2006, reflecting an increase in sales of Core Fisher-Price® products, partially offset by a decrease in sales of Fisher-Price® Friends products. Sales increases in Core Fisher-Price® products reflected strong sales of preschool, newborn, and BabyGear products. Lower sales of Fisher-Price® Friends products were driven primarily by sales declines in Dora the Explorer, which were partially offset by higher sales of T.M.X. Elmo and Go, Diego, Go!. Fisher-Price Brands US segment income decreased $12.5 million to $7.2 million in the second quarter of 2007 from $19.7 million in the second quarter of 2006, primarily due to the impact of the Product Recalls and higher other selling and administrative expenses, partially offset by higher sales volume. The Product Recalls decreased Fisher-Price Brands US segment operating income by approximately $14.7 million during the second quarter of 2007.

American Girl Brands gross sales decreased 10% in the second quarter of 2007, as compared to the second quarter of 2006, primarily due to declining sales in the historical characters. American Girl Brands segment operating income declined from income of $523 thousand in the second quarter of 2006 to a loss of $2.1 million in the second quarter of 2007, primarily due to lower sales volume.

International Segment

The following table provides a summary of percentage changes in gross sales within the International segment for the second quarter of 2007 versus 2006:

Non-US Regions:	% Change in Gross Sales	Impact of Change in Currency Rates (in % pts)
Total International	18	7

Europe	14	6
Latin America	34	7
Asia Pacific	11	6
Other	(10)	2

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International gross sales increased by 18% in the second quarter of 2007, as compared to the first quarter of 2006, including favorable changes in currency exchange rates of 7 percentage points. Gross sales of Barbie® increased 13% in the second quarter of 2007, including favorable changes in currency exchange rates of 6 percentage points, primarily due to Barbie® Fantasy and Barbie® Collector products. Gross sales of Other Girls products increased 10% in the second quarter of 2007, including favorable changes in currency exchange rates of 7 percentage points, primarily driven by higher sales of Polly Pocket! products, partially offset by sales declines in Pixel Chix. Gross sales of Wheels products increased 36%, including favorable changes in currency exchange rates of 8 percentage points, reflecting growth in Hot Wheels® and Matchbox®. Gross sales of Entertainment products increased 6%, including favorable changes in currency exchange rates of 6 percentage points, primarily driven by strong sales of CARS products, growth in the games business, and the inclusion of Radica® sales, partially offset by lower sales of Superman products. Gross sales of Fisher-Price Brands increased 26%, including favorable changes in currency exchange rates of 6 percentage points, driven by strong sales in both Core Fisher-Price® and Fisher-Price® Friends. International segment income increased from $34.8 million in the second quarter of 2006 to $37.3 million in the second quarter of 2007, primarily due to increased sales volume, partially offset by higher other selling and administrative expenses and the impact of the Product Recalls. The Product Recalls decreased International segment operating income by approximately $9.9 million during the second quarter of 2007.

Results of Operations First Half

Consolidated Results

Net sales for the first half of 2007 were $1.94 billion, up 11% compared to $1.75 billion in 2006, including favorable changes in currency exchange rates of 3 percentage points. Net income for the first half of 2007 was $34.8 million, or $0.09 per diluted share, as compared to a net income of $67.6 million, or $0.17 per diluted share for the first half of 2006. The Product Recalls reduced operating income by $28.8 million for the first half of 2007. Net income for the first half of 2006 was positively impacted by $63.0 million of income tax benefits, primarily related to audit settlements with state and foreign tax authorities.

The following table provides a summary of Mattel s consolidated results for the first half of 2007 and 2006 (in millions, except percentage and basis point information):

	For the Six Months Ended June 30,					
	2007		2006		Year/Year Change	
	Amount	% of Net Sales	Amount	% of Net Sales	%	Basis Points of Net Sales
Net sales	$ 1,942.9	100.0%	$ 1,751.0	100.0%	11%	
Gross profit	$ 861.8	44.4%	$ 748.1	42.7%	15%	170
Advertising and promotion expenses	212.4	10.9	189.4	10.8	12%	10
Other selling and administrative expenses	591.9	30.5	540.8	30.9	9%	(40)
Operating income	57.5	3.0	17.9	1.0		200
Interest expense	28.6	1.5	31.3	1.8	9%	(30)
Interest (income)	(22.4)	1.1	(15.3)	0.9	47%	(20)
Other non-operating (income), net	(0.8)		(4.0)			
Income before income taxes	$ 52.1	2.7%	$ 5.9	0.3%		240

Sales

Net sales for the first half of 2007 were $1.94 billion, up 11% compared to $1.75 billion in 2006, including favorable changes in currency exchange rates of 3 percentage points. Gross sales within the US increased 3% in the first half of 2007, as compared to 2006, and accounted for 51% of consolidated gross sales in the first half of

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2007, as compared to 55.0% in 2006. Gross sales in international markets increased 22% in the first half of 2007, as compared to 2006, including favorable changes in currency exchange rates of 6 percentage points.

Worldwide gross sales of Mattel Girls & Boys Brands increased 9% in the first half of 2007 to $1.21 billion, with favorable changes in currency exchange rates of 4 percentage points. Domestic gross sales of Mattel Girls & Boys Brands decreased 4% compared to the first half of 2006 and international gross sales increased 20%, with favorable changes in currency exchange rates of 6 percentage points. Worldwide gross sales of Barbie® increased 4% from 2006, with favorable changes in currency exchange rates of 4 percentage points, primarily driven by higher sales of Barbie® Reality and Barbie® Collector products, partially offset by lower sales of Barbie® Fantasy products. In the first half of 2007, domestic gross sales of Barbie® declined 13%, and international gross sales increased 16%, including favorable changes in currency exchange rates of 6 percentage points. Worldwide gross sales of Other Girls products declined 5%, including favorable changes in currency exchange rates of 4 percentage points, due to sales declines in Polly Pocket! domestically and Pixel Chix worldwide, partially offset by higher sales of Polly Pocket! internationally. Worldwide gross sales of Wheels products increased 18%, including favorable changes in currency exchange rates of 4 percentage points, primarily as a result of strong sales growth in Hot Wheels® internationally and Matchbox® worldwide. Worldwide gross sales of Entertainment products increased 18%, including favorable changes in currency exchange rates of 4 percentage points, primarily driven by continued strong worldwide sales of CARS products, growth in the games business and the inclusion of $36.8 million of Radica® sales, partially offset by lower sales of Superman products.

Worldwide gross sales of Fisher-Price Brands were $801.6 million, up 19% in the first half of 2007, including favorable changes in currency exchange rates of 2 percentage points. Worldwide sales of Core Fisher-Price® increased 24%, including favorable changes in currency exchange rates of 2 percentage points, primarily driven by continued strength in infant, newborn, preschool, and BabyGear products. Worldwide gross sales of Fisher-Price® Friends increased 18%, with a 2 percentage point benefit from foreign exchange, primarily driven by continued strength of Go, Diego, Go!, The Backyardigans, and T.M.X. Elmo, partially offset by sales declines of Dora the Explorer products.

American Girl Brands gross sales were $118.7 million, down 4% in the first half of 2007, as compared to $123.5 million in the first half of 2006, primarily due to declining sales in the historical characters, partially offset by sales from the American Girl Place® retail store in Los Angeles, California, which opened in April 2006.

Cost of Sales

Cost of sales in the first half of 2007 were $1.08 billion, up $78.1 million or 8%, from $1.0 billion in 2006, as compared to a 11% increase in net sales. On an overall basis, cost of sales increased primarily due to increased sales volume. Within cost of sales, product costs increased by $75.6 million, or 10%, from $789.3 million in the first half of 2006 to $864.9 million in the first half of 2007, which was primarily driven by increased sales volume, partially offset by cost savings realized from supply chain efficiency initiatives. Royalty expense decreased $2.3 million, or 3%, from $82.1 million in the first half of 2006 to $79.8 million in first half of 2007, and is reflective of product mix. Freight and logistics expenses increased by $4.8 million, or 4%, from $131.5 million in the first half of 2006 to $136.3 million in the first half of 2007. The increase in freight and logistics expenses was due to increased sales volume, partially offset by cost savings from supply chain and distribution center efficiency initiatives. The Product Recalls increased cost of sales by $10.1 million in the first half of 2007.

Gross Profit

Gross profit, as a percentage of net sales, was 44.4% in the first half of 2007 as compared to 42.7% in the first half of 2006. The improvement in gross profit was primarily driven by moderate price increases, favorable

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exchange rates, supply chain savings and lower royalty costs, partially offset by external cost pressures and the impact of the Product Recalls. Certain items affecting gross profit are discrete to the period, and may not be indicative of future results. The Product Recalls had the effect of decreasing gross profit as a percentage of net sales by 100 basis points.

Advertising and Promotion Expenses

Advertising and promotion expenses were 10.9% of net sales in the first half of 2007 as compared to 10.8% of net sales in the first half of 2006.

Other Selling and Administrative Expenses

Other selling and administrative expenses were $592.0 million, or 30.5% of net sales, in the first half of 2007 as compared to $540.8 million, or 30.9% of net sales, in the first half of 2006. In absolute dollars, other selling and administrative expenses increased in 2007 primarily due to higher investments in the business, including design and development costs and expansion in international markets, the impact of foreign exchange rates, increases in employee-related costs, and the inclusion of Radica® costs. Compensation expense related to stock options and RSUs totaled $6.9 million in the first half of 2007 as compared to $1.4 million in the first half of 2006. The first half of 2006 also included a $15.2 million severance charge related to the streamlining of Mattel Brands organization.

Non-Operating Items

Interest expense decreased from $31.3 million in the first half of 2006 to $28.6 million in the first half of 2007, due to lower average borrowings. Interest (income) increased from $15.3 million in the first half of 2006 to $22.4 million in the first half of 2007, primarily due to higher average cash balances. Other non-operating (income), net was $0.8 million in the first half of 2007 as compared to $4.0 million in the first half of 2006.

Provision for Income Taxes

Mattel s provision for income taxes for the first half of 2007 includes income tax expense of $5.3 million relating to a change in a New York state tax law. During the first half of 2006, Mattel recognized income tax benefits of $63.0 million related to settlements with taxing authorities, including $56.8 million as a result of settlements with foreign tax authorities during the first quarter of 2006 and $6.2 million, primarily due to a settlement with a state tax authority for tax years 1997 and 1998 during the second quarter of 2006. Mattel s effective tax rate for 2007 is expected to be approximately 24% to 25%, which could be positively or negatively impacted by the results of routine audits by federal, state, and foreign tax authorities.

Business Segment Results

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

Domestic Segment

Mattel Girls & Boys Brands US gross were $472.2 million in the first half of 2007, down $21.7 million or 4%, as compared to $493.9 million in the first half of 2006. Within this segment, gross sales of Barbie® products decreased 13%, primarily driven by sales declines in Barbie® Fantasy products. Gross sales of Other Girls products decreased 21%, primarily driven by sales declines of Polly Pocket! and Pixel Chix products. Gross sales of Wheels products increased 1%, driven primarily by higher sales of Matchbox® products. Gross sales of Entertainment products increased 9%, driven by continued strong sales of CARS products and the inclusion of

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Radica® sales of $27.6 million, partially offset by sales declines of Superman products. Mattel Girls & Boys Brands US segment income decreased $19.4 million, to $28.3 million in the first half of 2007, driven by lower sales volume, the impact of the Product Recalls, and higher other selling and administrative expenses. The Product Recalls decreased Mattel Girls & Boys Brands US segment operating income by approximately $4.2 million during the first half of 2007.

Fisher-Price Brands US gross sales increased 14% in the first half of 2007 compared to the first half of 2006, reflecting an increase in sales of Core Fisher-Price® and Fisher-Price® Friends products. Sales increases in Core Fisher-Price® products reflected strong sales of preschool, infant, and BabyGear products. Sales increases in Fisher-Price® Friends products were driven by continued strength of Go, Diego, Go!, The Backyardigans, and T.M.X. Elmo, partially offset by sales declines in Dora the Explorer. Fisher-Price Brands US segment income increased $11.2 million to $30.1 million in the first half of 2007 from $18.9 million in the first half of 2006, primarily due to higher sales volume and improved gross profit, partially offset by higher other selling and administrative expenses and the impact of the Product Recalls. The Product Recalls decreased Fisher-Price Brands US segment operating income by approximately $14.7 million during the first half of 2007.

American Girl Brands gross sales declined 4% in the first half of 2007, as compared to the first half of 2006, primarily due to declining sales in the historical characters, partially offset by sales from the American Girl Place® retail store in Los Angeles, California, which opened in April 2006. American Girl Brands segment operating income declined from income of $564 thousand in the first half 2006 to a loss of $2.7 million in the first half of 2007, primarily due to lower sales volume 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 for the first half of 2007 versus 2006:

Non-US Regions:	% Change in Gross Sales	Impact of Change in Currency (in % pts)
Total International	22	6
Europe	24	7
Latin America	34	5
Asia Pacific	11	5
Other	(8)	

International gross sales increased by 22% in the first half of 2007, as compared to the first half of 2006, including favorable changes in currency exchange rates of 6 percentage points. Gross sales of Barbie® increased 16% in the first half of 2007, including favorable changes in currency exchange rates of 6 percentage points, primarily due to Barbie® Reality and Barbie® Fantasy products. Gross sales of Other Girls products increased 6% in the first half of 2007, including favorable changes in currency exchange rates of 6 percentage points. Gross sales of Wheels products increased 32%, including favorable changes in currency exchange rates of 7 percentage points, reflecting growth in Hot Wheels® and Matchbox®. Gross sales of Entertainment products increased 26%, including favorable changes in currency exchange rates of 7 percentage points, driven by strong sales of CARS products, growth in the games business, and the inclusion of Radica® sales, partially offset by sales declines of Superman products. Gross sales of Fisher-Price Brands increased 28%, including favorable changes in currency exchange rates of 6 percentage points, driven by strong sales in both Core Fisher-Price® and Fisher-Price® Friends products. International segment income was $75.7 million in the first half of 2007, up $35.5 million from $40.2 million in the first half of 2006, primarily due to increased sales volume and improved gross profit as a percentage of net sales, partially offset by higher other selling and administrative expenses and the impact of the Product Recalls. The Product Recalls decreased International segment operating income by approximately $9.9 million during the first half of 2007.

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Income Taxes

During the second quarter of 2007, the state of New York enacted corporate tax law changes, effective retroactive to January 1, 2007, reducing its corporate tax rate from 7.5% to 7.1% and modifying its method of apportioning income to a single weighted sales factor. As a result of the law changes, Mattel s effective New York state tax rate decreased, resulting in a reduction of $5.3 million to previously recorded deferred tax assets during the three months ended June 30, 2007. Mattel s effective tax rate for 2007 is expected to be approximately 24% to 25%, which could be positively or negatively impacted by the results of routine audits by federal, state, and foreign tax authorities.

During the first half of 2006, Mattel recognized income tax benefits of $63.0 million related to settlements with taxing authorities, including $56.8 million as a result of settlements with foreign tax authorities during the first quarter of 2006 and $6.2 million, primarily due to a settlement with a state tax authority for tax years 1997 and 1998 during the second quarter of 2006.

Liquidity and Capital Resources

Mattel s primary sources of liquidity are its cash balances and access to short-term borrowing facilities. Cash flows from operations 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 an inability to meet its debt covenant requirements, which include maintaining consolidated debt-to-capital 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.

Capital and Investment Framework

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

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

Over the long-term, assuming cash flows from operating activities remain strong, Mattel plans to use its free cash flows to invest in strategic acquisitions and to return funds to shareholders through cash dividends and, depending on market conditions, share repurchases. However, the ability to implement successfully 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 from investing activities.

Operating Activities

Cash flows used for operating activities were $491.6 million in the first half of 2007, as compared to $357.9 million used in the first half of 2006. The increase in cash flows used for operating activities was

primarily due to changes in the amount and timing of accrued liabilities and accounts payables and increased inventory levels, partially offset by collections on accounts receivable.

Investing Activities

Cash flows used for investing activities in the first half of 2007 increased $70.4 million to $136.9 million, as compared to $66.5 million used in the first half of 2006, mainly due to the May 2007 acquisition of Origin Products Limited for $78.9 million, including acquisition costs, partially offset by decreased capital expenditures in the first half of 2007, mainly due to the 2006 construction of the American Girl Place® in Los Angeles, California. Mattel s spending level for 2007 is expected to be below the long-term targets of $180-$200 million, as set forth in the capital and investment framework.

Financing Activities

Cash flows from financing activities in the first half of 2007 were $162.2 million, as compared to cash flow provided from financing activities of $47.1 million in the first half of 2006. The increase in cash flows from financing activities was primarily due to higher proceeds from the exercise of stock options in the first half of 2007, and share repurchases in the first half of 2006, which were partially offset by the use of cash to repay borrowings in the first half of 2007 compared to net cash proceeds from borrowings in the first half of 2006.

Seasonal Financing

Mattel maintains and periodically amends or replaces a $1.3 billion domestic unsecured committed revolving credit facility with a commercial bank group that is used as the primary source of financing for the seasonal working capital requirements of its domestic subsidiaries. The agreement expires on March 23, 2010 and interest is charged at various rates selected by Mattel, ranging from market commercial paper rates to the bank reference rate. The credit facility contains a variety of covenants, including financial covenants that require Mattel to maintain certain consolidated debt-to-capital and interest coverage ratios. Specifically, Mattel is required to meet these financial covenant ratios at the end of each fiscal quarter and fiscal year, using the formulae specified in the credit agreement to calculate the ratios. Mattel was in compliance with such covenants at the end of the second quarter of 2007. As of June 30, 2007, Mattel s consolidated debt-to-capital ratio, as calculated per the terms of the credit agreement, was 0.20 to 1 (compared to a maximum allowed of 0.60 to 1) and Mattel s interest coverage ratio was 12.67 to 1 (compared to a minimum required of 3.50 to 1).

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

On December 9, 2005, Mattel, Mattel Asia Pacific Sourcing Limited (MAPS), a wholly-owned subsidiary of Mattel, Bank of America, N.A., as a lender and administrative agent, and other financial institutions executed a credit agreement (the MAPS facility) which provided for (i) a term loan facility of $225.0 million consisting of a term loan advanced to MAPS in the original principal amount of $225.0 million, with $50.0 million of such amount to be repaid on each of December 15, 2006 and December 15, 2007, and the remaining aggregate principal amount of $125.0 million to be repaid on December 9, 2008, and (ii) a revolving loan facility consisting of revolving loans advanced to MAPS in the maximum aggregate principal amount at any time outstanding of $100.0 million, with a maturity date of December 9, 2008. Interest was charged

at various rates selected by Mattel based on Eurodollar rates or bank reference rates. On December 15, 2006, in addition to the required payment of $50.0 million, MAPS prepaid an incremental $125.0 million of the MAPS term loan facility. The remaining $50.0 million principal amount, consisting of $14.3 million due on December 15, 2007 and $35.7 million due on December 9, 2008, was prepaid on January 16, 2007. As a result of such pre-payments, the MAPS term loan facility terminated in accordance with its terms, but the MAPS revolving loan facility remained in effect. On March 26, 2007, Mattel terminated the MAPS revolving loan facility. Mattel did not incur any early termination penalties in connection with the termination of the MAPS revolving loan facility.

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To finance seasonal working capital requirements of certain foreign subsidiaries, Mattel avails itself of individual short-term credit lines with a number of banks. Mattel expects to extend the majority of these credit lines throughout 2007.

In June 2006, Mattel issued $100.0 million of unsecured floating rate senior notes (Floating Rate Senior Notes) due June 15, 2009 and $200.0 million of unsecured 6.125% senior notes (6.125% Senior Notes) due June 15, 2011 (collectively Senior Notes). Interest on the Floating Rate Senior Notes is based on the three-month US Dollar London Interbank Offered Rate (LIBOR) plus 40 basis points with interest payable quarterly beginning September 15, 2006. Interest on the 6.125% Senior Notes is payable semi-annually beginning December 15, 2006. The 6.125% Senior Notes may be redeemed at any time at the option of Mattel at a redemption price equal to the greater of (i) the principal amount of the notes being redeemed plus accrued interest to the redemption date, or (ii) a make whole amount based on the yield of a comparable US Treasury security plus 20 basis points.

In June 2006, Mattel entered into two interest rate swap agreements on the $100.0 million Floating Rate Senior Notes, each in a notional amount of $50.0 million, for the purpose of hedging the variability of cash flows in the interest payments due to fluctuations of the LIBOR benchmark interest rate. These cash flow hedges are accounted for under Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities,* whereby the hedges are reported in Mattel s consolidated balance sheets at fair value, with changes in the fair value of the hedges reflected in accumulated other comprehensive loss. Under the terms of the agreements, Mattel receives quarterly interest payments from the swap counterparties based on the three-month LIBOR plus 40 basis points and makes semi-annual interest payments to the swap counterparties based on a fixed rate of 5.87125%. The three-month LIBOR rate used to determine interest payments under the interest rate swap agreements resets every three months, matching the variable interest on the Floating Rate Senior Notes. The agreements expire in June 2009, which corresponds with the maturity of the Floating Rate Senior Notes.

In March 2006, a major credit rating agency reduced Mattel s long-term credit rating to BBB-, but changed the outlook from negative to stable, and in June 2007, revised its outlook from stable to positive. In May 2006, another major credit rating agency reduced Mattel s long-term credit rating to BBB. In May 2007, another major credit rating agency maintained its long-term rating for Mattel at Baa2, but changed its long-term outlook from negative to stable. Management does not expect these actions to have a significant impact on Mattel s ability to obtain financing or to have a significant negative impact on Mattel s liquidity or results of operations.

Mattel believes its cash on hand, amounts available under its domestic unsecured committed revolving credit facility, and its foreign credit lines will be adequate to meet its seasonal financing requirements in 2007.

Mattel has a $300.0 million domestic receivables sales facility that is a sub-facility of Mattel s domestic unsecured committed revolving credit facility. The outstanding amount of receivables sold under the domestic receivables facility may not exceed $300.0 million at any given time, and the amount available to be borrowed under the credit facility is reduced to the extent of any such outstanding receivables sold. Under the domestic receivables facility, certain trade receivables are sold to a group of banks, which currently include, among others, Bank of America, N.A., as administrative agent, Citicorp USA, Inc. and Barclays Bank PLC, as co-syndication agents, and Societe Generale and BNP Paribas, as co-documentation agents. Pursuant to the domestic receivables facility, Mattel Sales Corp. and Fisher-Price, Inc. (which are wholly-owned subsidiaries of Mattel) can sell eligible trade receivables from Wal-Mart and Target to Mattel Factoring, Inc. (Mattel Factoring), a Delaware corporation and wholly-owned, consolidated subsidiary of Mattel. Mattel Factoring is a special purpose entity whose activities are limited to purchasing and selling receivables under this facility. Pursuant to the terms of the domestic receivables facility and simultaneous with each receivables purchase, Mattel Factoring sells those receivables to the bank group. Mattel records the transaction, reflecting cash proceeds and sale of accounts receivable in its consolidated balance sheet, at the time of the sale of the receivables to the bank group.

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Sales of receivables pursuant to the domestic receivables sale facility occur periodically, generally quarterly. The receivables are sold by Mattel Sales Corp. and Fisher-Price, Inc. to Mattel Factoring for a purchase price equal to the nominal amount of the receivables sold. Mattel Factoring then sells such receivables to the bank group at a slight discount, and Mattel acts as a servicer for such receivables. Mattel has designated Mattel Sales Corp. and Fisher-Price, Inc. as sub-servicers, as permitted by the facility. Mattel s appointment as a servicer is subject to termination events that are customary for such transactions. The domestic receivables sales facility is also subject to conditions to funding, representations and warranties, undertakings and early termination events that are customary for transactions of this nature. Mattel retains a servicing interest in the receivables sold under this facility.

Until the Master Agreement was terminated on February 9, 2007, Mattel International Holdings B.V., a company incorporated in the Netherlands (the Depositor), Mattel France, a company incorporated in France (Mattel France), and Mattel GmbH, a company incorporated in Germany (Mattel Germany), each of which is a subsidiary of Mattel, and Societe Generale Bank Nederland N.V. (SGBN), were parties to a Master Agreement for the Transfer of Receivables that established a Euro 150 million European trade receivables facility (the European trade receivables facility), pursuant to which Mattel France and Mattel Germany sold trade receivables to SGBN. The European trade receivables facility was subject to conditions to funding, representations and warranties, undertakings and early termination events that were customary for transactions of this nature.

Sales of receivables pursuant to the European trade receivables facility occurred monthly, with the last such sale occurring on January 10, 2007. The receivables were sold by Mattel France and Mattel Germany directly to SGBN for a purchase price equal to the nominal amount of the receivables sold. As a result, no Mattel subsidiary was used as a special purpose entity in connection with these transactions. A portion of the purchase price was funded by SGBN and a portion by a deposit provided by the Depositor. In connection with the termination of the Master Agreement, there was no deposit at June 30, 2007.

As with the domestic receivables facility, each sale of accounts receivable was recorded in Mattel s consolidated balance sheet at the time of such sale. Under the European trade receivables facility, the outstanding amount of receivables sold could not exceed Euro 60 million from February 1 through July 31 of each year and could not exceed Euro 150 million at all other times.

Each of Mattel France and Mattel Germany was appointed to service the receivables sold by it to SGBN. No servicing fees were paid by SGBN for such services. The appointment of each of Mattel France and Mattel Germany to act as servicer was subject to termination events that were customary for transactions of this nature.

Mattel France and Mattel Germany were obligated to pay certain fees to the Depositor in consideration of the Depositor providing the deposit to SGBN. Through the termination date, fees paid in 2007 by Mattel France and Mattel Germany to the Depositor were, on average, approximately 0.1% of the aggregate notional amount of sold receivables outstanding during such period.

In November 2006, the commitment termination date for the European trade receivables facility was extended until February 28, 2007. However, effective on February 9, 2007, the Depositor, Mattel France and Mattel Germany terminated the European trade receivable facility with SGBN. The Company determined the facility was no longer necessary based on projected international cash flows and seasonal financing needs.

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

	June 30, 2007	June 30, 2006	December 31, 2006
		(In millions)	
Receivables sold pursuant to the:			
Domestic receivables facility	$ 48.4	$ 51.3	$ 255.9
European receivables facility		64.2	103.9
Other factoring arrangements		13.7	52.5
	$ 48.4	$ 129.2	$ 412.3

Financial Position

Mattel s cash and equivalents at June 30, 2007 decreased $462.9 million to $742.6 million, as compared to year-end 2006, primarily due to seasonal increases in inventory, the May 2007 acquisition of Origin Products Limited for $78.9 million, including acquisition costs, the $50.0 million repayment of the MAPS term loan facility, the $30.0 million repayment of Medium-term notes and the timing of accrued liabilities and accounts payable payments, partially offset by accounts receivable collections and proceeds from stock option exercises.

The current portion of long-term debt decreased $40.0 million to $60.0 million at June 30, 2007, as compared to $100.0 million at June 30, 2006, primarily due to the $50.0 million repayment of the MAPS term loan facility and the $50.0 million repayment of Medium-term notes, partially offset by the reclassification of $60.0 million of Medium-term notes to current. Accounts payable and accrued liabilities decreased by $531.6 million from year-end 2006 to $824.7 million at June 30, 2007, mainly due to the timing of payments of various accrued liability balances, including incentive compensation, royalties, and advertising obligations, and a decrease in amounts due bank related to the European receivables facility. The current portion of income taxes payable decreased from $161.9 million at year-end 2006 to $20.6 million at June 30, 2007, primarily due to the reclassification of tax reserves for which a cash tax payment is not expected to be made in the next twelve months to other noncurrent liabilities in accordance with Financial Accounting Standards Board Interpretation No. (FIN) 48.

A summary of Mattel s capitalization is as follows:

	June 30, 2007		June 30, 2006		December 31, 2006	
	(In millions, except percentage information)					
Medium-term notes	$ 260.0	7%	$ 320.0	10%	$ 300.0	9%
Senior Notes	300.0	8	300.0	10	300.0	9
MAPS term loan			175.0	6	35.7	1
Total noncurrent long-term debt	560.0	15	795.0	26	635.7	19
Other noncurrent liabilities	442.1	12	291.8	9	304.7	9
Stockholders equity	2,725.5	73	2,053.8	65	2,433.0	72
	$ 3,727.6	100%	$ 3,140.6	100%	$ 3,373.4	100%

Total noncurrent long-term debt decreased by $235.0 million at June 30, 2007, as compared to June 30, 2006, due to the $175.0 million repayment of the MAPS term loan facility and the reclassification of $60.0 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 $2.7 billion increased $671.7 million from June 30, 2006, primarily as a result of net income from operations and proceeds from the exercise of stock options, partially offset by the payment of the annual dividend in the fourth quarter of 2006.

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Mattel s debt-to-capital ratio, including short-term borrowings and current portion of long-term debt, decreased from 31.1% at June 30, 2006 to 18.9% at June 30, 2007. Mattel s objective is to continue to maintain a year-end debt-to-capital ratio of approximately 25%.

Commitments

In connection with the January 1, 2007 adoption of FIN 48, liabilities for uncertain tax positions totaling approximately $121 million for which a cash tax payment is not expected to be made in the next twelve months were reclassified from income taxes payable (within current liabilities) to 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

See Part II, Item 1 Legal Proceedings.

Application of Critical Accounting Policies and Estimates

Mattel s critical accounting policies and estimates are included in its Annual Report on Form 10-K for the year ended December 31, 2006 and have not changed during the first half of 2007.

New Accounting Pronouncements

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which provides guidance for using fair value to measure assets and liabilities. The standard also responds to investors requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. Under SFAS No. 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity s own data. Fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS No. 157 is effective for Mattel as of January 1, 2008. Mattel does not expect the adoption of SFAS No. 157 to have a material impact on its results of operations and financial position.

SFAS No. 159

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS No. 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for Mattel as of January 1, 2008. Mattel does not expect the adoption of SFAS No. 159 to have a material impact on its results of operations or financial position.

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Non-GAAP Financial Measure

In this Quarterly Report on Form 10-Q, Mattel includes a non-GAAP financial measure, gross sales, which it uses to analyze its continuing operations and to monitor, assess and identify meaningful trends in its operating and financial performance. Net sales, as reported in the consolidated statements of operations, include the impact of sales adjustments, such as trade discounts and other allowances. Gross sales represent sales to customers, excluding the impact of sales adjustments and the Product Recalls. Consistent with its segment reporting, Mattel presents changes in gross sales as a metric for comparing its aggregate, business unit, brand and geographic results to highlight significant trends in Mattel s business. Changes in gross sales are discussed because, while Mattel records the detail of such sales adjustments in its financial accounting systems at the time of sale, such sales adjustments are generally not associated with individual products, making net sales less meaningful. A reconciliation of gross sales to the most directly comparable GAAP financial measure, net sales, is as follows.

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
	(In thousands)			
Worldwide Revenues				
Mattel Girls & Boys Brands	$ 638,361	$ 609,627	$ 1,205,409	$ 1,102,834
Fisher-Price Brands	410,382	365,717	801,633	672,955
American Girl Brands	55,768	61,639	118,686	123,507
Other	4,182	4,337	7,801	7,476
Gross sales	1,108,693	1,041,320	2,133,529	1,906,772
Sales adjustments	(106,068)	(83,665)	(190,639)	(155,770)
Net sales	$ 1,002,625	$ 957,655	$ 1,942,890	$ 1,751,002

Item 3. Quantitativ e and Qualitative Disclosures About Market Risk.

Foreign Currency Exchange Rate Risk

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

Mattel s financial position is also impacted by currency exchange rate fluctuations on translation of its net investment in subsidiaries with non-US dollar functional currencies. Assets and liabilities of subsidiaries with non-US dollar functional currencies are translated into US dollars

at fiscal period-end exchange rates. Income, expense and cash flow items are translated at weighted average exchange rates prevailing during the fiscal year. The resulting currency translation adjustments are recorded as a component of accumulated other comprehensive loss within stockholders equity. Mattel s primary currency translation exposures during 2007 were related to its net investment in entities having functional currencies denominated in the Euro, British pound sterling, and Brazilian real.

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Interest Rate Risk

In June 2006, Mattel issued $100.0 million of unsecured Floating Rate Senior Notes due June 15, 2009. Interest on the Floating Rate Senior Notes is based on the three-month US Dollar LIBOR plus 40 basis points with interest payable quarterly beginning September 15, 2006.

In June 2006, Mattel entered into two interest rate swap agreements on the $100.0 million Floating Rate Senior Notes, each in a notional amount of $50.0 million, for the purpose of hedging the variability of cash flows in the interest payments due to fluctuations of the LIBOR benchmark interest rate. These cash flow hedges are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* whereby the hedges are reported in Mattel s consolidated balance sheets at fair value, with changes in the fair value of the hedges reflected in accumulated other comprehensive loss. Under the terms of the agreements, Mattel receives quarterly interest payments from the swap counterparties based on the three-month LIBOR plus 40 basis points and makes semi-annual interest payments to the swap counterparties based on a fixed rate of 5.87125%. The three-month LIBOR rate used to determine interest payments under the interest rate swap agreements resets every three months, matching the variable interest on the Floating Rate Senior Notes. The agreements expire in June 2009, which corresponds with the maturity of the Floating Rate Senior Notes.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of June 30, 2007, Mattel s disclosure controls and procedures were evaluated to provide reasonable assurance that information required to be disclosed by Mattel in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to management, as appropriate, in a timely manner that would alert them to material information relating to Mattel that would be required to be included in Mattel s periodic reports and to provide reasonable assurance that such information was recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Based on this evaluation, Robert A. Eckert, Mattel s principal executive officer, and Kevin M. Farr, Mattel s principal financial officer, concluded that these disclosure controls and procedures were effective as of June 30, 2007.

Changes in Internal Control Over Financial Reporting

Mattel made no changes to its internal control over financial reporting or in other factors that materially affected, or were reasonably likely to have materially affected, its internal control over financial reporting during the quarter ended June 30, 2007.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings.

Litigation Related to LeapFrog Enterprises, Inc.

Fisher-Price, Inc. (Fisher-Price), a subsidiary of Mattel, was sued for patent infringement by LeapFrog Enterprises, Inc. in a lawsuit filed in October 2003 in the United States District Court for the District of Delaware, and in September 2004, Mattel was joined to the lawsuit as a defendant. The lawsuit alleged that Fisher-Price s PowerTouch system infringed a LeapFrog patent relating to an electronic learning device for teaching phonics. A 10-day trial commenced on May 16, 2005, which resulted in a deadlocked jury. As an alternative to retrying the case, the parties agreed to submit the case for decision, based on the existing trial record, to the presiding judge. The plaintiff in this lawsuit asserted a total damages claim of up to approximately $90 million, which was reduced to approximately $58 million pursuant to rulings by the Court, and sought an injunction preventing the further sale of the PowerTouch system; the damages could possibly have been trebled if a willful infringement had been found. On March 30, 2006, the Court issued a Memorandum and Order holding that Mattel and Fisher-Price did not infringe LeapFrog s patent and furthermore holding that LeapFrog s patent claim, which was the basis of LeapFrog s lawsuit, was invalid due to obviousness. On May 1, 2006, LeapFrog filed an appeal of the Court s ruling with the Court of Appeals for the Federal Circuit. On March 7, 2007, oral argument with regard to the appeal took place before a three-judge panel of the Court of Appeals. On May 9, 2007, the Federal Circuit Court of Appeals affirmed the Delaware District Court s ruling of non-infringement in favor of Mattel and its subsidiary Fisher-Price and also affirmed the holding that the LeapFrog patent claim was invalid. LeapFrog did not request a rehearing before a larger panel of the Federal Circuit Court of Appeals within the time period permitted for requesting such a rehearing. LeapFrog has until August 7, 2007 (90 days from the entry of judgment of the Federal Circuit Court of Appeals) to petition the United States Supreme Court by writ of certiorari to consider hearing an appeal of the Court of Appeals decision. Mattel and Fisher-Price continue to believe the claims against them are without merit and intend to continue defending themselves vigorously against such claims.

Litigation Related to Carter Bryant and MGA Entertainment, Inc.

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

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

In April 2005, MGA filed suit against Mattel in the United States District Court for the Central District of California. MGA s action alleges claims of trade dress infringement, trade dress dilution, false designation of origin, unfair competition and unjust enrichment. The suit alleges, among other things, that certain products, themes, packaging and/or television commercials in various Mattel product lines have infringed upon products, themes, packaging and/or television commercials for various MGA product lines, including Bratz. The complaint also asserts that various alleged Mattel acts with respect to unidentified retailers, distributors and licensees have damaged MGA and that various alleged acts by

industry organizations, purportedly induced by

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Mattel, have damaged MGA. MGA s suit alleges that MGA has been damaged in an amount believed to reach or exceed tens of millions of dollars and further seeks punitive damages, disgorgement of Mattel s profits and injunctive relief.

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

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

Item 1A. Risk Factors.

Factors That May Affect Future Results

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

Certain written and oral statements made or incorporated by reference from time to time by Mattel or its representatives in this Quarterly Report on Form 10-Q, other filings or reports filed with the SEC, press releases, conferences, or otherwise, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and may include, but are not limited to, statements about: sales and inventory levels; brand and customer management programs; increased competition; initiatives to promote revenue growth; globalization initiatives; restructuring and financial realignment plans; special charges and other non-recurring charges; initiatives aimed at anticipated cost savings; initiatives to invigorate the Barbie® brand, enhance innovation, improve the execution of the core business, leverage scale, extend brands, catch new trends, create new brands and enter new categories, develop people, improve productivity, simplify processes, maintain customer service levels and improve supply chain; integration of Radica Games Limited; operating efficiencies; capital and investment framework (including statements about free cash flow, seasonal working capital, debt-to-total capital ratios, capital expenditures, strategic acquisitions, dividends and share repurchases); cost pressures and increases; advertising and promotion spending; profitability; price increases, retail store openings and the impact of recent organizational changes. 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 for any such forward-looking statements. Forward-looking statements include any statement that may predict, forecast, indicate, or imply future results, performance, or achievements. Forward-looking statements can be identified by the use of terminology such as believe, anticipate, expect, estimate, may, will, should, project, continue, plans, or other similar words or phrases. Except for historical matters, the matters discussed in this Quarterly Report on Form 10-Q and other statements or filings made by Mattel from time-to-time may be forward-looking statements. Management cautions you that forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from the forward-looking statements. In addition to the important factors detailed herein and from time-to-time in other reports filed by Mattel with the SEC, including Forms 8-K, 10-Q and 10-K, the following important factors could cause actual results to differ materially from past results or those suggested by any forward-looking statements.

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If Mattel does not successfully satisfy consumer preferences, enhance existing products, develop and introduce new products and achieve consumer acceptance of those products, Mattel s 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 preschoolers, girls toys, boys toys, youth electronics, 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 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.

Mattel s business is susceptible to changes in popular culture, media, fashion, and technology. Misperceptions of 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. 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 could negatively affect Mattel s sales.

Mattel s business is seasonal and therefore its operating results will depend, in large part, on sales during the relatively brief traditional holiday season. Improved inventory management by retailers resulting in shorter lead times for production and possible shipping disruptions during peak demand times may affect Mattel s ability to deliver its products in time to meet retailer demands.

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 seasonal, with a majority of retail sales occurring during the period from September through December. As a result, Mattel s operating results will depend, in large part, on sales during the relatively brief traditional holiday season. Retailers are attempting to manage their inventories better, requiring 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 result in purchases after the holiday season) may negatively impact customer re-orders during the holiday season. Shipping disruptions limiting the availability of ships or containers in Asia during peak demand times may affect Mattel s ability to deliver its products in time to meet retailer demand. These factors may decrease sales or 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.

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Uncertainty and adverse changes in the general economic conditions of markets in which Mattel participates may negatively affect Mattel s business.

Current and future conditions in the economy have an inherent degree of uncertainty. As a result, 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, sectors and regions of the economy, including the many different markets 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, the prevailing economic uncertainties render estimates of future income and expenditures very difficult to make. Adverse changes may occur as a result of soft global or regional economic conditions, rising oil prices, wavering consumer confidence, unemployment, declines in stock markets or other factors affecting economic conditions generally. These changes may negatively affect the sales of Mattel s products, increase exposure to losses from bad debts, or increase costs associated with manufacturing and distributing products.

The concentration of Mattel s business with a small retail customer base that makes no binding long-term commitments means that economic difficulties or changes in the purchasing policies of its major 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 2006, Mattel s three largest customers, Wal-Mart, Toys R Us and Target, in the aggregate, accounted for approximately 43% of net sales, and its ten largest customers, in the aggregate, accounted for approximately 52% 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.

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.

Liquidity problems or bankruptcy of Mattel s key customers could increase Mattel s exposure to losses from bad debts and could have a material adverse effect on Mattel s business, financial condition and results of operations.

Many of Mattel s key customers are mass-market retailers. The mass-market retail channel in the US has experienced significant shifts in market share among competitors in recent years, causing some large retailers to experience liquidity problems. From 2001 through early 2004, four large customers of Mattel filed for bankruptcy. In addition, Mattel s sales to customers are typically made on credit without collateral. 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, which

could increase Mattel s exposure to losses from bad debts. In addition, if these or other customers were to cease doing business as a result of bankruptcy, or significantly reduce the number of stores operated, it could have a material adverse effect on Mattel s business, financial condition and results of operations.

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A reduction or interruption in the delivery of raw materials, parts and components from its suppliers or a significant increase in the price of supplies could negatively impact the gross profit margins realized by Mattel on the sale of its products or 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 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 a significant increase in the price of one or more supplies, such as fuel and resin (which is an oil-based product) expenses, could have a material adverse effect on Mattel s business. Cost increases, whether resulting from shortages of materials or otherwise, including but not limited to rising costs of materials, transportation, services and labor (including but not limited to wages, expenses related to employee health plans and insurance), 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 could result in lower sales.

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

Mattel is involved in a number of litigation matters. An unfavorable resolution of pending litigation could have a material adverse effect on Mattel s financial condition. Litigation may result in substantial costs and expenses and significantly divert the attention of Mattel s management regardless of the outcome. There can be no assurance that Mattel will be able to achieve a favorable settlement of pending litigation or obtain a favorable resolution of litigation if it is not settled. In addition, current and future litigation, governmental proceedings, labor disputes or environmental matters could lead to increased costs or interruptions of the normal business operations of Mattel.

Recalls, post-manufacture repairs of Mattel products, product liability claims, absence or cost of insurance, associated administrative costs, and government, customer or consumer concerns about product safety, could harm Mattel s reputation, increase costs or reduce sales.

Mattel is subject to regulation by the Consumer Product Safety Commission and similar state and international regulatory authorities, and its products could be subject to involuntary recalls and other actions by these authorities. Concerns about product safety, including but not limited to concerns about the safety of products manufactured in China (where many of Mattel s products are manufactured), may lead Mattel to recall selected products. Mattel has experienced, and in the future may experience, defects or errors in products after their production and sale to customers. Product safety concerns, recalls, defects or errors could result in the rejection of Mattel s products by customers, damage to its reputation, lost sales, diverted development resources and increased costs, any of which could harm Mattel s business. Individuals could sustain injuries from Mattel s products, and Mattel may be subject to claims or lawsuits resulting from these injuries. There is a risk that these claims or liabilities may exceed, or fall outside the scope of, Mattel s insurance coverage. Moreover, Mattel may be unable to obtain adequate liability insurance in the future. Recalls, post-manufacture repairs of Mattel products, absence or cost of insurance, associated administrative costs and government, customer or consumer concerns about product safety, could harm Mattel s reputation, increase costs or reduce sales.

Failure by Mattel to protect its proprietary intellectual property and information could have a material adverse effect on Mattel s business, financial condition and results of operations.

The value of Mattel s business depends to a large degree 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. Any failure by Mattel 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, could have a material adverse effect on Mattel s business, financial condition and results of operations.

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Political developments, including trade relations, and the threat or occurrence of war or terrorist activities could materially 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 materially 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, SARS, avian flu or other diseases 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 responsibilities. 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 our control may damage Mattel s facilities or those of its contractors and harm Mattel s results of operations.

Mattel has significant operations, including its corporate headquarters, near major earthquake faults in Southern California. Southern California has experienced earthquakes, wildfires and other natural disasters in recent years. 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 business negatively, harming Mattel s results of operations.

Significant changes in currency exchange rates could have a material 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. Mattel seeks to mitigate the exposure of its results of operations to fluctuations in currency exchange rates by partially hedging this exposure using foreign currency forward exchange and option 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, could have a material adverse effect on Mattel s business and results of

operations.

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Increases in interest rates, reduction of Mattel s credit ratings or the inability of Mattel to meet the debt covenant coverage 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 both its operations and investments. Any reduction in Mattel s credit ratings could increase the cost of obtaining financing. Additionally, Mattel s ability to issue long-term debt and obtain seasonal financing could be adversely affected by factors such as an inability to meet its debt covenant requirements, which include maintaining consolidated debt-to-capital and interest coverage ratios. Mattel s ability to conduct its operations could be negatively impacted should these or other adverse conditions affect its primary sources of liquidity.

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

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

Mattel has announced initiatives to improve the execution of its core business, globalize and extend Mattel s brands, catch new trends, create new brands and offer new innovative toys, develop people, improve productivity, simplify processes, maintain customer service levels, as well as new initiatives designed to drive sales growth, manage costs 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 could have a material 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 will not be able to maintain and expand Mattel s business.

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), trade restrictions, regulations regarding financial matters, environmental regulations, advertising directed toward children, safety and 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.

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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.

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 acceptable terms or agree to terms with 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 these 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.

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 materially and adversely affected. The factors listed above are not exhaustive. Other sections of this Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q 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.

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

Recent Sales of Unregistered Securities

During the second quarter of 2007, Mattel did not sell any unregistered securities.

Issuer Purchases of Equity Securities

During the second quarter of 2007, Mattel did not repurchase any shares of its common stock in the open market. In May 2007, Mattel s Board of Directors authorized an increase in Mattel s share repurchase program of an additional $250.0 million. At June 30, 2007, share repurchase authorizations of $307.3 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.

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Item 3. Defaults Upon Senior Securities.

None.

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

The Annual Meeting of Stockholders of Mattel was held on May 18, 2007. Proxies for the meeting were solicited pursuant to Regulation 14A of the Securities Exchange Act of 1934, and there was no solicitation in opposition to that of management. All of the nominees for director listed in the proxy statement were elected pursuant to the process described in the proxy statement, with the number of votes cast as follows:

Name of Nominee	Votes FOR	Votes Withheld From This Nominee	Votes Withheld From All Nominees
Michael J. Dolan	351,625,161	9,216,758	104,279
Robert A. Eckert	346,491,237	14,350,682	104,279
Dr. Frances D. Fergusson	353,395,820	7,446,099	104,279
Tully M. Friedman	342,444,031	18,397,888	104,279
Dominic Ng	353,151,430	7,690,489	104,279
Dr. Andrea L. Rich	326,189,302	34,652,617	104,279
Ronald L. Sargent	325,370,068	35,471,851	104,279
Dean A. Scarborough	351,884,995	8,956,924	104,279
Christopher A. Sinclair	320,827,528	40,014,391	104,279
G. Craig Sullivan	326,197,120	34,644,799	104,279
Kathy Brittain White	326,657,489	34,184,430	104,279

Proposal 2, a proposal to ratify the selection of PricewaterhouseCoopers LLP as Mattel s independent registered public accounting firm for the year ending December 31, 2007, was approved by the following vote:

Shares Voted FOR	Shares Voted AGAINST	Shares ABSTAINING	Broker NON-VOTE
349,069,455	9,725,381	2,151,362	

Proposal 3, a proposal regarding Board adoption of director election majority vote standard and stockholder approval of amendment to Certification of Incorporation eliminating cumulative voting, was approved by the following vote:

Shares Voted FOR	Shares Voted AGAINST	Shares ABSTAINING	Broker NON-VOTE
298,980,395	29,777,401	2,184,844	30,003,558

Proposal 4, a proposal to approve the Mattel Incentive Plan and the material terms of its performance goals, was approved by the following vote:

Shares Voted FOR	Shares Voted AGAINST	Shares ABSTAINING	Broker NON-VOTE
342,578,506	16,015,871	2,351,821	

Proposal 5, a stockholder proposal regarding compensation of the top five members of management, was defeated by the following vote:

Shares Voted FOR	Shares Voted AGAINST	Shares ABSTAINING	Broker NON-VOTE
4,759,953	323,373,434	2,809,253	30,003,558

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Proposal 6, a stockholder proposal to separate the roles of CEO and Chairman, was defeated by the following vote:

Shares Voted FOR	Shares Voted AGAINST	Shares ABSTAINING	Broker NON-VOTE
67,981,245	260,534,962	2,426,433	30,003,558

Proposal 7, a stockholder proposal regarding certain reports by the Board of Directors, was defeated by the following vote:

Shares Voted FOR	Shares Voted AGAINST	Shares ABSTAINING	Broker NON-VOTE
21,520,661	269,732,206	39,689,773	30,003,558

Proposal 8, a stockholder proposal regarding pay-for-superior-performance, was defeated by the following vote:

Shares Voted FOR	Shares Voted AGAINST	Shares ABSTAINING	Broker NON-VOTE
154,746,071	172,668,008	3,228,561	30,303,558

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit No.	Exhibit Description
4.0*	Form of Stock Certificate for Mattel, Inc. Common Stock
11.0*	Computation of Income per Common and Common Equivalent Share
12.0*	Computation of Earnings to Fixed Charges
31.0*	Certification of Principal Executive Officer dated August 3, 2007 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.1*	Certification of Principal Financial Officer dated August 3, 2007 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.0**	Certification of Principal Executive Officer and Principal Financial Officer dated August 3, 2007 pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002[(1)]

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

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

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SIGNATURE

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

MATTEL, INC.

Registrant

By:

H. Scott Topham

Senior Vice President and Corporate Controller
(Duly authorized officer and

chief accounting officer)

Date: As of August 3, 2007

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