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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009

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

Commission File Number 001-05647

MATTEL, INC.

(Exact name of registrant as specified in its charter)

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

333 Continental Blvd.

El Segundo, CA 90245-5012

(Address of principal executive offices)

(310) 252-2000

(Registrant s telephone number)

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

NONE

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

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

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

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

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

358,534,844 shares

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MATTEL, INC. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

MATTEL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	March 31, 2009	March 31, 2008	December 31, 2008
		(Unaudited; in thousands, except share data)	
ASSETS			
Current Assets			
Cash and equivalents	$ 404,872	$ 624,863	$ 617,694
Accounts receivable, net	565,314	728,229	873,542
Inventories	487,886	534,158	485,925
Prepaid expenses and other current assets	375,561	314,503	409,689
Total current assets	1,833,633	2,201,753	2,386,850
Noncurrent Assets			
Property, plant, and equipment, net	516,424	514,747	536,162
Goodwill	812,233	846,264	815,803
Other noncurrent assets	943,659	878,728	936,224
Total Assets	$ 4,105,949	$ 4,441,492	$ 4,675,039
LIABILITIES AND STOCKHOLDERS EQUITY			
Current Liabilities			
Current portion of long-term debt	150,000	10,000	150,000
Accounts payable	198,584	307,591	421,736
Accrued liabilities	401,545	505,709	649,383
Income taxes payable	20,838	3,214	38,855
Total current liabilities	770,967	826,514	1,259,974
Noncurrent Liabilities			
Long-term debt	750,000	900,000	750,000
Other noncurrent liabilities	538,939	375,704	547,930
Total noncurrent liabilities	1,288,939	1,275,704	1,297,930
Stockholders Equity			
Common stock $1.00 par value, 1.0 billion shares authorized; 441.4 million shares issued	441,369	441,369	441,369
Additional paid-in capital	1,650,966	1,632,945	1,642,092
Treasury stock at cost; 82.9 million shares, 78.9 million shares and 82.9 million shares, respectively	(1,620,062)	(1,548,725)	(1,621,264)
Retained earnings	2,034,654	1,930,838	2,085,573
Accumulated other comprehensive loss	(460,884)	(117,153)	(430,635)

Total stockholders equity	2,046,043	2,339,274	2,117,135
Total Liabilities and Stockholders Equity	$ 4,105,949	$ 4,441,492	$ 4,675,039

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

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MATTEL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended March 31, 2009	March 31, 2008
	(Unaudited; in thousands, except per share amounts)	
Net Sales	$ 785,646	$ 919,299
Cost of sales	439,774	522,463
Gross Profit	345,872	396,836
Advertising and promotion expenses	84,064	102,961
Other selling and administrative expenses	317,017	330,410
Operating Loss	(55,209)	(36,535)
Interest expense	15,917	16,049
Interest (income)	(3,478)	(8,547)
Other non-operating (income) expense, net	(2,198)	15,765
Loss Before Income Taxes	(65,450)	(59,802)
Benefit for income taxes	(14,464)	(13,156)
Net Loss	$ (50,986)	$ (46,646)
Net Loss Per Common Share Basic	$ (0.14)	$ (0.13)
Weighted average number of common shares	358,891	361,751
Net Loss Per Common Share Diluted	$ (0.14)	$ (0.13)
Weighted average number of common and potential common shares	358,891	361,751

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 Three Months Ended March 31, 2009	For the Three Months Ended March 31, 2008
	(Unaudited; in thousands)	
Cash Flows From Operating Activities:		
Net loss	$ (50,986)	$ (46,646)
Adjustments to reconcile net loss to net cash flows used for operating activities:		
Net gain on disposal of property, plant, and equipment		(100)
Depreciation	38,388	40,315
Amortization	5,977	2,911
Deferred income taxes	(8,169)	(25,668)
Share-based compensation	9,438	7,050
Increase (decrease) from changes in assets and liabilities:		
Accounts receivable	291,386	289,525
Inventories	(4,539)	(89,921)
Prepaid expenses and other current assets	(27,528)	(31,404)
Accounts payable, accrued liabilities, and income taxes payable	(477,021)	(365,647)
Other, net	8,247	(44,850)
Net cash flows used for operating activities	(214,807)	(264,435)
Cash Flows From Investing Activities:		
Purchases of tools, dies, and molds	(9,366)	(16,544)
Purchases of other property, plant, and equipment	(10,766)	(16,153)
Proceeds from sale of investments	55,400	
Proceeds from sale of other property, plant, and equipment	135	1,388
(Payments) proceeds from foreign currency forward exchange contracts	(12,112)	34,256
Net cash flows provided by investing activities	23,291	2,947
Cash Flows From Financing Activities:		
Payments of short-term borrowings		(349,003)
Payments of long-term borrowings		(40,000)
Proceeds from long-term borrowings		347,182
Payment of credit facility renewal costs	(10,208)	
Share repurchases		(129)
Proceeds from exercise of stock options	206	13,320
Other, net	499	373
Net cash flows used for financing activities	(9,503)	(28,257)
Effect of Currency Exchange Rate Changes on Cash	(11,803)	13,460
Decrease in Cash and Equivalents	(212,822)	(276,285)
Cash and Equivalents at Beginning of Period	617,694	901,148
Cash and Equivalents at End of Period	$ 404,872	$ 624,863
Supplemental Cash Flow Information:		
Cash paid during the period for:		
Income taxes, gross	$ 24,935	$ 22,369

Interest	12,093	9,301

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

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MATTEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

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

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

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

2. Accounts Receivable

Accounts receivable are net of allowances for doubtful accounts of $23.2 million as of March 31, 2009 and 2008, and $25.9 million as of December 31, 2008.

3. Inventories

Inventories include the following:

	March 31, 2009	March 31, 2008 (In thousands)	December 31, 2008
Raw materials and work in process	$ 63,996	$ 58,350	$ 57,311
Finished goods	423,890	475,808	428,614
	$ 487,886	$ 534,158	$ 485,925

4. Property, Plant, and Equipment

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

	March 31, 2009	March 31, 2008 (In thousands)	December 31, 2008
Land	$ 26,694	$ 26,940	$ 26,499
Buildings	237,040	241,078	237,561
Machinery and equipment	754,302	814,624	758,656

Tools, dies, and molds	553,565	600,486	544,789
Capital leases	23,271	23,271	23,271
Leasehold improvements	168,272	152,072	162,288
	1,763,144	1,858,471	1,753,064
Less: accumulated depreciation	(1,246,720)	(1,343,724)	(1,216,902)
	$ 516,424	$ 514,747	$ 536,162

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5. Goodwill

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

The change in the carrying amount of goodwill by reporting unit for the three months ended March 31, 2009 is shown below. Brand-specific goodwill held by foreign subsidiaries is allocated to the US reporting units selling those brands, thereby causing foreign currency translation impact for the US reporting units.

	December 31, 2008	Impact of Currency Exchange Rate Changes (In thousands)	March 31, 2009
Mattel Girls Brands US	$ 29,224	$ (489)	$ 28,735
Mattel Boys Brands US	130,883	(407)	130,476
Fisher-Price Brands US	215,520	(96)	215,424
American Girl Brands	207,571		207,571
International	232,605	(2,578)	230,027
	$ 815,803	$ (3,570)	$ 812,233

6. Other Noncurrent Assets

Other noncurrent assets include the following:

	March 31, 2009	March 31, 2008 (In thousands)	December 31, 2008
Deferred income taxes	$ 533,807	$ 492,862	$ 524,451
Nonamortizable identifiable intangibles	128,382	128,382	128,382
Identifiable intangibles (net of amortization of $63.2 million, $54.5 million, and $61.8 million, respectively)	102,355	68,140	107,447
Other	179,115	189,344	175,944
	$ 943,659	$ 878,728	$ 936,224

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

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

7. Fair Value Measurements

The following table presents information about Mattel s assets and liabilities measured and reported in the financial statements at fair value on a recurring basis as of March 31, 2009 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value. The three levels of the fair value hierarchy defined by Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements,* are as follows:

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

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

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

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

	March 31, 2009	March 31, 2008 (In thousands)	December 31, 2008
Assets:			
Foreign currency forward exchange contracts (a)	$ 30,594	$ 13,531	$ 24,714
Liabilities:			
Foreign currency forward exchange contracts (a)	$ 19,516	$ 44,772	$ 12,326
Interest rate swaps (b)	2,495	5,304	1,934
Total liabilities	$ 22,011	$ 50,076	$ 14,260

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

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

Effective January 1, 2009, Mattel adopted SFAS No. 157, for all nonfinancial assets and liabilities that are measured at fair value on a non-recurring basis, such as goodwill and identifiable intangible assets. The adoption of SFAS No. 157 for nonfinancial assets and liabilities that are measured at fair value on a non-recurring basis did not impact Mattel s financial position or results of operations for the three months ended March 31, 2009, and Mattel does not expect the adoption to have a material impact on the amounts reported in the financial statements in future periods.

8. Accrued Liabilities

Accrued liabilities include the following:

	March 31, 2009	March 31, 2008 (In thousands)	December 31, 2008
Royalties	$ 35,781	$ 51,444	$ 86,152
Advertising and promotion	32,612	51,478	56,941
Derivatives payable	21,797	44,680	11,757
Receivable collections due bank	2,009	24,523	82,245
Other	309,346	333,584	412,288
	$ 401,545	$ 505,709	$ 649,383

9. Product Recalls and Withdrawals

During 2007, Mattel recalled products with high-powered magnets that may become dislodged and other products, some of which were produced using non-approved paint containing lead in excess of applicable regulatory and Mattel standards. During the second half of 2007, additional products were recalled, withdrawn from retail stores, or replaced at the request of consumers as a result of safety or quality issues (collectively, the

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2007 Product Recalls). In the second quarter of 2008, Mattel determined that certain products had been shipped into foreign markets in which the products did not meet all applicable regulatory standards for those markets. None of these deficiencies related to lead or magnets. Mattel withdrew these products from retail stores in these markets and, although not required to do so, also withdrew the products from the US and other markets because they did not meet Mattel s internal standards (the 2008 Product Withdrawal).

The following table summarizes Mattel s reserves and reserve activity for the 2007 Product Recalls and the 2008 Product Withdrawal for the three months ended March 31, 2009:

	Reserves at December 31, 2008	Reserves Used	Changes in Estimates	Impact of Currency Exchange Rate Changes	Reserves at March 31, 2009
			(In thousands)		
Product returns/redemption	$ 3,605	$ (423)	$ (576)	$ (8)	$ 2,598
Other	1,338	(61)	(12)	(10)	1,255
	$ 4,943	$ (484)	$ (588)	$ (18)	$ 3,853

The following table summarizes Mattel s reserves and reserve activity for the 2007 Product Recalls for the three months ended March 31, 2008:

	Reserves at December 31, 2007	Reserves Used	Changes in Estimates	Impact of Currency Exchange Rate Changes	Reserves at March 31, 2008
			(In thousands)		
Product returns/redemption	$ 12,612	$ (7,932)	$ 2,460	$ 399	$ 7,539
Other	2,360	(879)	768		2,249
	$ 14,972	$ (8,811)	$ 3,228	$ 399	$ 9,788

Following the announcement of the 2007 Product Recalls and 2008 Product Withdrawal, a number of lawsuits were filed against Mattel with respect to the recalled and withdrawn products, which are more fully described in Note 12 to the Consolidated Financial Statements in Mattel s 2008 Annual Report on Form 10-K and Note 21, Contingencies, of this Quarterly Report on Form 10-Q. During the three months ended March 31, 2009, Mattel recorded charges of $20.9 million, which are included in other selling and administrative expenses to reserve for the settlement of a portion of the above-described product liability related litigation.

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

10. Restructuring Charges

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

- A global reduction in Mattel s professional workforce of approximately 1,000 employees that was implemented in November 2008.
- A coordinated efficiency strategic plan that includes structural changes designed to lower costs and improve efficiencies; for example, offshoring and outsourcing certain back office functions, and more clustering of management for international markets.

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

In connection with the Global Cost Leadership program, during the three months ended March 31, 2009, Mattel recorded severance and other termination-related charges of approximately $5 million, which are included in other selling and administrative expenses. The following table summarizes Mattel s severance and other termination costs activity for the three months ended March 31, 2009 (in thousands):

	Reserves at December 31, 2008	Additional Expenses Incurred	Payments	Reserves at March 31, 2009
Severance	$ 17,115	$ 4,686	$ (9,760)	$ 12,041
Other termination costs	881	13	(54)	840
	$ 17,996	$ 4,699	$ (9,814)	$ 12,881

11. Seasonal Financing

Mattel maintains and periodically amends or replaces its domestic unsecured committed revolving credit facility with a commercial bank group that is used as the primary source of financing for the seasonal working capital requirements of its domestic subsidiaries. The agreement in effect was amended and restated on March 23, 2009 to, among other things, (i) extend the maturity date of the credit facility to March 23, 2012, (ii) reduce aggregate commitments under the credit facility from $1.3 billion to $880.0 million, with an accordion feature, which would allow Mattel to increase the availability under the credit facility to $1.08 billion under certain circumstances, (iii) add an interest rate floor equal to 30 day LIBOR plus 1.00% for base rate loans under the credit facility, (iv) increase the applicable interest rate margins to a range of 2.00% to 3.00% above the applicable base rate for base rate loans, and 2.5% to 3.5% above the applicable LIBOR rate for Eurodollar rate loans, depending on Mattel s senior unsecured long term debt rating, (v) increase commitment fees to a range of 0.25% to 0.75% of the unused commitments under the credit facility, and (vi) replace the consolidated debt-to-capital ratio with a consolidated debt-to-earnings before interest, taxes, depreciation, and amortization ratio. In addition, on April 29, 2009, Mattel utilized the accordion feature under the credit facility to increase aggregate commitments under the credit facility from $880.0 million to $940.0 million, while reducing availability under the accordion feature from $200.0 million to $140.0 million.

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

12. Long-term Debt

Long-term debt includes the following:

	March 31, 2009	March 31, 2008 (In thousands)	December 31, 2008
Medium-term notes due April 2009 to November 2013	$ 250,000	$ 260,000	$ 250,000
2006 Senior Notes due June 2009 to June 2011	300,000	300,000	300,000
2008 Senior Notes due March 2013	350,000	350,000	350,000
	900,000	910,000	900,000
Less: current portion	(150,000)	(10,000)	(150,000)
	$ 750,000	$ 900,000	$ 750,000

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13. Other Noncurrent Liabilities
Other noncurrent liabilities include the following:

	March 31, 2009	March 31, 2008 (In thousands)	December 31, 2008
Benefit plan liabilities	$ 283,844	$ 144,874	$ 286,557
Noncurrent tax liabilities	132,667	119,182	132,744
Other	122,428	111,648	128,629
	$ 538,939	$ 375,704	$ 547,930

14. Comprehensive Income (Loss)
The changes in the components of comprehensive income (loss), net of tax, are as follows:

	For the Three Months Ended March 31, 2009	March 31, 2008
	(In thousands)	
Net loss	$ (50,986)	$ (46,646)
Currency translation adjustments	(39,125)	72,823
Defined benefit pension plans, net prior service cost and net actuarial loss	(5,985)	304
Net unrealized gains/losses on derivative instruments:		
Unrealized holding gains/losses	16,522	(18,580)
Reclassification adjustment for realized gains/losses included in net loss	(1,661)	4,110
	14,861	(14,470)
	$ (81,235)	$ 12,011

The components of accumulated other comprehensive loss are as follows:

	March 31, 2009	March 31, 2008 (In thousands)	December 31, 2008
Currency translation adjustments	$ (313,976)	$ (9,451)	$ (274,851)
Defined benefit pension and other postretirement plans, net of tax	(166,698)	(72,773)	(160,713)
Net unrealized gain (loss) on derivative instruments, net of tax	19,790	(34,929)	4,929
	$ (460,884)	$ (117,153)	$ (430,635)

Currency Translation Adjustments

Mattel s reporting currency is the US dollar. The translation of its results of operations and financial position of subsidiaries with non-US dollar functional currencies subjects Mattel to currency exchange rate fluctuations in its results of operations and financial position. Assets and liabilities of subsidiaries with non-US dollar functional currencies are translated into US dollars at fiscal period-end exchange rates. Income, expense, and cash flow items are translated at weighted average exchange rates prevailing during the fiscal period. The resulting currency translation adjustments are recorded as a component of accumulated other comprehensive loss within stockholders equity. For the three months ended March 31, 2009, currency translation adjustments resulted in a net loss of $39.1 million, with losses primarily from the weakening of the

Euro, British pound sterling, and Mexican peso against the US dollar. For the three months ended March 31, 2008, currency translation adjustments resulted in a net gain of $72.8 million, with gains from the strengthening of the Euro, Chilean peso, and Mexican peso against the US dollar.

15. Foreign Currency Transaction Gains and Losses

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

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

	For the Three Months Ended	
	March 31, 2009	**March 31, 2008**
	(In thousands)	
Operating loss	$ (14,394)	$ (14,997)
Other non-operating (income) expense, net	(2,378)	16,758
Net transaction (gains) loss	$ (16,772)	$ 1,761

16. Derivative Instruments

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

Mattel seeks to mitigate its exposure to foreign currency transaction risk by monitoring its foreign currency transaction exposure for the year and partially hedging such exposure using foreign currency forward exchange contracts. Mattel uses foreign currency forward exchange contracts as cash flow hedges primarily to hedge its purchases and sales of inventory denominated in foreign currencies. These contracts generally have maturity dates up to 18 months. These cash flow hedges are accounted for under SFAS No. 133*,* whereby the unsettled hedges are reported in Mattel s consolidated balance sheets at fair value, with changes in the fair value of the hedges reflected in accumulated other comprehensive loss (AOCL). Realized gains and losses for these contracts are recorded in the consolidated statements of operations in the period in which the inventory is sold to customers. Additionally, Mattel uses foreign currency forward exchange contracts to hedge intercompany loans and advances denominated in foreign currencies. Due to the short-term nature of the contracts involved, Mattel does not use hedge accounting for these contracts, and as such, changes in fair value are recorded in the period of change in the consolidated statements of operations. As of March 31, 2009, Mattel held foreign currency forward exchange contracts with notional amounts of approximately $1.16 billion, which was equal to the exposure hedged.

In connection with the issuance of its $100.0 million of unsecured floating rate senior notes (Floating Rate Senior Notes), Mattel entered into two interest rate swap agreements, each in a notional amount of $50.0 million, for the purpose of hedging the variability of cash flows in the interest payments due to fluctuations of the LIBOR benchmark interest rate. These cash flow hedges are accounted for under SFAS No. 133*,* whereby

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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 5.871%. The three-month LIBOR 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.

The following table presents Mattel s derivative assets and liabilities at March 31, 2009 (in thousands):

	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives designated as hedging instruments under SFAS No. 133				
Foreign currency forward exchange contracts	Prepaid expenses and other current assets	$ 28,214	Accrued liabilities	$ 10,126
Foreign currency forward exchange contracts	Other noncurrent assets	2,380	Other noncurrent liabilities	214
Interest rate swaps			Accrued liabilities	2,495
Total derivatives designated as hedging instruments under SFAS No. 133		$ 30,594		$ 12,835
Derivatives not designated as hedging instruments under SFAS No. 133				
Foreign currency forward exchange contracts		$	Accrued liabilities	$ 9,176

The following table presents the location and amount of gains and losses, net of taxes, from derivatives reported in the consolidated statements of operations for the three months ended March 31, 2009:

	Amount of (Gain) Loss Recognized in AOCL	Amount of (Gain) Reclassified from AOCL to Statements of Operations (in thousands)	Statements of Operations Location
Derivatives designated as hedging instruments under SFAS No. 133			
Foreign currency forward exchange contracts	$ 16,871	$ (1,661)	Cost of sales
Interest rate swaps	(349)		
Total	$ 16,522	$ (1,661)	

The $1.7 million net gain reclassified from AOCL to the statements of operations is offset by the changes in cash flows associated with the underlying hedged transactions.

	Amount of Loss Recognized in the Statements of Operations	Statements of Operations Location
	(in thousands)	
Derivatives not designated as hedging instruments under SFAS No. 133		
Foreign currency forward exchange contracts	$ 22,060	Other non-operating (income) expense

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The $22.1 million net loss recognized in the statements of operations is offset by transaction net gains on the related hedged items.

17. Other Selling and Administrative Expenses

Other selling and administrative expenses include the following:

	For the Three Months Ended			
	March 31, 2009		March 31, 2008	
	(In thousands)			
Design and development	$	40,120	$	42,612
Identifiable intangible asset amortization		2,724		2,488

18. Loss Per Share

Effective January 1, 2009, Mattel adopted Financial Accounting Standards Board (FASB) Staff Position (FSP) Emerging Issues Task Force (EITF) No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. Under FSP EITF No. 03-6-1, unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method as described in SFAS No. 128, *Earnings Per Share*.

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

Diluted net income per common share is computed by dividing reported net income by the weighted average number of common shares and potential common shares outstanding during each period. The calculation of potential common shares assumes the exercise of dilutive stock options, net of assumed treasury share repurchases at average market prices. All potential common shares were excluded from the calculation of diluted net loss per common share for the three months ended March 31, 2009 and 2008 because they were anti-dilutive due to Mattel s net loss position.

19. Employee Benefit Plans

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

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

	For the Three Months Ended			
	March 31, 2009		March 31, 2008	
	(In thousands)			
Service cost	$	3,382	$	3,324
Interest cost		7,500		6,585
Expected return on plan assets		(7,348)		(6,734)
Amortization of prior service cost		385		478
Recognized actuarial loss		3,025		1,462
	$	6,944	$	5,115

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

	For the Three Months Ended March 31, 2009	March 31, 2008
	(In thousands)	
Service cost	$ 26	$ 24
Interest cost	664	717
Recognized actuarial loss	177	129
	$ 867	$ 870

During the three months ended March 31, 2009, Mattel made cash contributions totaling approximately $5 million and $1 million, respectively, to its defined benefit pension and postretirement benefit plans.

20. Share-Based Payments

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

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

	For the Three Months Ended March 31, 2009	March 31, 2008
	(In thousands)	
Stock option compensation expense	$ 2,462	$ 1,786
RSU compensation expense	6,976	5,264
	$ 9,438	$ 7,050

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

As of March 31, 2009, total unrecognized compensation cost related to unvested share-based payments totaled $62.4 million and is expected to be recognized over a weighted-average period of 1.9 years.

Mattel uses treasury shares purchased under its share repurchase program to satisfy stock option exercises and the vesting of RSUs. Cash received for stock option exercises for the three months ended March 31, 2009 and 2008 was $0.2 million and $13.3 million, respectively.

21. Contingencies

With regard to the claims against Mattel described below, Mattel intends to defend itself vigorously. Except as described in Note 9, Product Recalls and Withdrawals, management cannot reasonably determine the scope or amount of possible liabilities that could result from an unfavorable settlement or resolution of these claims,

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and no reserves for these claims have been established as of March 31, 2009. However, it is possible that an unfavorable resolution of these claims could have a material adverse effect on Mattel s financial condition and results of operations, and there can be no assurance that Mattel will be able to achieve a favorable settlement or resolution of these claims.

Litigation Related to Carter Bryant and MGA Entertainment, Inc.

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

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

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

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

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

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

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

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

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

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

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

Litigation Related to Product Recalls and Withdrawals

Product Liability Litigation in the United States

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

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

Multidistrict Litigation (MDL)

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

On March 31, 2008, plaintiffs filed a Consolidated Amended Class Action Complaint in the MDL proceeding, which was followed with a Second Consolidated Amended Complaint (the Consolidated Complaint), filed on May 16, 2008. Plaintiffs seek certification of a class of all persons who, from May 2003 through the present, purchased and/or acquired certain allegedly hazardous toys. The Consolidated Complaint defines hazardous toys as those toys recalled between August 2, 2007 and October 25, 2007, due to the presence of lead in excess of applicable standards in the paint on some parts of some of the toys; those toys recalled on November 21, 2006 and August 14, 2007, related to magnets; and the red and green toy blood pressure cuffs voluntarily withdrawn from retail stores or replaced at the request of consumers. Defendants named in the Consolidated Complaint are Mattel, Fisher-Price, Target Corporation, Toys R Us, Inc., Wal-Mart Stores, Inc., KB Toys, Inc., and Kmart Corporation. Mattel has assumed the defense of Target Corporation, Toys R Us, Inc., KB Toys, Inc., and Kmart Corporation, and agreed to indemnify all of the retailer defendants, for the specific claims raised in the Consolidated Complaint, which claims relate to the sale of Mattel and Fisher-Price toys.

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

California Proposition 65 Claims and State Attorneys General Inquiries

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

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

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

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various times in the future. The consent judgments have been approved by the respective courts in each of these states, except in Illinois where approval remains pending.

Product Liability Litigation in Canada

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

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

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

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

Product Liability and Related Claims in Brazil

Three consumer protection associations and agencies have filed claims against Mattel s subsidiary Mattel do Brasil Ltda. in the following courts in Brazil: (a) the Public Treasury Court in the State of Santa Catarina (Associacao Catarinense de Defesa dos Cidadaos, dos Consumidores e dos Contribuintes (ACC/SC) ACC/SC v. Mattel do Brasil Ltda., filed on February 2, 2007); (b) the Second Commercial Court in the State of Rio de Janeiro (Consumer Protection Committee of the Rio de Janeiro State Legislative Body (CPLeg/RJ) CPLeg/RJ v. Mattel do Brasil Ltda., filed on August 17, 2007); and (c) the Sixth Civil Court of the Federal District (Brazilian Institute for the Study and Defense of Consumer Relationships (IBEDEC) IBEDEC v. Mattel do Brasil Ltda., filed on September 13, 2007). The ACC/SC case is related to the recall of magnetic products in November 2006; the CPLeg/RJ case is related to the August 2007 recall of magnetic products; and the IBEDEC case is related to the August and September 2007 recalls of magnetic products and products with non-approved paint containing lead exceeding the limits established by applicable regulations and Mattel standards. The cases generally state claims in four categories: (i) production of a defective product; (ii) misrepresentations; (iii) negligence; and (iv) violations of consumer protection statutes. Plaintiffs generally seek general and special damages; restitution of monies paid by consumers to replace recalled toys; disgorgement of benefits resulting from recalled toys; aggravated and punitive damages; pre-judgment and post-judgment interest; injunctive relief; and litigation costs and attorneys fees. The amount of damages sought by plaintiffs is not generally specified, except that in the Public Treasury Court in the State of Santa Catarina action, ACC/SC demands general damages of approximately $1 million, in addition to other remedies, and in the Sixth Civil Court of the Federal District action, IBEDEC estimated the amount of approximately $21 million, as a basis for calculating court fees, in addition to requesting other remedies.

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

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

Since August 20, 2007, the Department of Consumer Protection and Defense (DPDC), the Consumer Protection Office (PROCON) of São Paulo, Mato Grosso and Rio de Janeiro, and public prosecutors from the States of Pernambuco, Rio Grande do Norte, and Rio de Janeiro have brought eight administrative proceedings against Mattel do Brasil, alleging that the company offered products whose risks to consumers health and safety should have been known by Mattel. The proceedings have been filed with the following administrative courts: (a) DPDC (DPDC v. Mattel do Brasil Ltda., filed on August 20, 2007, and DPDC v. Mattel do Brasil Ltda., filed on September 14, 2007); (b) PROCON (PROCON/MT v. Mattel do Brasil, filed on August 29, 2007, PROCON/SP v. Mattel do Brasil, filed on September 4, 2007, and PROCON/RJ v. Mattel do Brasil, filed on August 27, 2007); and (c) the Public Prosecutor s Office (MP/RJ v. Mattel do Brasil, filed on September 27, 2007, MP/PE v. Mattel do Brasil, filed on September 28, 2007, and MP/RN v. Mattel do Brasil, filed on October 10, 2007). The administrative proceedings generally state claims based on the alleged negligence of Mattel do Brasil regarding recalled products. In the PROCON/SP proceeding, plaintiff estimated a fine equivalent to approximately $400,000. None of the other administrative proceedings listed above specify the amount of the penalties that could be applied if the claims against Mattel do Brasil are successful. On December 21, 2007, PROCON/SP rendered a decision and decided to impose a fine on Mattel do Brasil in the approximate amount of $200,000. On January 9, 2008, Mattel do Brasil filed an administrative appeal regarding the decision of December 21, 2007. On January 29, 2009, the administrative appeal was not granted and as a consequence Mattel do Brasil decided to pursue further adjudication of this matter in the Brazilian courts.

In addition to the matters discussed above, a few individual consumers in Brazil have brought individual lawsuits against Mattel do Brasil. These lawsuits have been brought in special courts that provide expedited judgments on cases involving amounts below $7,000 and in consumer defense agencies (PROCONs). Generally, these claims focus on alleged failures by Mattel to make refunds in cash or replace recalled products with new toys in the proper time and manner. At present there are 19 individual lawsuits; none of these lawsuits states a claim for damages exceeding $7,000. The special courts that provide expedited judgments have issued decisions in eleven lawsuits brought by individual consumers; in three of these cases, the court decisions order Mattel do Brasil to refund only the amounts paid by the consumers for the recalled toys; in six cases, Mattel do Brasil was also ordered to pay general damages (danos morais) to the consumers, which range from approximately $250 to $450. Two of the lawsuits were dismissed in their entirety.

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

22. Segment Information

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

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

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

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

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

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The following tables present information about revenues, income (loss), and assets by segment. Mattel does not include sales adjustments such as trade discounts and other allowances in the calculation of segment revenues (referred to as gross sales). Mattel records these adjustments in its financial accounting systems at the time of sale to each customer, but the adjustments are not allocated to individual products. For this reason, Mattel s chief operating decision maker uses gross sales by segment as one of the metrics to measure segment performance. Such sales adjustments are included in the determination of segment income from operations based on the adjustments recorded in the financial accounting systems. Segment income (loss) from operations represents operating income (loss), while consolidated loss from operations represents loss 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 March 31, 2009	March 31, 2008
	(In thousands)	
Revenues		
Domestic:		
Mattel Girls & Boys Brands US	$ 220,933	$ 225,545
Fisher-Price Brands US	170,272	189,853
American Girl Brands	66,430	69,277
Total Domestic	457,635	484,675
International	399,504	521,992
Gross sales	857,139	1,006,667
Sales adjustments	(71,493)	(87,368)
	$ 785,646	$ 919,299
Segment Income (Loss)		
Domestic:		
Mattel Girls & Boys Brands US	$ 14,086	$ 2,651
Fisher-Price Brands US	(4,016)	(1,438)
American Girl Brands	(2,753)	(1,663)
Total Domestic	7,317	(450)
International	9,298	23,864
	16,615	23,414
Corporate and other expense (a)	(71,824)	(59,949)
Operating loss	(55,209)	(36,535)
Interest expense	15,917	16,049
Interest (income)	(3,478)	(8,547)
Other non-operating (income) expense, net	(2,198)	15,765
Loss before income taxes	$ (65,450)	$ (59,802)

(a) Corporate and other expense includes (i) stock compensation expense of $9.4 million and $7.1 million for the three months ended March 31, 2009 and 2008, respectively, (ii) accrued incentive compensation liabilities, (iii) $20.9 million legal settlement reserve for product liability related litigation, (iv) legal fees associated with the product recall-related litigation, and (v) legal fees associated with MGA litigation matters.

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	March 31, 2009	March 31, 2008	December 31, 2008
		(In thousands)	
Assets			
Domestic:			
Mattel Girls & Boys Brands US	$ 159,727	$ 208,483	$ 249,013
Fisher-Price Brands US	172,156	192,436	198,241
American Girl Brands	70,198	65,786	62,718
Total Domestic	402,081	466,705	509,972
International	579,288	748,653	755,735
	981,369	1,215,358	1,265,707
Corporate and other	71,831	47,029	93,760
Accounts receivable and inventories, net	$ 1,053,200	$ 1,262,387	$ 1,359,467

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

	For the Three Months Ended	
	March 31, 2009	March 31, 2008
	(In thousands)	
Worldwide Revenues		
Mattel Girls & Boys Brands	$ 504,024	$ 592,780
Fisher-Price Brands	283,735	341,308
American Girl Brands	66,430	69,086
Other	2,950	3,493
Gross sales	857,139	1,006,667
Sales adjustments	(71,493)	(87,368)
Net sales	$ 785,646	$ 919,299