

MATTEL INC /DE/  
Form 10-Q  
July 28, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended June 30, 2015**

**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**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**95-1567322**  
**(I.R.S. Employer**  
**Identification No.)**

**333 Continental Blvd.**

**El Segundo, CA**  
**(Address of principal executive offices)**

**90245-5012**  
**(Zip Code)**

**(310) 252-2000**

**(Registrant's telephone number, including area code)**

**(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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  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  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) 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

Number of shares outstanding of registrant's common stock, \$1.00 par value, as of July 17, 2015:

338,613,400 shares



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**MATTEL, INC. AND SUBSIDIARIES**

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****MATTEL, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	<b>June 30, 2015</b>	<b>June 30, 2014</b>	<b>December 31, 2014</b>
	<b>(Unaudited; in thousands, except share data)</b>		
<b><u>ASSETS</u></b>			
<b>Current Assets</b>			
Cash and equivalents	\$ 300,455	\$ 518,217	\$ 971,650
Accounts receivable, net	803,111	884,071	1,094,452
Inventories	853,795	882,788	561,755
Prepaid expenses and other current assets	572,341	602,874	559,074
<b>Total current assets</b>	<b>2,529,702</b>	<b>2,887,950</b>	<b>3,186,931</b>
<b>Noncurrent Assets</b>			
Property, plant, and equipment, net	733,002	703,408	737,869
Goodwill	1,393,147	1,407,031	1,392,925
Other noncurrent assets	1,441,951	1,489,794	1,404,258
<b>Total Assets</b>	<b>\$ 6,097,802</b>	<b>\$ 6,488,183</b>	<b>\$ 6,721,983</b>
<b><u>LIABILITIES AND STOCKHOLDERS EQUITY</u></b>			
<b>Current Liabilities</b>			
Short-term borrowings	\$	\$ 20,481	\$
Accounts payable	396,760	385,655	430,259
Accrued liabilities	485,127	480,847	639,844
Income taxes payable	7,787	20,651	18,783
<b>Total current liabilities</b>	<b>889,674</b>	<b>907,634</b>	<b>1,088,886</b>
<b>Noncurrent Liabilities</b>			
Long-term debt	2,100,000	2,100,000	2,100,000
Other noncurrent liabilities	543,655	528,982	584,026
<b>Total noncurrent liabilities</b>	<b>2,643,655</b>	<b>2,628,982</b>	<b>2,684,026</b>
<b>Stockholders Equity</b>			

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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	1,788,993	1,771,095	1,767,096
Treasury stock at cost: 102.8 million shares, 103.7 million shares, and 103.3 million shares, respectively	(2,521,703)	(2,534,981)	(2,533,566)
Retained earnings	3,566,687	3,674,348	3,896,261
Accumulated other comprehensive loss	(710,873)	(400,264)	(622,089)
Total stockholders' equity	2,564,473	2,951,567	2,949,071
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 6,097,802</b>	<b>\$ 6,488,183</b>	<b>\$ 6,721,983</b>

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

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**MATTEL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

**For the Three Months Ended For the Six Months Ended**  
**June 30, 2015 June 30, 2014 June 30, 2015 June 30, 2014**  
**(Unaudited; in thousands,**

	<b>except per share amounts)</b>			
<b>Net Sales</b>	\$ 988,152	\$ 1,062,252	\$ 1,910,901	\$ 2,008,429
Cost of sales	515,294	569,682	987,595	1,034,328
<b>Gross Profit</b>	472,858	492,570	923,306	974,101
Advertising and promotion expenses	104,744	99,853	207,172	190,687
Other selling and administrative expenses	367,551	391,709	770,038	776,188
<b>Operating Income (Loss)</b>	563	1,008	(53,904)	7,226
Interest expense	20,706	18,965	41,107	36,211
Interest (income)	(2,099)	(2,186)	(3,767)	(3,465)
Other non-operating expense (income), net	1,854	(1,400)	1,801	(1,728)
<b>Loss Before Income Taxes</b>	(19,898)	(14,371)	(93,045)	(23,792)
(Benefit) for income taxes	(8,547)	(42,696)	(23,517)	(40,899)
<b>Net (Loss) Income</b>	\$ (11,351)	\$ 28,325	\$ (69,528)	\$ 17,107
<b>Net (Loss) Income Per Common Share Basic</b>	\$ (0.03)	\$ 0.08	\$ (0.21)	\$ 0.05
Weighted average number of common shares	338,843	338,709	338,713	339,463
<b>Net (Loss) Income Per Common Share Diluted</b>	\$ (0.03)	\$ 0.08	\$ (0.21)	\$ 0.05
Weighted average number of common and potential common shares	338,843	340,644	338,713	341,594
<b>Dividends Declared Per Common Share</b>	\$ 0.38	\$ 0.38	\$ 0.76	\$ 0.76

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

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## MATTEL, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
	(Unaudited; in thousands)			
<b>Net (Loss) Income</b>	\$ (11,351)	\$ 28,325	\$ (69,528)	\$ 17,107
<b>Other Comprehensive Income (Loss), Net of Tax:</b>				
Currency translation adjustments	37,376	33,506	(89,316)	37,378
Defined benefit pension plan adjustments	(3,268)	2,657	(413)	4,745
Net unrealized (losses) gains on derivative instruments:				
Unrealized holding (losses) gains	(2,250)	(5,536)	23,501	(4,308)
Reclassification adjustment for realized (gains) losses included in net income	(13,705)	2,830	(22,556)	5,597
	(15,955)	(2,706)	945	1,289
<b>Other Comprehensive Income (Loss), Net of Tax</b>	18,153	33,457	(88,784)	43,412
<b>Comprehensive Income (Loss)</b>	\$ 6,802	\$ 61,782	\$ (158,312)	\$ 60,519

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



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**MATTEL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>For the Six Months Ended</b>	
	<b>June 30,</b>	<b>June 30,</b>
	<b>2015</b>	<b>2014</b>
	<b>(Unaudited; in thousands)</b>	
<b>Cash Flows From Operating Activities:</b>		
Net (loss) income	\$ (69,528)	\$ 17,107
Adjustments to reconcile net (loss) income to net cash flows used for operating activities:		
Depreciation	114,626	97,582
Amortization	16,355	12,242
Deferred income taxes	(42,463)	(28,971)
Tax deficiency (benefit) from share-based payment arrangements	108	(16,628)
Share-based compensation	27,290	24,472
Increase (decrease) from changes in assets and liabilities, net of acquired assets and liabilities:		
Accounts receivable	263,192	414,563
Inventories	(304,348)	(231,120)
Prepaid expenses and other current assets	(17,678)	(79,710)
Accounts payable, accrued liabilities, and income taxes payable	(222,918)	(266,647)
Other, net	(5,409)	(22,047)
Net cash flows used for operating activities	(240,773)	(79,157)
<b>Cash Flows From Investing Activities:</b>		
Purchases of tools, dies, and molds	(64,978)	(70,538)
Purchases of other property, plant, and equipment	(48,860)	(37,877)
Payments for acquisition, net of cash acquired		(423,309)
(Payments for) proceeds from foreign currency forward exchange contracts	(47,904)	6,615
Other, net	570	367
Net cash flows used for investing activities	(161,172)	(524,742)
<b>Cash Flows From Financing Activities:</b>		
Payments of short-term borrowings, net		(4,278)
Proceeds from short-term borrowings, net		20,481
Payments of long-term borrowings		(44,587)
Proceeds from long-term borrowings, net		495,458
Share repurchases		(128,165)
Payments of dividends on common stock	(257,181)	(257,669)
Proceeds from exercise of stock options	7,578	14,566
Tax (deficiency) benefit from share-based payment arrangements	(108)	16,628
Other, net	(5,883)	(29,350)

Net cash flows (used for) provided by financing activities	(255,594)	83,084
<b>Effect of Currency Exchange Rate Changes on Cash</b>	(13,656)	(184)
<b>Decrease in Cash and Equivalents</b>	(671,195)	(520,999)
<b>Cash and Equivalents at Beginning of Period</b>	971,650	1,039,216
<b>Cash and Equivalents at End of Period</b>	\$ 300,455	\$ 518,217

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

**Table of Contents****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 ( GAAP ) 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. As 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 GAAP.

The financial information included herein should be read in conjunction with Mattel's consolidated financial statements and related notes in its 2014 Annual Report on Form 10-K.

**2. Accounts Receivable**

Accounts receivable are net of allowances for doubtful accounts of \$24.9 million, \$21.4 million, and \$26.3 million as of June 30, 2015, June 30, 2014, and December 31, 2014, respectively.

**3. Inventories**

Inventories include the following:

	<b>June 30, 2015</b>	<b>June 30, 2014</b>	<b>December 31, 2014</b>
		<b>(In thousands)</b>	
Raw materials and work in process	\$ 149,814	\$ 140,407	\$ 88,395
Finished goods	703,981	742,381	473,360
	<b>\$ 853,795</b>	<b>\$ 882,788</b>	<b>\$ 561,755</b>

**4. Property, Plant, and Equipment**

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

	June 30, 2015	June 30, 2014	December 31, 2014
	(In thousands)		
Land	\$ 27,361	\$ 27,666	\$ 27,465
Buildings	275,956	272,169	274,452
Machinery and equipment	744,078	707,977	728,299
Software	323,529	317,388	316,374
Tools, dies, and molds	811,763	763,490	782,507
Capital leases	23,970	23,921	23,970
Leasehold improvements	245,037	233,937	242,177
	2,451,694	2,346,548	2,395,244
Less: accumulated depreciation	(1,718,692)	(1,643,140)	(1,657,375)
	\$ 733,002	\$ 703,408	\$ 737,869

## 5. Goodwill

Goodwill is allocated to various reporting units, which are at the operating segment level, for purposes of evaluating whether goodwill is impaired. Mattel's reporting units are: (i) North America, (ii) International, and (iii) American Girl. Mattel tests its goodwill for impairment annually in the third quarter and whenever events or changes in circumstances indicate that the carrying value of a reporting unit may exceed its fair value.

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The change in the carrying amount of goodwill by operating segment for the six months ended June 30, 2015 is shown below. Brand-specific goodwill held by foreign subsidiaries is allocated to the North America and American Girl operating segments selling those brands, thereby causing a foreign currency translation impact for these operating segments.

	<b>December 31, 2014</b>	<b>Currency Exchange Rate Impact</b>	<b>June 30, 2015</b>
	<b>(In thousands)</b>		
North America	\$ 720,939	\$ 313	\$ 721,252
International	458,766	353	459,119
American Girl	213,220	(444)	212,776
Total goodwill	\$ 1,392,925	\$ 222	\$ 1,393,147

*Acquisition of MEGA Brands Inc.*

On April 30, 2014, Mattel acquired MEGA Brands Inc., a corporation incorporated under the laws of Canada ( MEGA Brands ), pursuant to the Arrangement Agreement dated as of February 27, 2014, between MEGA Brands, Mattel Overseas Operations Ltd., a corporation incorporated under the laws of Bermuda, Mattel-MEGA Holdings Inc., a corporation incorporated under the laws of Canada (the Purchasing Subsidiary ), and, with respect to certain provisions thereof, Mattel (the Arrangement Agreement ). Pursuant to the terms set forth in the Arrangement Agreement, Mattel indirectly acquired, through the Purchasing Subsidiary, 100% of the issued and outstanding common shares and warrants of MEGA Brands for total cash consideration of \$454.9 million, including payment for cash acquired of \$31.6 million. The acquisition of MEGA Brands builds upon Mattel s portfolio of brands by expanding into the construction building sets and arts and crafts categories.

The total purchase consideration was allocated to the assets acquired and liabilities assumed based on their estimated fair values. As a result of the acquisition, Mattel recognized \$95.0 million of identifiable intangible assets (primarily related to trade names and existing product lines), \$40.6 million of net assets acquired (which included \$31.6 million of cash, \$36.6 million of accounts receivable, \$83.0 million of inventory, \$32.5 million of property, plant, and equipment, \$66.6 million of accounts payable and accrued liabilities, \$44.6 million of long-term debt, and \$31.9 million of other net liabilities), and \$319.3 million of goodwill, which is not deductible for tax purposes. The fair values of the identifiable intangible assets related to trade names were based on the relief from royalty method, using Level 3 inputs within the fair value hierarchy, which included forecasted future cash flows, long-term revenue growth rates, royalty rates, and discount rates. The fair values of the identifiable intangible assets related to existing product lines were estimated based on the multi-period excess earnings method, using Level 3 inputs within the fair value hierarchy, which included forecasted future cash flows, long-term revenue growth rates, and discount rates. Goodwill relates to a number of factors built into the purchase price, including the future earnings and cash flow potential of the business, as well as the complementary strategic fit and the resulting synergies it brings to Mattel s existing operations.

Mattel finalized the valuation of the assets acquired and liabilities assumed in the first quarter of 2015, which resulted in adjustments to the purchase price allocation during the measurement period. As such, Mattel has retrospectively adjusted the provisional amounts recorded in its consolidated balance sheets as of June 30, 2014 and December 31, 2014 as if the valuation of the assets acquired and liabilities assumed was finalized on the acquisition date. For the

consolidated balance sheet as of June 30, 2014, the retrospective adjustments resulted in a decrease to net assets acquired of approximately \$8 million and an increase to goodwill of approximately \$8 million. For the consolidated balance sheet as of December 31, 2014, the retrospective adjustments resulted in an increase to net assets acquired of approximately \$1 million and a decrease to goodwill of approximately \$1 million.

During the three and six months ended June 30, 2015, Mattel recognized approximately \$3 million and \$10 million, respectively, of integration costs. During the three and six months ended June 30, 2014, Mattel recognized approximately \$4 million of integration costs and approximately \$7 million of transaction costs. Integration and transaction costs are recorded within other selling and administrative expenses in the consolidated statements of operations. The pro forma and actual results of operations for this acquisition have not been presented because they are not material.

## 6. Other Noncurrent Assets

Other noncurrent assets include the following:

	June 30, 2015	June 30, 2014	December 31, 2014
<b>(In thousands)</b>			
Nonamortizable identifiable intangibles	\$ 500,183	\$ 517,378	\$ 498,517
Deferred income taxes	423,713	423,989	385,434
Identifiable intangibles (net of amortization of \$117.5 million, \$77.2 million, and \$103.6 million, respectively)	226,352	261,636	240,227
Other	291,703	286,791	280,080
	<b>\$ 1,441,951</b>	<b>\$ 1,489,794</b>	<b>\$ 1,404,258</b>

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In connection with the acquisition of MEGA Brands, as more fully described in Note 5 to the Consolidated Financial Statements Goodwill of this Quarterly Report on Form 10-Q, Mattel recognized \$95.0 million of amortizable identifiable intangible assets, primarily related to trade names and existing product lines.

Mattel tests nonamortizable intangible assets, including trademarks and trade names, for impairment annually in the third quarter and whenever events or changes in circumstances indicate that the carrying values may exceed the fair values. Mattel also tests its amortizable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable.

**7. Accrued Liabilities**

Accrued liabilities include the following:

	<b>June 30, 2015</b>	<b>June 30, 2014</b>	<b>December 31, 2014</b>
	<b>(In thousands)</b>		
Royalties	\$ 65,201	\$ 62,509	\$ 112,823
Taxes other than income taxes	29,887	33,772	53,182
Advertising and promotion	15,264	52,506	88,132
Other	374,775	332,060	385,707
	<b>\$ 485,127</b>	<b>\$ 480,847</b>	<b>\$ 639,844</b>

**8. Seasonal Financing**

Mattel maintains and periodically amends or replaces its domestic unsecured committed revolving credit facility with a commercial bank group. The credit facility is used as a back-up to Mattel's commercial paper program, which is used as the primary source of financing for the seasonal working capital requirements of its domestic subsidiaries. The agreement governing the credit facility was amended and restated on June 8, 2015 to, among other things, (i) extend the maturity date of the credit facility to June 9, 2020, (ii) amend the definition of consolidated earnings before interest, taxes, depreciation, and amortization ( Consolidated EBITDA ) used in calculating Mattel's financial ratio covenants, and (iii) increase the maximum allowed consolidated debt-to-Consolidated EBITDA ratio to 3.50 to 1. The aggregate commitments under the credit facility remain at \$1.60 billion, with an accordion feature, which allows Mattel to increase the aggregate availability under the credit facility to \$1.85 billion under certain circumstances. In addition, applicable interest rate margins remain within a range of 0.00% to 0.75% above the applicable base rate for base rate loans and 0.88% to 1.75% above the applicable LIBOR for Eurodollar rate loans, and the commitment fees range from 0.08% to 0.25% of the unused commitments under the credit facility, in each case depending on Mattel's senior unsecured long-term debt rating.

The proportion of unamortized debt issuance costs from the prior credit facility renewal related to creditors involved in both the prior credit facility and amended credit facility and borrowing costs incurred as a result of the amendment were deferred, and such costs will be amortized over the term of the amended credit facility.

Mattel is required to meet financial ratio covenants at the end of each quarter and fiscal year, using the formulae specified in the credit agreement to calculate the ratios. Mattel was in compliance with such covenants at June 30, 2015.

The agreement governing the credit facility is a material agreement, and failure to comply with the financial ratio covenants may result in an event of default under the terms of the credit facility. If Mattel were to default under the terms of the credit facility, its ability to meet its seasonal financing requirements could be adversely affected.

## 9. Long-Term Debt

Long-term debt includes the following:

	June 30, 2015	June 30, 2014 (In thousands)	December 31, 2014
2010 Senior Notes due October 2020 and October 2040	\$ 500,000	\$ 500,000	\$ 500,000
2011 Senior Notes due November 2016 and November 2041	600,000	600,000	600,000
2013 Senior Notes due March 2018 and March 2023	500,000	500,000	500,000
2014 Senior Notes due May 2019	500,000	500,000	500,000
	2,100,000	2,100,000	2,100,000
Less: current portion			
Total long-term debt	\$ 2,100,000	\$ 2,100,000	\$ 2,100,000



**Table of Contents****10. Other Noncurrent Liabilities**

Other noncurrent liabilities include the following:

	June 30, 2015	June 30, 2014	December 31, 2014
	(In thousands)		
Benefit plan liabilities	\$ 209,880	\$ 191,817	\$ 229,963
Noncurrent tax liabilities	167,158	168,322	171,181
Other	166,617	168,843	182,882
	\$ 543,655	\$ 528,982	\$ 584,026

**11. Accumulated Other Comprehensive Income (Loss)**

The following tables present changes in the accumulated balances for each component of other comprehensive income (loss), including current period other comprehensive income (loss) and reclassifications out of accumulated other comprehensive income (loss):

	For the Three Months Ended June 30, 2015			
	Derivative Instruments	Defined Benefit Pension Plans	Currency Translation Adjustments	Total
	(In thousands)			
<b>Accumulated Other Comprehensive Income (Loss), Net of Tax, as of March 31, 2015</b>	\$ 46,925	\$ (158,652)	\$ (617,299)	\$ (729,026)
Other comprehensive (loss) income before reclassifications	(2,250)	(811)	37,376	34,315
Amounts reclassified from accumulated other comprehensive income (loss)	(13,705)	(2,457)		(16,162)
Net (decrease) increase in other	(15,955)	(3,268)	37,376	18,153

comprehensive  
income

<b>Accumulated Other Comprehensive Income (Loss), Net of Tax, as of June 30, 2015</b>	\$	30,970	\$	(161,920)	\$	(579,923)	\$	(710,873)
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**For the Six Months Ended June 30, 2015**

	<b>Derivative Instruments</b>	<b>Defined Benefit Pension Plans</b>	<b>Currency Translation Adjustments</b>	<b>Total</b>				
	(In thousands)							
<b>Accumulated Other Comprehensive Income (Loss), Net of Tax, as of December 31, 2014</b>	\$	30,025	\$	(161,507)	\$	(490,607)	\$	(622,089)
Other comprehensive income (loss) before reclassifications		23,501		(950)		(89,316)		(66,765)
Amounts reclassified from accumulated other comprehensive income (loss)		(22,556)		537				(22,019)
Net increase (decrease) in other comprehensive income		945		(413)		(89,316)		(88,784)
<b>Accumulated Other Comprehensive Income (Loss), Net of Tax, as of June 30, 2015</b>	\$	30,970	\$	(161,920)	\$	(579,923)	\$	(710,873)

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	<b>For the Three Months Ended June 30, 2014</b>			
	<b>Derivative Instruments</b>	<b>Defined Benefit Pension Plans</b>	<b>Currency Translation Adjustments</b>	<b>Total</b>
	<b>(In thousands)</b>			
<b>Accumulated Other Comprehensive Income (Loss), Net of Tax, as of March 31, 2014</b>	\$ (6,794)	\$ (129,858)	\$ (297,069)	\$ (433,721)
Other comprehensive (loss) income before reclassifications	(5,536)	464	33,506	28,434
Amounts reclassified from accumulated other comprehensive income (loss)	2,830	2,193		5,023
Net (decrease) increase in other comprehensive income	(2,706)	2,657	33,506	33,457
<b>Accumulated Other Comprehensive Income (Loss), Net of Tax, as of June 30, 2014</b>	\$ (9,500)	\$ (127,201)	\$ (263,563)	\$ (400,264)

	<b>For the Six Months Ended June 30, 2014</b>			
	<b>Derivative Instruments</b>	<b>Defined Benefit Pension Plans</b>	<b>Currency Translation Adjustments</b>	<b>Total</b>
	<b>(In thousands)</b>			
<b>Accumulated Other Comprehensive Income (Loss), Net of Tax, as of December 31, 2013</b>	\$ (10,789)	\$ (131,946)	\$ (300,941)	\$ (443,676)
Other comprehensive	(4,308)	372	37,378	33,442

(loss) income before reclassifications				
Amounts reclassified from accumulated other comprehensive income (loss)	5,597	4,373		9,970
Net increase in other comprehensive income	1,289	4,745	37,378	43,412
<b>Accumulated Other Comprehensive Income (Loss), Net of Tax, as of June 30, 2014</b>	<b>\$ (9,500)</b>	<b>\$ (127,201)</b>	<b>\$ (263,563)</b>	<b>\$ (400,264)</b>

The following table presents the classification and amount of the reclassifications from accumulated other comprehensive income (loss) to the consolidated statements of operations:

	<b>For the Three Months Ended June 30, 2015</b>	<b>For the Three Months Ended June 30, 2014</b>	<b>Statements of Operations Classification</b>
	<b>(In thousands)</b>		
<b>Derivative Instruments</b>			
Gain (loss) on foreign currency forward exchange contracts	\$ 13,561	\$ (2,859)	Cost of sales
	144	29	Provision for income taxes
	\$ 13,705	\$ (2,830)	Net income (loss)
<b>Defined Benefit Pension Plans</b>			
Amortization of prior service credit	\$ 264	\$ 264	(a)
Recognized actuarial loss	(4,927)	(3,664)	(a)
Curtailement gain	8,639		(a)
	3,976	(3,400)	
	(1,519)	1,207	Provision for income taxes
	\$ 2,457	\$ (2,193)	Net income (loss)

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	<b>For the Six Months Ended June 30, 2015</b>	<b>For the Six Months Ended June 30, 2014</b>	<b>Statements of Operations Classification</b>
	<b>(In thousands)</b>		
<b>Derivative Instruments</b>			
Gain (loss) on foreign currency forward exchange contracts	\$ 22,381	\$ (5,577)	Cost of sales
	175	(20)	Provision for income taxes
	\$ 22,556	\$ (5,597)	Net income (loss)
<b>Defined Benefit Pension Plans</b>			
Amortization of prior service credit	\$ 528	\$ 528	(a)
Recognized actuarial loss	(9,858)	(7,326)	(a)
Curtailment gain	8,639		(a)
	(691)	(6,798)	
	154	2,425	Provision for income taxes
	\$ (537)	\$ (4,373)	Net income (loss)

(a) The amortization of prior service credit, recognized actuarial loss, and curtailment gain are included in the computation of net periodic benefit cost. Refer to Note 15 to the Consolidated Financial Statements Employee Benefit Plans of this Quarterly Report on Form 10-Q for additional information regarding Mattel's net periodic benefit cost.

**Currency Translation Adjustments**

Mattel's reporting currency is the US dollar. The translation of its net investments in subsidiaries with non-US dollar functional currencies subjects Mattel to the impact of 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 income (loss) within stockholders' equity. Currency translation adjustments resulted in a net loss of \$89.3 million for the six months ended June 30, 2015, primarily due to the weakening of the Euro, Brazilian real, and Mexican peso against the US dollar, partially offset by the strengthening of the British pound sterling. Currency translation adjustments resulted in a net gain of \$37.4 million for the six months ended June 30, 2014, primarily due to the strengthening of the British pound sterling, Brazilian real, and Australian dollar against the US dollar, partially offset by the weakening of the Euro.

**12. Derivative Instruments**

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 of up to 18 months. These derivative instruments have been designated as effective cash flow hedges, whereby the unsettled hedges are reported in Mattel's consolidated balance sheets at fair value, with changes in the fair value of the hedges reflected in other comprehensive income (OCI). Realized gains and losses for these contracts are recorded in the consolidated statements of operations in the period in which the inventory is sold to customers. Additionally, Mattel uses foreign currency forward exchange contracts and a cross currency swap contract to hedge intercompany loans and advances denominated in foreign currencies. Due to the short-term nature of the contracts involved, Mattel has not designated these contracts as hedging instruments, and as such, changes in fair value are recorded in the period of change in the consolidated statements of operations. As of June 30, 2015, June 30, 2014, and December 31, 2014, Mattel held foreign currency forward exchange contracts with notional amounts of approximately \$1.21 billion, \$1.43 billion, and \$1.19 billion, respectively. As of June 30, 2015, Mattel also held a cross currency swap contract with a notional amount of \$30.0 million.

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The following table presents Mattel's derivative assets and liabilities:

	Balance Sheet Classification	Derivative Assets		
		June 30, 2015	Fair Value June 30, 2014 (In thousands)	December 31, 2014
<b>Derivatives designated as hedging instruments:</b>				
Foreign currency forward exchange contracts	Prepaid expenses and other current assets	\$ 31,678	\$ 2,938	\$ 31,982
Foreign currency forward exchange contracts	Other noncurrent assets	800	541	1,443
<b>Total derivatives designated as hedging instruments</b>		\$ 32,478	\$ 3,479	\$ 33,425
<b>Derivatives not designated as hedging instruments:</b>				
Foreign currency forward exchange contracts	Prepaid expenses and other current assets	\$	\$ 4,323	\$ 318
<b>Total</b>		\$ 32,478	\$ 7,802	\$ 33,743

	Balance Sheet Classification	Derivative Liabilities		
		June 30, 2015	Fair Value June 30, 2014 (In thousands)	December 31, 2014
<b>Derivatives designated as hedging instruments:</b>				
Foreign currency forward exchange contracts	Accrued liabilities	\$ 7,752	\$ 10,028	\$ 2,408
Foreign currency forward exchange contracts	Other noncurrent liabilities	1,183	75	36

<b>Total derivatives designated as hedging instruments</b>		\$	8,935	\$	10,103	\$	2,444
<b>Derivatives not designated as hedging instruments:</b>							
Foreign currency forward exchange contracts	Accrued liabilities	\$	3,953	\$	299	\$	10,954
Cross currency swap contract	Accrued liabilities		797				
<b>Total derivatives not designated as hedging instruments</b>		\$	4,750	\$	299	\$	10,954
<b>Total</b>		\$	13,685	\$	10,402	\$	13,398

The following tables present the classification and amount of gains and losses, net of tax, from derivatives reported in the consolidated statements of operations:

	<b>For the Three Months Ended June 30, 2015</b>		<b>For the Three Months Ended June 30, 2014</b>		
	<b>Amount of Gain (Loss) Reclassified from Accumulated OCI to</b>		<b>Amount of Gain (Loss) Reclassified from Accumulated OCI to</b>		
	<b>Amount of Gain (Loss) Recognized in OCI</b>	<b>Statements of Operations</b>	<b>Amount of Gain (Loss) Recognized in OCI</b>	<b>Statements of Operations</b>	<b>Statements of Operations Classification</b>
	<b>(In thousands)</b>				
<b>Derivatives designated as hedging instruments</b>					
Foreign currency forward exchange contracts	\$ (2,250)	\$ 13,705	\$ (5,536)	\$ (2,830)	Cost of sales



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	For the Six Months Ended June 30, 2015		For the Six Months Ended June 30, 2014		
	Amount of Gain (Loss) Reclassified from Accumulated OCI to Amount of Gain (Loss) Recognized in OCI		Amount of Gain (Loss) Reclassified from Accumulated OCI to Amount of Gain (Loss) Recognized in OCI		Statements of Operations Classification
	(In thousands)				

**Derivatives designated as hedging instruments**

Foreign currency forward exchange contracts	\$ 23,501	\$ 22,556	\$ (4,308)	\$ (5,597)	Cost of sales
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The net gains of \$13.7 million and \$22.6 million reclassified from accumulated other comprehensive loss to the consolidated statements of operations for the three and six months ended June 30, 2015, respectively, and the net losses of \$2.8 million and \$5.6 million reclassified from accumulated other comprehensive loss to the consolidated statements of operations for the three and six months ended June 30, 2014, respectively, are offset by the changes in cash flows associated with the underlying hedged transactions.

	Amount of Gain (Loss) Recognized in the Statements of Operations For the Three Months Ended June 30, 2015		Amount of Gain (Loss) Recognized in the Statements of Operations For the Three Months Ended June 30, 2014		Statements of Operations Classification
	(In thousands)				
<b>Derivatives not designated as hedging instruments</b>					
Foreign currency forward exchange contracts	\$ 12,927	\$ 2,216			Non-operating income/expense
Cross currency swap contract	(797)				Non-operating income/expense
Foreign currency forward exchange contracts	93	(1,085)			Cost of sales
<b>Total</b>	<b>\$ 12,223</b>	<b>\$ 1,131</b>			

	Amount of Gain (Loss) Recognized in the Statements of Operations For the Six Months Ended June 30, 2015		Amount of Gain (Loss) Recognized in the Statements of Operations For the Six Months Ended June 30, 2014		Statements of Operations Classification
	(In thousands)				

<b>Derivatives not designated as hedging instruments</b>			
Foreign currency forward exchange contracts	\$ (40,322)	\$ 9,769	Non-operating income/expense
Cross currency swap contract	(797)		Non-operating income/expense
Foreign currency forward exchange contracts	(899)	686	Cost of sales
<b>Total</b>	<b>\$ (42,018)</b>	<b>\$ 10,455</b>	

The net gain (loss) of \$12.2 million and \$(42.0) million recognized in the consolidated statements of operations for the three and six months ended June 30, 2015, respectively, and the net gains of \$1.1 million and \$10.5 million recognized in the consolidated statements of operations for the three and six months ended June 30, 2014, respectively, are offset by foreign currency transaction gains and losses on the related hedged balances.

### 13. Fair Value Measurements

The following table presents information about Mattel's assets and liabilities measured and reported in the financial statements at fair value and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value. The three levels of the fair value hierarchy are as follows:

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

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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 unobservable, supported by little or no market activity, and that are significant to the fair value of the assets or liabilities.

Mattel's financial assets and liabilities measured and reported at fair value on a recurring basis include the following:

	<b>June 30, 2015</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>(In thousands)</b>			
<b>Assets:</b>				
Foreign currency forward exchange contracts (a)	\$	\$ 32,478	\$	\$ 32,478
Auction rate security (b)			32,389	32,389
Total assets	\$	\$ 32,478	\$ 32,389	\$ 64,867
<b>Liabilities:</b>				
Foreign currency forward exchange contracts (a)	\$	\$ 12,888	\$	\$ 12,888
Cross currency swap contract (a)		797		797
Total liabilities	\$	\$ 13,685	\$	\$ 13,685

	<b>June 30, 2014</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>(In thousands)</b>			
<b>Assets:</b>				
Foreign currency forward exchange contracts (a)	\$	\$ 7,802	\$	\$ 7,802
Auction rate security (b)			31,312	31,312
Total assets	\$	\$ 7,802	\$ 31,312	\$ 39,114
<b>Liabilities:</b>				
Foreign currency forward exchange contracts (a)	\$	\$ 10,402	\$	\$ 10,402

	<b>December 31, 2014</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>(In thousands)</b>			

**Assets:**

Foreign currency forward exchange contracts					
(a)	\$	\$	33,743	\$	\$ 33,743
Auction rate security (b)				30,960	30,960
Total assets	\$	\$	33,743	\$ 30,960	\$ 64,703

**Liabilities:**

Foreign currency forward exchange contracts					
(a)	\$	\$	13,398	\$	\$ 13,398

- (a) *The fair values of the foreign currency forward exchange contracts and the cross currency swap contract are based on dealer quotes of market forward rates and reflect the amount that Mattel would receive or pay at their maturity dates for contracts involving the same notional amounts, currencies, and maturity dates.*
- (b) *The fair value of the auction rate security is estimated using a discounted cash flow model based on (i) estimated interest rates, timing, and amount of cash flows, (ii) credit spreads, recovery rates, and credit quality of the underlying securities, (iii) illiquidity considerations, and (iv) market correlation.*

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The following table presents information about Mattel's auction rate security measured and reported at fair value on a recurring basis using significant Level 3 inputs:

	<b>Level 3</b> <b>(In thousands)</b>
<b>Balance at December 31, 2014</b>	\$ 30,960
Unrealized gain	1,429
<b>Balance at June 30, 2015</b>	<b>\$ 32,389</b>

*Other Financial Instruments*

Mattel's financial instruments include cash and equivalents, accounts receivable and payable, short-term borrowings, and accrued liabilities. The fair values of these instruments approximate their carrying values because of their short-term nature and are classified as Level 2 within the fair value hierarchy.

The estimated fair value of Mattel's long-term debt, including the current portion, was \$2.14 billion (compared to a carrying value of \$2.10 billion) as of June 30, 2015, \$2.19 billion (compared to a carrying value of \$2.10 billion) as of June 30, 2014, and \$2.18 billion (compared to a carrying value of \$2.10 billion) as of December 31, 2014. The estimated fair values have been calculated based on broker quotes or rates for the same or similar instruments and are classified as Level 2 within the fair value hierarchy.

**14. Earnings Per Share**

Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of earnings per share pursuant to the two-class method. Certain of Mattel's restricted stock units (RSUs) are considered participating securities because they contain nonforfeitable rights to dividend equivalents.

Under the two-class method, net income is reduced by the amount of dividends declared in the period for each class of common stock and participating securities. The remaining undistributed earnings are then allocated to common stock and participating securities as if all of the net income for the period had been distributed. Basic earnings per common share excludes dilution and is calculated by dividing net income allocable to common shares by the weighted average number of common shares outstanding for the period. Diluted earnings per common share is calculated by dividing net income allocable to common shares by the weighted average number of common shares for the period, as adjusted for the potential dilutive effect of non-participating share-based awards. The following table reconciles earnings (loss) per common share for the three and six months ended June 30, 2015 and 2014:

<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>
<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>(In thousands, except per share amounts)</b>			

**Basic:**

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Net (loss) income	\$ (11,351)	\$ 28,325	\$ (69,528)	\$ 17,107
Less: net income allocable to participating RSUs (a)		(265)		(199)
Net (loss) income available for basic common shares	\$ (11,351)	\$ 28,060	\$ (69,528)	\$ 16,908
Weighted average common shares outstanding	338,843	338,709	338,713	339,463
Basic net (loss) income per common share	\$ (0.03)	\$ 0.08	\$ (0.21)	\$ 0.05
<b>Diluted:</b>				
Net (loss) income	\$ (11,351)	\$ 28,325	\$ (69,528)	\$ 17,107
Less: net income allocable to participating RSUs (a)		(270)		(212)
Net (loss) income available for diluted common shares	\$ (11,351)	\$ 28,055	\$ (69,528)	\$ 16,895
Weighted average common shares outstanding	338,843	338,709	338,713	339,463
Weighted average common equivalent shares arising from:				
Dilutive stock options and non-participating RSUs		1,935		2,131
Weighted average number of common and potential common shares	338,843	340,644	338,713	341,594
Diluted net (loss) income per common share	\$ (0.03)	\$ 0.08	\$ (0.21)	\$ 0.05

(a) During the three and six months ended June 30, 2015, Mattel did not allocate its net loss to its participating RSUs as its participating RSUs are not obligated to share in the losses of the Company.

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The calculation of potential common shares assumes the exercise of dilutive stock options and vesting of non-participating RSUs, net of assumed treasury share repurchases at average market prices. Mattel was in a net loss position during the three and six months ended June 30, 2015, and accordingly, all outstanding nonqualified stock options and non-participating RSUs were excluded from the calculation of diluted earnings per common share because their effect would be antidilutive. Nonqualified stock options and non-participating RSUs totaling 1.5 million and 1.4 million shares, respectively, were excluded from the calculation of diluted net income per common share for the three and six months ended June 30, 2014, respectively, because they were antidilutive.

**15. 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 Part II, Item 8 Financial Statements and Supplementary Data Note 4 to the Consolidated Financial Statements Employee Benefit Plans in its 2014 Annual Report on Form 10-K.

A summary of the components of net periodic benefit (credit)/cost for Mattel's defined benefit pension plans is as follows:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
	(In thousands)			
Service cost	\$ 2,186	\$ 2,715	\$ 4,364	\$ 5,312
Interest cost	6,260	6,978	12,532	13,919
Expected return on plan assets	(7,640)	(8,020)	(15,273)	(16,023)
Amortization of prior service credit	(264)	(264)	(528)	(528)
Recognized actuarial loss	4,889	3,589	9,781	7,176
Curtailement gain	(8,639)		(8,639)	
	\$ (3,208)	\$ 4,998	\$ 2,237	\$ 9,856

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, 2015	June 30, 2014	June 30, 2015	June 30, 2014
	(In thousands)			
Service cost	\$ 21	\$ 20	\$ 42	\$ 40
Interest cost	313	452	626	904
Recognized actuarial loss	38	75	77	150
	\$ 372	\$ 547	\$ 745	\$ 1,094

During the six months ended June 30, 2015, Mattel made cash contributions totaling approximately \$8 million and \$1 million related to its defined benefit pension and postretirement benefit plans, respectively. During 2015, Mattel expects to make additional cash contributions of approximately \$28 million, including approximately \$22 million of expected lump sum benefit payments for its unfunded plans.

#### **16. Share-Based Payments**

Mattel has various stock compensation plans, which are more fully described in Part II, Item 8 Financial Statements and Supplementary Data Note 7 to the Consolidated Financial Statements Share-Based Payments in its 2014 Annual Report on Form 10-K. Under the Mattel, Inc. 2010 Equity and Long-Term Compensation Plan, Mattel has the ability to grant nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, RSUs, performance awards, dividend equivalent rights, and shares of common stock to officers, employees, and other persons providing services to Mattel. Stock options are granted with exercise prices at the fair market value of Mattel's common stock on the applicable grant date and expire no later than ten years from the date of grant. Both stock options and time-vesting RSUs generally provide for vesting over a period of three years from the date of grant.



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Compensation expense, included within other selling and administrative expenses in the consolidated statements of operations, related to stock options and RSUs is as follows:

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>(In thousands)</b>			
Stock option compensation expense	\$ 4,390	\$ 1,674	\$ 7,189	\$ 4,234
RSU compensation expense	11,297	10,105	20,101	20,238
	<b>\$ 15,687</b>	<b>\$ 11,779</b>	<b>\$ 27,290</b>	<b>\$ 24,472</b>

As of June 30, 2015, total unrecognized compensation cost related to unvested share-based payments totaled \$67.2 million and is expected to be recognized over a weighted-average period of 1.7 years.

Mattel uses treasury shares purchased under its share repurchase program to satisfy stock option exercises and the vesting of RSUs. Cash received for stock option exercises for the six months ended June 30, 2015 and 2014 was \$7.6 million and \$14.6 million, respectively.

**17. Other Selling and Administrative Expenses**

Other selling and administrative expenses include the following:

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>(In thousands)</b>			
Design and development	\$ 57,630	\$ 51,562	\$ 110,546	\$ 101,059
Identifiable intangible asset amortization	7,465	7,622	13,928	10,253

**18. 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 other non-operating income (expense), net in the consolidated statements of operations. Inventory purchase and sale transactions denominated in the Euro, British pound sterling, Mexican peso, Brazilian real, and Indonesian rupiah 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:

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>(In thousands)</b>			
Operating income	\$ 12,535	\$ 7,722	\$ 24,439	\$ 15,791
Other non-operating (expense) income, net	(2,473)	8	(3,398)	(924)
Net transaction gains	\$ 10,062	\$ 7,730	\$ 21,041	\$ 14,867

### 19. Income Taxes

Mattel's benefit for income taxes was \$23.5 million and \$40.9 million for the six months ended June 30, 2015 and June 30, 2014, respectively. During the three and six months ended June 30, 2015, Mattel recognized net discrete tax benefits of \$4.3 million and \$3.6 million, respectively, primarily related to reassessments of prior years' tax liabilities based on the status of audits and tax filings in various jurisdictions around the world, settlements, and enacted tax law changes. During the three and six months ended June 30, 2014, Mattel recognized net discrete tax benefits of \$40.1 million and \$36.4 million, respectively, primarily related to reassessments of prior years' tax liabilities based on the status of audits and tax filings in various jurisdictions around the world, settlements, and enacted tax law changes.

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In the normal course of business, Mattel is regularly audited by federal, state, and foreign tax authorities. Based on the current status of federal, state, and foreign audits, Mattel believes it is reasonably possible that in the next twelve months, the total unrecognized tax benefits could decrease by approximately \$5 million related to the settlement of tax audits and/or the expiration of statutes of limitations. The ultimate settlement of any particular issue with the applicable taxing authority could have a material impact on Mattel's consolidated financial statements.

**20. Contingencies***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.

On January 12, 2007, Mattel filed an Amended Complaint setting forth counterclaims that included additional claims against Bryant as well as claims for copyright infringement, Racketeer Influenced and Corrupt Organizations ( 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 Chief Executive Officer Isaac Larian, certain MGA affiliates and an MGA employee. The RICO claim alleged that MGA stole Bratz and then, by recruiting and hiring key Mattel employees and directing them to bring with them Mattel confidential and proprietary information, unfairly competed against Mattel using Mattel's trade secrets, confidential information, and key employees to build their business.

Mattel sought to try all of its claims in a single trial, but 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. On May 19, 2008, Bryant reached a 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 resulted in a unanimous jury verdict on July 17, 2008 in favor of Mattel. The jury found that almost all of the Bratz design drawings and other works in question were created by Bryant while he was employed at Mattel; 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. The same jury determined that defendants MGA, Larian, and MGA Entertainment (HK) Limited infringed Mattel's copyrights in the Bratz design drawings and other Bratz works, and awarded Mattel total damages of approximately \$100 million against the defendants. On December 3, 2008, the Court issued a series of orders rejecting MGA's equitable defenses and granting Mattel's motions for equitable relief, 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 its December 3, 2008 injunctive orders until further order of the Court.

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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 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.

MGA appealed the Court's equitable orders to the Court of Appeals for the Ninth Circuit. On December 9, 2009, the Ninth Circuit heard oral argument on MGA's appeal and issued an order staying the District Court's equitable orders pending a further order to be issued by the Ninth Circuit. On July 22, 2010, the Ninth Circuit vacated the District Court's equitable orders. The Ninth Circuit stated that, because of several jury instruction errors it identified, a significant portion if not all of the jury verdict and damage award should be vacated.

In its opinion, the Ninth Circuit found that the District Court erred in concluding that Mattel's Invention Agreement unambiguously applied to ideas; that it should have considered extrinsic evidence in determining the application of the agreement; and if the conclusion turns on conflicting evidence, it should have been up to the jury to decide. The Ninth Circuit also concluded that the District Judge erred in transferring the entire brand to Mattel based on misappropriated names and that the Court should have submitted to the jury, rather than deciding itself, whether Bryant's agreement assigned works created outside the scope of his employment and whether Bryant's creation of the Bratz designs and sculpt was outside of his employment. The Court then went on to address copyright issues which would be raised after a retrial, since Mattel might well convince a properly instructed jury that it owns Bryant's designs and sculpt. The Ninth Circuit stated that the sculpt itself was entitled only to thin copyright protection against virtually identical works, while the Bratz sketches were entitled to broad protection against substantially similar works; in applying the broad protection, however, the Ninth Circuit found that the lower court had erred in failing to filter out all of the unprotectable elements of Bryant's sketches. This mistake, the Court said, caused the lower court to conclude that all Bratz dolls were substantially similar to Bryant's original sketches.

Judge Stephen Larson, who presided over the first trial, retired from the bench during the course of the appeal, and the case was transferred to Judge David O. Carter. After the transfer, Judge Carter granted Mattel leave to file a Fourth Amended Answer and Counterclaims, which focused on RICO, trade secret and other claims, and added additional parties, and subsequently granted in part and denied in part a defense motion to dismiss those counterclaims.

Later, on August 16, 2010, MGA asserted several new claims against Mattel in response to Mattel's Fourth Amended Answer and Counterclaims, including claims for alleged trade secret misappropriation, an alleged violation of RICO, and wrongful injunction. MGA alleged, in summary, that, for more than a decade dating back to 1992, Mattel employees engaged in a pattern of stealing alleged trade secret information from competitors' toy fair showrooms, and then sought to conceal that alleged misconduct. Mattel moved to strike and/or dismiss these claims, as well as certain MGA allegations regarding Mattel's motives for filing suit. The Court granted that motion as to the wrongful injunction claim, which it dismissed with prejudice, and as to the allegations about Mattel's motives, which it struck. The Court denied the motion as to MGA's trade secret misappropriation claim and its claim for violations of RICO.

The Court resolved summary judgment motions in late 2010. Among other rulings, the Court dismissed both parties' RICO claims; dismissed Mattel's claim for breach of fiduciary duty and portions of other claims as preempted by the trade secrets act; dismissed MGA's trade dress infringement claims; dismissed MGA's unjust enrichment claim; dismissed MGA's common law unfair competition claim; and dismissed portions of Mattel's copyright infringement claim as to later generation Bratz dolls.

Trial of all remaining claims began in early January 2011. During the trial, and before the case was submitted to the jury, the Court granted MGA's motions for judgment as to Mattel's claims for aiding and abetting breach of duty of loyalty and conversion. The Court also granted a defense motion for judgment on portions of Mattel's claim for misappropriation of trade secrets relating to thefts by former Mattel employees located in Mexico.

The jury reached verdicts on the remaining claims in April 2011. In those verdicts, the jury ruled against Mattel on its claims for ownership of Bratz-related works, for copyright infringement, and for misappropriation of trade secrets. The jury ruled for MGA on its claim of trade secret misappropriation as to 26 of its claimed trade secrets and awarded \$88.5 million in damages. The jury ruled against MGA as to 88 of its claimed trade secrets. The jury found that Mattel's misappropriation was willful and malicious.

In early August 2011, the Court ruled on post-trial motions. The Court rejected MGA's unfair competition claims and also rejected Mattel's equitable defenses to MGA's misappropriation of trade secrets claim. The Court reduced the jury's damages award of \$88.5 million to \$85.0 million. The Court awarded MGA an additional \$85.0 million in punitive damages and approximately \$140 million in attorney's fees and costs. The Court entered a judgment which totaled approximately \$310 million in favor of MGA.

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On August 11, 2011, Mattel appealed the judgment, challenging on appeal the entirety of the District Court's monetary award in favor of MGA, including both the award of \$170 million in damages for alleged trade secret misappropriation and approximately \$140 million in attorney's fees and costs. On January 24, 2013, the Ninth Circuit Court of Appeals issued a ruling on Mattel's appeal. In that ruling, the Court found that MGA's claim for trade secrets misappropriation was not compulsory to any Mattel claim and could not be filed as a counterclaim-in-reply. Accordingly, the Court of Appeals vacated the portion of the judgment awarding damages and attorney's fees and costs to MGA for prevailing on its trade secrets misappropriation claim, totaling approximately \$172.5 million. It ruled that, on remand, the District Court must dismiss MGA's trade secret claim without prejudice. In its ruling, the Court of Appeals also affirmed the District Court's award of attorney's fees and costs under the Copyright Act. Accordingly, Mattel recorded a litigation accrual of approximately \$138 million during the fourth quarter of 2012 to cover these fees and costs.

Because multiple claimants asserted rights to the attorney's fees portion of the judgment, on February 13, 2013, Mattel filed a motion in the District Court for orders permitting Mattel to interplead the proceeds of the judgment and releasing Mattel from liability to any claimant based on Mattel's payment of the judgment.

On February 27, 2013, MGA filed a motion for leave to amend its prior complaint in the existing federal court lawsuit so that it could reassert its trade secrets claim. Mattel opposed that motion. On December 17, 2013, the District Court denied MGA's motion for leave to amend and entered an order dismissing MGA's trade secrets claim without prejudice. Also on December 17, 2013, following a settlement between MGA and certain insurance carriers, the District Court denied Mattel's motion for leave to interplead the proceeds of the judgment.

On December 21, 2013, a stipulation regarding settlement with insurers and payment of judgment was filed in the District Court, which provided that (i) Mattel would pay approximately \$138 million, including accrued interest, in full satisfaction of the copyright fees judgment, (ii) all parties would consent to entry of an order exonerating and discharging the appeal bond posted by Mattel, and (iii) MGA's insurers would dismiss all pending actions related to the proceeds of the copyright fees judgment, including an appeal by Evanston Insurance Company in an action against Mattel that was pending in the Ninth Circuit. On December 23, 2013, Mattel paid the copyright fees judgment in the total sum, including interest, of approximately \$138 million. On December 26, 2013, the District Court entered an order exonerating and discharging the appeal bond posted by Mattel, and on December 27, 2013, MGA filed an acknowledgment of satisfaction of judgment. On December 30, 2013, Evanston Insurance Company's appeal in its action against Mattel was dismissed.

On January 13, 2014, MGA filed a new, but virtually identical, trade secrets claim against Mattel in Los Angeles County Superior Court. In its complaint, MGA purports to seek damages in excess of \$1 billion. Mattel believes that MGA's claim should be barred as a matter of law, and intends to vigorously defend against it. On December 3, 2014, the Court overruled Mattel's request to dismiss MGA's case as barred as a result of prior litigation between the parties. In light of that ruling, Mattel believes that it is reasonably possible that damages in this matter could range from \$0 to approximately \$12.5 million. In addition, Mattel believes that if such damages are awarded, it is reasonably possible that pre-judgment interest, ranging from \$0 to approximately \$10 million, could be awarded. Mattel may be entitled to an offset against any damages awarded to MGA. Mattel has not quantified the amount of any such offset as it is not currently estimable. As Mattel believes a loss in this matter is reasonably possible but not probable, no liability has been accrued to date.

*Litigation Related to Yellowstone do Brasil Ltda.*

Yellowstone do Brasil Ltda. (formerly known as Trebbor Informática Ltda.) was a customer of Mattel's subsidiary Mattel do Brasil Ltda. when a commercial dispute arose between Yellowstone and Mattel do Brasil regarding the

supply of product and related payment terms. As a consequence of the dispute, in April 1999, Yellowstone filed a declarative action against Mattel do Brasil before the 15<sup>th</sup> Civil Court of Curitiba State of Parana (the Trial Court ), requesting the annulment of its security bonds and promissory notes given to Mattel as well as requesting the Trial Court to find Mattel do Brasil liable for damages incurred as a result of Mattel do Brasil s alleged abrupt and unreasonable breach of an oral exclusive distribution agreement between the parties relating to the supply and sale of toys in Brazil. Yellowstone s complaint sought alleged loss of profits of approximately \$1 million, plus an unspecified amount of damages consisting of: (i) compensation for all investments made by Yellowstone to develop Mattel do Brasil s business; (ii) reimbursement of the amounts paid by Yellowstone to terminate labor and civil contracts in connection with the business; (iii) compensation for alleged unfair competition and for the goodwill of trade; and (iv) compensation for non-pecuniary damages.

Mattel do Brasil filed its defenses to these claims and simultaneously presented a counterclaim for unpaid accounts receivable for goods supplied to Yellowstone in the approximate amount of \$4 million.

During the evidentiary phase a first accounting report was submitted by a court-appointed expert. Such report stated that Yellowstone had invested approximately \$3 million in its business. Additionally, the court-appointed expert calculated a loss of profits compensation of approximately \$1 million. Mattel do Brasil challenged the report since it was not made based on the official accounting documents of Yellowstone and since the report calculated damages based only on documents unilaterally submitted by Yellowstone.



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The Trial Court accepted the challenge and ruled that a second accounting examination should take place in the lawsuit. Yellowstone appealed the decision to the Court of Appeals of the State of Parana (the Appeals Court), but it was upheld by the Appeals Court.

The second court-appointed expert's report submitted at trial did not assign a value to any of Yellowstone's claims and found no evidence of causation between Mattel do Brasil's actions and such claims.

In January 2010, the Trial Court ruled in favor of Mattel do Brasil and denied all of Yellowstone's claims based primarily on the lack of any causal connection between the acts of Mattel do Brasil and Yellowstone's alleged damages. Additionally, the Trial Court upheld Mattel do Brasil's counterclaim and ordered Yellowstone to pay Mattel do Brasil approximately \$4 million. The likelihood of Mattel do Brasil recovering this amount was uncertain due to the fact that Yellowstone was declared insolvent and filed for bankruptcy protection. In February 2010, Yellowstone filed a motion seeking clarification of the decision which was denied.

In September 2010, Yellowstone filed a further appeal with the Appeals Court. Under Brazilian law, the appeal was de novo and Yellowstone restated all of the arguments it made at the Trial Court level. Yellowstone did not provide any additional information supporting its unspecified alleged damages. The Appeals Court held hearings on the appeal in March and April 2013. On July 26, 2013, the Appeals Court awarded Yellowstone approximately \$17 million in damages, as adjusted for inflation and interest. The Appeals Court also awarded Mattel approximately \$7.5 million on its counterclaim, as adjusted for inflation. On August 2, 2013, Mattel filed a motion with the Appeals Court for clarification since the written decision contained clear errors in terms of amounts awarded and interest and inflation adjustments. Mattel's motion also asked the Appeals Court to decide whether Yellowstone's award could be offset by the counterclaim award, despite Yellowstone's status as a bankrupt entity. Yellowstone also filed a motion for clarification on August 5, 2013. A decision on the clarification motions was rendered on November 11, 2014, and the Appeals Court accepted partially the arguments raised by Mattel. As a result, the Appeals Court awarded Yellowstone approximately \$14.5 million in damages, as adjusted for inflation and interest, plus attorney's fees. The Appeals Court also awarded Mattel approximately \$7.5 million on its counterclaim, as adjusted for inflation. The decision also recognized the existence of legal rules that support Mattel's right to offset its counterclaim award of approximately \$7.5 million. Mattel filed a new motion for clarification with the Appeals Court on January 21, 2015, due to the incorrect statement made by the reporting judge of the Appeals Court, that the court-appointed expert analyzed the accounting documents of Yellowstone. On April 26, 2015, a decision on the motion for clarification was rendered. The Appeals Court ruled that the motion for clarification was denied and imposed a fine on Mattel equal to 1% of the value of the claims made for the delay caused by the motion. On July 3, 2015, Mattel filed a special appeal to the Superior Court of Justice based upon both procedural and substantive grounds. This special appeal seeks to reverse the Appeals Court's decision of July 26, 2013, and to reverse the fine as inappropriate under the law. This special appeal was submitted to the Appeals Court which must rule on its admissibility before it is transferred to the Superior Court.

Mattel believes that it is reasonably possible that a loss in this matter could range from \$0 to approximately \$15 million. The high end of this range, approximately \$15 million, is based on the calculation of the current amount of the damages (reported in the first court-appointed examination report submitted in the lawsuit), and loss of profits (indicated in the complaint by Yellowstone), including interest, inflation, currency adjustments, plus attorney's fees. Mattel do Brasil will be entitled to offset its counterclaim award of approximately \$7 million, the current amount including inflation, and currency adjustment, against such loss. The existence of procedural matters that will be addressed to the Superior Court of Justice adds some uncertainty to the final outcome of the matter. Mattel believes, however, that it has valid legal grounds for an appeal of the Appeals Court decision and currently does not believe that a loss is probable for this matter. Accordingly, a liability has not been accrued to date. Mattel may be required by the Trial Court to place a bond or the full amount of the damage award in escrow pending an appeal decision by the Superior Courts.

## 21. Segment Information

Mattel, through its subsidiaries, sells a broad variety of toy products which are grouped into four major brand categories, including the Construction and Arts & Crafts brand category, which was introduced in the second quarter of 2014:

*Mattel Girls & Boys Brands* including Barbie® fashion dolls and accessories ( Barbie ), Monster High®, Disney Classics®, Ever After High®, Little Mommy®, and Polly Pocket® (collectively Other Girls ), Hot Wheels® and Matchbox® vehicles and play sets (collectively Wheels ), and Cars®, Disney Planes , BOOMco , Radical Toy Story®, Max Steel®, WWE® Wrestling, Batman®, and games and puzzles (collectively Entertainment ).

*Fisher-Price Brands* including Fisher-Price®, Little People®, BabyGear , Laugh & Learn®, and Imaginext® (collectively Core Fisher-Price ), Thomas & Friends , Dora the Explorer®, Mickey Mouse® Clubhouse, and Disney Jake and the Never Land Pirates® (collectively Fisher-Price Friends ), and Power Wheels

*American Girl Brands* including Truly Me , BeForever , and Bitty Baby. American Girl Brands products are sold directly to consumers via its catalog, website, and proprietary retail stores. Its children's publications are also sold to certain retailers.

*Construction and Arts & Crafts Brands* including MEGA BLOKS®, RoseArt®, and Board Dudes®.

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Mattel's operating segments are: (i) North America, which consists of the US and Canada, (ii) International, and (iii) American Girl. The North America and International segments sell products in the Mattel Girls & Boys Brands, Fisher-Price Brands, and Construction and Arts & Crafts Brands categories, although some are developed and adapted for particular international markets.

*Segment Data*

The following tables 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 and reconciled to net sales in Part I, Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP Financial Measures of this Quarterly Report on Form 10-Q). 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 represents each segment's operating income, while consolidated operating income represents income from operations before net interest, other non-operating income (expense), and income taxes as reported in the consolidated statements of operations. The corporate and other expense 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 exchange rates on intercompany transactions.

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>(In thousands)</b>			
<b>Revenues by Segment</b>				
North America	\$ 495,738	\$ 513,463	\$ 983,937	\$ 954,894
International	511,460	569,936	933,541	1,059,175
American Girl	87,943	87,731	197,853	198,289
Gross sales	1,095,141	1,171,130	2,115,331	2,212,358
Sales adjustments	(106,989)	(108,878)	(204,430)	(203,929)
Net sales	\$ 988,152	\$ 1,062,252	\$ 1,910,901	\$ 2,008,429
<b>Segment Income (Loss)</b>				
North America	\$ 28,091	\$ 39,497	\$ 53,140	\$ 88,220
International	22,110	30,854	17,674	62,334
American Girl	(7,053)	(1,263)	(1,525)	7,981
	43,148	69,088	69,289	158,535
Corporate and other expense (a)	(42,585)	(68,080)	(123,193)	(151,309)
Operating income (loss)	563	1,008	(53,904)	7,226
Interest expense	20,706	18,965	41,107	36,211

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Interest (income)	(2,099)	(2,186)	(3,767)	(3,465)
Other non-operating expense (income), net	1,854	(1,400)	1,801	(1,728)
Loss before income taxes	\$ (19,898)	\$ (14,371)	\$ (93,045)	\$ (23,792)

(a) Corporate and other expense includes severance and other termination-related costs of \$15.6 million and \$43.6 million for the three and six months ended June 30, 2015, respectively, and \$12.6 million and \$34.1 million for the three and six months ended June 30, 2014, respectively, and share-based compensation expense of \$15.7 million and \$27.3 million for the three and six months ended June 30, 2015, respectively, and \$11.8 million and \$24.5 million for the three and six months ended June 30, 2014, respectively.

Segment assets are comprised of accounts receivable and inventories, net of applicable reserves and allowances.

	June 30, 2015	June 30, 2014	December 31, 2014
	(In thousands)		
<b>Assets by Segment</b>			
North America	\$ 663,328	\$ 703,610	\$ 698,357
International	719,810	835,707	778,849
American Girl	121,086	135,395	108,667
	1,504,224	1,674,712	1,585,873
Corporate and other	152,682	92,147	70,334
Accounts receivable and inventories, net	\$ 1,656,906	\$ 1,766,859	\$ 1,656,207

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The table below presents worldwide revenues by brand category:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
<b>(In thousands)</b>				
<b>Worldwide Revenues by Brand Category</b>				
Mattel Girls & Boys Brands	\$ 601,759	\$ 688,977	\$ 1,206,942	\$ 1,345,838
Fisher-Price Brands	336,778	328,766	600,746	600,209
American Girl Brands	84,166	83,146	190,249	189,084
Construction and Arts & Crafts Brands	64,797	61,600	103,080	61,600
Other	7,641	8,641	14,314	15,627
Gross sales	1,095,141	1,171,130	2,115,331	2,212,358
Sales adjustments	(106,989)	(108,878)	(204,430)	(203,929)
Net sales	\$ 988,152	\$ 1,062,252	\$ 1,910,901	\$ 2,008,429

**22. New Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in Accounting Standards Codification ( ASC ) 605, *Revenue Recognition*, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance establishes a five-step model to achieve that core principle and also requires additional disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts. ASU 2014-09 was originally effective for interim and annual reporting periods beginning after December 15, 2016. In July 2015, the FASB announced its approval to defer the effective date to annual reporting periods beginning after December 15, 2017, and early application would be permitted after December 15, 2016. However, the FASB has not yet issued an ASU to finalize the new effective date. Mattel is currently evaluating the impact of the adoption of ASU 2014-09 on its operating results and financial position.

In June 2014, the FASB issued ASU 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*, which requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 will be effective for interim and annual reporting periods beginning after December 15, 2015. Early application is permitted. Mattel is currently evaluating the impact of the adoption of ASU 2014-12 on its operating results and financial position.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. ASU 2015-03 will not change the amortization of debt issuance costs, which will continue to follow the existing accounting guidance. ASU 2015-03 will be effective for interim and annual reporting periods beginning after December 15, 2015. Early application is permitted. Mattel is currently evaluating the impact of the adoption of ASU 2015-03 on its

operating results and financial position.

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. ASU 2015-07 additionally removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. ASU 2015-07 will be effective for interim and annual reporting periods beginning after December 15, 2015. Early application is permitted. Mattel is currently evaluating the impact of the adoption of ASU 2015-07 on its financial statement disclosures.

### **23. Subsequent Event**

On July 16, 2015, Mattel announced that its Board of Directors declared a third quarter dividend of \$0.38 per common share. The dividend is payable on September 18, 2015 to stockholders of record on August 26, 2015.

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

In the discussion that follows, *Mattel* refers to Mattel, Inc. and/or one or more of its family of companies.

The following discussion should be read in conjunction with the consolidated financial information and related notes that appear in Part I, Item 1 of this Quarterly Report on Form 10-Q. *Mattel*'s business is seasonal, with consumers making a large percentage of all toy purchases during the traditional holiday season; therefore, results of operations are comparable only with corresponding periods.

The following discussion also includes certain non-GAAP financial measures within the meaning of Regulation G promulgated by the Securities and Exchange Commission ( *Regulation G* ) to supplement the financial results as reported in accordance with GAAP. The non-GAAP financial measures discussed below include gross sales, adjusted gross margin, adjusted other selling and administrative expenses, adjusted operating income, adjusted earnings (loss) per share, and constant currency. *Mattel* uses these metrics to analyze its continuing operations and to monitor, assess, and identify meaningful trends in its operating and financial performance. These measures are not, and should not be viewed as, substitutes for GAAP financial measures. Refer to *Non-GAAP Financial Measures* below in this Quarterly Report on Form 10-Q for a more detailed discussion, including reconciliations of these non-GAAP financial measures to their most directly comparable GAAP financial measures.

**Factors That May Affect Future Results**

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

*Mattel* is including this Cautionary Statement to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (the *Act* ) for forward-looking statements. This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of the Act. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as *believes, expects, anticipates, intends, plans, seeks, aims, estimates, projects, on track* or words of future or conditional verbs, such as *will, should, could, or may*. A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. Investors should not place undue reliance on the forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. These forward-looking statements are all based on currently available operating, financial, economic, and competitive information and are subject to various risks and uncertainties. The Company's actual future results and trends may differ materially depending on a variety of factors, including, but not limited to, the risks and uncertainties detailed in Part 1, Item 1A *Risk Factors* in *Mattel*'s 2014 Annual Report on Form 10-K. *Mattel* expressly disclaims any obligation to update or revise any forward-looking statement, whether as a result of new developments or otherwise.

**Overview**

*Mattel* designs, manufactures, and markets a broad variety of toy products worldwide which are sold to its customers and directly to consumers. *Mattel* is the owner of a portfolio of global brands with untapped intellectual property potential. Its products are among the most widely recognized toy products in the world. *Mattel*'s portfolio of brands and products are grouped into four major brand categories, including the Construction and Arts & Crafts brand category, which was introduced in the second quarter of 2014 with the acquisition of MEGA Brands:

*Mattel Girls & Boys Brands* including Barbie fashion dolls and accessories ( *Barbie* ), *Monster High*, *Disney Classics*, *Ever After High*, *Little Mommy*, and *Polly Pocket* (collectively *Other Girls* ), *Hot Wheels* and *Matchbox* vehicles and play sets (collectively *Wheels* ), and *CARS*, *Disney Planes*, *BOOMco*, *Radica*, *Toy Story*, *Max Steel*, *WWE*

Wrestling, Batman, and games and puzzles (collectively Entertainment ).

*Fisher-Price Brands* including Fisher-Price, Little People, BabyGear, Laugh & Learn, and Imaginext (collectively Core Fisher-Price ), Thomas & Friends, Dora the Explorer, Mickey Mouse Clubhouse, and Disney Jake and the Never Land Pirates (collectively Fisher-Price Friends ), and Power Wheels.

*American Girl Brands* including Truly Me, BeForever, and Bitty Baby. American Girl Brands products are sold directly to consumers via its catalog, website, and proprietary retail stores. Its children's publications are also sold to certain retailers.

*Construction and Arts & Crafts Brands* including MEGA BLOKS, RoseArt, and Board Dudes.

In order to leverage Mattel's intellectual properties, as well as a number of premier licensed entertainment properties, and its capabilities as a world-class toy maker, management plans to sharpen and expand its strategic priorities:

First, with a rapid refocus of Mattel's culture, Mattel is getting back to embracing brand building, creativity, and innovation, and management will put a premium on speed and personal accountability.

Additionally, Mattel is organizing around the following six strategic priorities:

Exploiting the franchise strength of its core brands;

Re-establishing toy leadership;



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Strengthening its global supply chain;

Achieving distinctiveness and excellence in its commercial organization;

Rapidly expanding into emerging markets; and

Continuously driving cost improvement.

Management is focused on putting Mattel back on track for growth and improved profitability.

*Second Quarter 2015 Overview*

During the second quarter of 2015, Mattel made progress on its strategic priorities and the turnaround of its business. While it is still early in the turnaround, the second quarter financial results were generally in line with management's expectations. Mattel's emphasis continues to be on rebuilding its culture to embrace brand building, creativity, and innovation, and stabilizing and growing its business. Additionally, Mattel continues to focus on broadening its innovation and invention pipeline, increasing shelf space productivity, and improving inventory levels. Management is also encouraged by its cost improvement initiatives where progress has been made in Mattel's global supply chain and other selling and administrative expenses. Mattel's second quarter 2015 financial highlights include the following:

Gross sales in the second quarter of 2015 were up 1% in constant currency, and down 6% as reported, compared to the second quarter of 2014.

Net sales in the second quarter of 2015 were flat in constant currency, and down 7% as reported, compared to the second quarter of 2014.

Adjusted gross margin in the second quarter of 2015 was 47.9%, an increase of 70 basis points from adjusted gross margin in the second quarter of 2014. Gross margin, as reported, in the second quarter of 2015 was 47.9%, an increase of 150 basis points from the second quarter of 2014.

Adjusted operating income was \$23.0 million in the second quarter of 2015, as compared to adjusted operating income of \$38.1 million in the second quarter of 2014. Operating income, as reported, in the second quarter of 2015 was \$0.6 million compared to operating income of \$1.0 million in the second quarter of 2014.

Adjusted earnings per share was \$0.01 in the second quarter of 2015, as compared to adjusted earnings per share of \$0.05 in the second quarter of 2014. Net loss per share, as reported, in the second quarter of 2015 was \$0.03 compared to net income per share of \$0.08 in the second quarter of 2014.

**Results of Operations Second Quarter**

*Consolidated Results*

Net sales for the second quarter of 2015 were \$988.2 million, a 7% decrease as reported, and flat in constant currency, compared to the second quarter of 2014. Net loss for the second quarter of 2015 was \$11.4 million, or \$(0.03) per diluted share, as compared to net income of \$28.3 million, or \$0.08 per diluted share, in the second quarter of 2014. Adjusted earnings per share in the second quarter of 2015 was \$0.01 compared to adjusted earnings per share of \$0.05 in the second quarter of 2014. Adjusted earnings per share for the second quarter of 2015 was negatively impacted by lower gross profit, higher advertising and promotion expenses, and a lower income tax benefit, partially offset by lower other selling and administrative expenses.

The following table provides a summary of Mattel's consolidated results for the second quarter of 2015 and 2014 (in millions, except percentage and basis point information):

	For the Three Months Ended June 30,				Year/Year Change	
	2015		2014		Basis Points	
	Amount	% of Net Sales	Amount	% of Net Sales	%	of Net Sales
Net sales	\$ 988.2	100.0%	\$ 1,062.3	100.0%	7%	
Gross profit	\$ 472.9	47.9%	\$ 492.6	46.4%	4%	150
Advertising and promotion expenses	104.7	10.6	99.9	9.4	5%	120
Other selling and administrative expenses	367.6	37.2	391.7	36.9	6%	30
Operating income	0.6	0.1	1.0	0.1	44%	
Interest expense	20.7	2.1	19.0	1.8	9%	30
Interest (income)	(2.1)	0.2	(2.2)	0.2	4%	
Other non-operating expense (income), net	1.9		(1.4)			
Loss before income taxes	\$ (19.9)	2.0%	\$ (14.4)	1.4%	38%	(60)

**Table of Contents***Sales*

Net sales in the second quarter of 2015 were \$988.2 million, a 7% decrease as reported, and flat in constant currency, compared to the second quarter of 2014.

The following table provides a summary of Mattel's consolidated gross sales by brand for the second quarter of 2015 and 2014:

	For the Three Months Ended June 30,		% Change as	Currency	% Change in
	2015	2014	Reported	Exchange Rate Impact	Constant Currency
(In millions, except percentage information)					
<b>Mattel Girls &amp; Boys Brands:</b>					
Barbie	\$ 130.3	\$ 160.8	19%	8%	11%
Other Girls	175.9	210.9	17%	11%	6%
Wheels	160.6	139.9	15%	11%	26%
Entertainment	135.0	177.4	24%	8%	16%
	601.8	689.0	13%	10%	3%
<b>Fisher-Price Brands:</b>					
Core Fisher-Price	226.6	218.5	4%	7%	11%
Fisher-Price Friends	85.7	89.6	4%	7%	3%
Other Fisher-Price	24.5	20.7	18%		18%
	336.8	328.8	2%	7%	9%
<b>American Girl Brands</b>	84.2	83.1	1%		1%
<b>Construction and Arts &amp; Crafts Brands</b>	64.8	61.6			
<b>Other</b>	7.5	8.6			
<b>Total Gross Sales</b>	<b>\$ 1,095.1</b>	<b>\$ 1,171.1</b>	<b>6%</b>	<b>7%</b>	<b>1%</b>

Gross sales were \$1.10 billion in the second quarter of 2015, a decrease of \$76.0 million or 6% as reported, and an increase of 1% in constant currency, compared to the second quarter of 2014. The increase in gross sales in constant currency was due to higher sales of Wheels and Core Fisher-Price products, partially offset by lower sales of Entertainment, Barbie, and Other Girls products. Of the 26% increase in Wheels gross sales in constant currency, 25% was due to higher sales of Hot Wheels products. Of the 11% increase in Core Fisher-Price gross sales in constant currency, 11% was due to higher sales of infant products. Of the 16% decrease in Entertainment gross sales in constant currency, 18% was due to lower sales of Disney Planes products. The 11% decrease in Barbie gross sales in constant currency was due primarily to continued inventory overhang in certain European markets and increased competition within the doll category in certain international markets. Of the 6% decrease in Other Girls gross sales in constant currency, 17% was due to lower sales of Monster High products, partially offset by higher sales of Disney Princess products of 9%. The Construction and Arts & Crafts Brands products are included in Mattel's results beginning in May 2014 as a result of the MEGA Brands acquisition.

*Cost of Sales*

Cost of sales as a percentage of net sales was 52.1% in the second quarter of 2015, as compared to 53.6% in the second quarter of 2014. Cost of sales decreased by \$54.4 million, or 10%, to \$515.3 million in the second quarter of 2015 from \$569.7 million in the second quarter of 2014, as compared to a 7% decrease in net sales. Within cost of sales, product and other costs decreased by \$57.5 million, or 12%, to \$403.6 million in the second quarter of 2015 from \$461.1 million in the second quarter of 2014; freight and logistics expenses decreased by \$2.2 million, or 3%, to \$64.1 million in the second quarter of 2015 from \$66.3 million in the second quarter of 2014; royalty expenses increased by \$5.3 million, or 13%, to \$47.6 million in the second quarter of 2015 from \$42.3 million in the second quarter of 2014.

*Gross Margin*

Gross margin increased to 47.9% in the second quarter of 2015 from 46.4% in the second quarter of 2014. Adjusted gross margin increased to 47.9% in the second quarter of 2015 from 47.2% in the second quarter of 2014. The increase in adjusted gross margin was due to favorable currency impact from the timing of inventory movements and hedging gains, which was partially offset by higher royalty expenses. Price increases and Funding Our Future savings were offset by higher product-related costs.

**Table of Contents***Advertising and Promotion Expenses*

Advertising and promotion expenses primarily consist of: (i) media costs, which primarily include the media, planning, and buying fees for television, print, and online advertisements, (ii) non-media costs, which primarily include commercial and website production, merchandising, and promotional costs, (iii) retail advertising costs, which primarily include consumer direct catalogs, newspaper inserts, fliers, and mailers and (iv) generic advertising costs, which primarily include trade show costs. Advertising and promotion expenses as a percentage of net sales increased to 10.6% in the second quarter of 2015 from 9.4% in the second quarter of 2014, primarily as a result of Mattel's investments to support core brands throughout the year.

*Other Selling and Administrative Expenses*

Other selling and administrative expenses, as reported, were \$367.6 million, or 37.2% of net sales, in the second quarter of 2015, as compared to \$391.7 million, or 36.9% of net sales, in the second quarter of 2014. Adjusted other selling and administrative expenses were \$345.2 million, or 34.9% of net sales, in the second quarter of 2015, as compared to \$362.9 million, or 34.2% of net sales, in the second quarter of 2014. The decrease in adjusted other selling and administrative expenses was primarily due to Funding Our Future gross savings of approximately \$15 million.

*Non-Operating Items*

Interest expense increased by \$1.7 million to \$20.7 million in the second quarter of 2015 from \$19.0 million in the second quarter of 2014, primarily due to higher average outstanding long-term borrowings.

*Provision for Income Taxes*

Mattel's benefit for income taxes was \$8.5 million and \$42.7 million in the second quarter of 2015 and 2014, respectively. Mattel recognized net discrete tax benefits of \$4.3 million and \$40.1 million in the second quarter of 2015 and 2014, respectively, primarily related to reassessments of prior years' tax liabilities based on the status of audits and tax filings in various jurisdictions around the world, settlements, and enacted tax law changes.

*North America Segment*

The following table provides a summary of Mattel's gross sales by brand for the North America segment for the second quarter of 2015 and 2014:

	For the Three Months Ended June 30,		% Change as	Currency	% Change in
	2015	2014	Reported	Exchange Rate Impact	Constant Currency
(In millions, except percentage information)					
<b>Mattel Girls &amp; Boys Brands:</b>					
Barbie	\$ 50.1	\$ 55.5	10%		10%
Other Girls	74.7	93.8	20%		20%
Wheels	69.2	55.7	24%	1%	25%
Entertainment	66.9	86.9	23%		23%

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	260.9	291.9	11%	1%	10%
<b>Fisher-Price Brands:</b>					
Core Fisher-Price	121.0	107.6	12%	1%	13%
Fisher-Price Friends	40.2	47.7	16%	1%	15%
Other Fisher-Price	24.4	19.7	24%		24%
	185.6	175.0	6%		6%
<b>Construction and Arts &amp; Crafts Brands</b>	45.4	43.1			
<b>Other</b>	3.8	3.5			
<b>Total Gross Sales</b>	\$ 495.7	\$ 513.5	3%		3%

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Gross sales for the North America segment were \$495.7 million in the second quarter of 2015, a decrease of \$17.8 million or 3% as reported and in constant currency, compared to the second quarter of 2014. The decrease in the North America segment gross sales in constant currency was primarily due to lower sales of Entertainment, Other Girls, Fisher-Price Friends, and Barbie products, partially offset by higher sales of Wheels and Core Fisher-Price products. Of the 23% decrease in Entertainment gross sales in constant currency, 26% was due to lower sales of Disney Planes products. Of the 20% decrease in Other Girls gross sales in constant currency, 10% was due to lower sales of Disney Princess products and 8% was due to lower sales of Monster High products. Of the 15% decrease in Fisher-Price Friends gross sales in constant currency, 6% was due to lower sales of Disney Jake and the Never Land Pirates products, 6% was due to lower sales of other licensed properties, and 6% was due to lower sales of Dora products, partially offset by higher sales of Thomas & Friends products of 2%. The 10% decrease in Barbie gross sales in constant currency was due to shipping lagging positive consumer takeaway as retailers continued to tightly manage retail inventories. Of the 25% increase in Wheels gross sales in constant currency, 22% was due to higher sales of Hot Wheels products. Of the 13% increase in Core Fisher-Price gross sales in constant currency, 9% was due to higher sales of infant products and 6% was due to higher sales of Imaginext products. Cost of sales decreased 3% in the second quarter of 2015, compared to a 4% decrease in net sales, primarily due to lower product and other costs, partially offset by higher freight and logistics expenses. Gross margins in the first half of 2015 decreased slightly as a result of unfavorable product mix and higher royalty expenses. Price increases and Funding Our Future savings were offset by higher product-related costs.

North America segment income decreased by 29% to \$28.1 million in the second quarter of 2015, as compared to \$39.5 million in the second quarter of 2014, primarily due to lower sales volume and higher advertising and promotion expenses, partially offset by lower other selling and administrative expenses.

*International Segment*

The following table provides a summary of percentage changes in gross sales within the International segment in the second quarter of 2015 versus 2014:

	<b>% Change in Gross Sales as Reported</b>	<b>Currency Exchange Rate Impact</b>	<b>% Change in Gross Sales in Constant Currency</b>
Total International Segment	10%	15%	5%
Europe	14%	18%	4%
Latin America	19%	16%	3%
Asia Pacific	15%	7%	22%

The following table provides a summary of Mattel's gross sales by brand for the International segment for the second quarter of 2015 and 2014:

<b>For the Three Months Ended June 30, 2015</b>	<b>% Change as Reported</b>	<b>Currency Exchange Rate Impact</b>	<b>% Change in Constant Currency</b>
<b>(In millions, except percentage information)</b>			

**Mattel Girls & Boys Brands:**

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Barbie	\$ 80.2	\$ 105.3	24%	13%	11%
Other Girls	101.2	117.1	14%	19%	5%
Wheels	91.4	84.2	8%	18%	26%
Entertainment	68.1	90.5	25%	15%	10%
	340.9	397.1	14%	16%	2%
<b>Fisher-Price Brands:</b>					
Core Fisher-Price	105.6	110.9	5%	14%	9%
Fisher-Price Friends	45.5	41.9	9%	14%	23%
Other Fisher-Price	0.1	1.0	92%	1%	91%
	151.2	153.8	2%	14%	12%
<b>Construction and Arts &amp; Crafts Brands</b>	19.4	18.5			
<b>Other</b>		0.5			
<b>Total Gross Sales</b>	\$ 511.5	\$ 569.9	10%	15%	5%



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Gross sales for the International segment were \$511.5 million in the second quarter of 2015, a decrease of \$58.4 million or 10% as reported, and an increase of 5% in constant currency, compared to the second quarter of 2014. The increase in the International segment gross sales in constant currency was primarily due to higher sales of Wheels, Fisher-Price Friends, and Other Girls products, partially offset by lower sales of Barbie and Entertainment products. The 26% increase in Wheels gross sales in constant currency was due to higher sales of Hot Wheels products. Of the 23% increase in Fisher-Price Friends gross sales in constant currency, 27% was due to higher sales of Thomas and Friends products. Of the 5% increase in Other Girls gross sales in constant currency, 25% was due to higher sales of Disney Princess products, partially offset by lower sales of Monster High products of 23%. The 11% decrease in Barbie gross sales in constant currency was due primarily to continued inventory overhang in certain European markets and increased competition within the doll category in certain international markets. The 10% decrease in Entertainment gross sales in constant currency was due to lower sales of Disney Planes products. Cost of sales decreased by 17% in the second quarter of 2015, as compared to an 11% decrease in net sales, primarily due to lower product and other costs. Gross margins increased as a result of favorable currency impact from the timing of inventory movements and hedging gains, which was partially offset by higher royalty expenses. Additionally, price increases and Funding Our Future savings were offset by higher product-related costs.

International segment income decreased 28% to \$22.1 million in the second quarter of 2015, as compared to \$30.9 million in the second quarter of 2014, primarily due to lower gross profit and higher advertising and promotion expenses, partially offset by lower other selling and administrative expenses.

*American Girl Segment*

The following table provides a summary of Mattel's gross sales by brand for the American Girl segment for the second quarter of 2015 and 2014:

	For the Three Months		% Change as Reported	Currency Exchange Rate Impact	% Change in Constant Currency
	Ended June 30, 2015	Ended June 30, 2014			
<b>(In millions, except percentage information)</b>					
<b>American Girl Segment:</b>					
American Girl Brands	\$ 84.2	\$ 83.1	1%		1%
Other Brands	3.7	4.6			
<b>Total Gross Sales</b>	<b>\$ 87.9</b>	<b>\$ 87.7</b>		<b>1%</b>	<b>1%</b>

Gross sales for the American Girl segment were \$87.9 million in the second quarter of 2015, an increase of \$0.2 million or flat as reported, and an increase of 1% in constant currency, compared to the second quarter of 2014. Cost of sales increased 2% in the second quarter of 2015, as compared to a 2% decrease in net sales, primarily due to higher product and other costs. Gross margins decreased slightly as a result of higher inventory obsolescence and higher closeout sales.

American Girl segment loss increased to \$7.1 million in the second quarter of 2015, as compared to \$1.3 million in the second quarter of 2014, primarily due to lower gross profit and higher other selling and administrative expenses.

**Results of Operations First Half**

*Consolidated Results*

Net sales for the first half of 2015 were \$1.91 billion, a 5% decrease as reported, and a 2% increase in constant currency, compared to the first half of 2014. Net loss for the first half of 2015 was \$69.5 million, or \$(0.21) per diluted share, as compared to net income of \$17.1 million, or \$0.05 per diluted share, in the first half of 2014. Adjusted loss per share in the first half of 2015 was \$(0.07) compared to adjusted earnings per share of \$0.08 in the first half of 2014. Adjusted earnings (loss) per share for the first half of 2015 was negatively impacted by lower gross profit, higher advertising and promotion expenses, and a lower income tax benefit, partially offset by lower other selling and administrative expenses.

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The following table provides a summary of Mattel's consolidated results for the first half of 2015 and 2014 (in millions, except percentage and basis point information):

	For the Six Months Ended June 30,				Year/Year Change	
	2015		2014		%	Basis Points of Net Sales
	Amount	% of Net Sales	Amount	% of Net Sales		
Net sales	\$ 1,910.9	100.0%	\$ 2,008.4	100.0%	5%	
Gross profit	\$ 923.3	48.3%	\$ 974.1	48.5%	5%	(20)
Advertising and promotion expenses	207.2	10.8	190.7	9.5	9%	130
Other selling and administrative expenses	770.0	40.3	776.2	38.6	1%	170
Operating (loss) income	(53.9)	2.8	7.2	0.4	846%	(320)
Interest expense	41.1	2.2	36.2	1.8	14%	40
Interest (income)	(3.8)	0.2	(3.5)	0.2	9%	
Other non-operating expense (income), net	1.8		(1.7)			
Loss before income taxes	\$ (93.0)	4.9%	\$ (23.8)	1.2%	291%	(370)

*Sales*

Net sales for the first half of 2015 were \$1.91 billion, a 5% decrease as reported, and up 2% in constant currency, compared to the first half of 2014.

The following table provides a summary of Mattel's consolidated gross sales by brand results for the first half of 2015 and 2014:

	For the Six Months Ended June 30,		% Change as Reported	Currency Exchange Rate Impact	% Change in Constant Currency
	2015	2014			
	(In millions, except percentage information)				
<b>Mattel Girls &amp; Boys Brands:</b>					
Barbie	\$ 276.3	\$ 330.7	16%	8%	8%
Other Girls	365.4	423.9	14%	10%	4%
Wheels	292.6	270.4	8%	10%	18%
Entertainment	272.6	320.8	15%	8%	7%
	1,206.9	1,345.8	10%	9%	1%
<b>Fisher-Price Brands:</b>					
Core Fisher-Price	396.3	399.9	1%	7%	6%
Fisher-Price Friends	164.1	166.3	1%	7%	6%
Other Fisher-Price	40.3	34.0	18%	1%	19%

	600.7	600.2		7%	7%
<b>American Girl Brands</b>	190.2	189.1	1%		1%
<b>Construction and Arts &amp; Crafts Brands</b>	103.1	61.6			
<b>Other</b>	14.4	15.7			
<b>Total Gross Sales</b>	<b>\$ 2,115.3</b>	<b>\$ 2,212.4</b>	<b>4%</b>	<b>7%</b>	<b>3%</b>

Gross sales were \$2.12 billion in the first half of 2015, a decrease of \$97.1 million or 4% as reported, and an increase of 3% in constant currency, compared to the first half of 2014. The increase in gross sales in constant currency was due to higher sales of Wheels and Construction and Arts & Crafts Brands products. The 18% increase in Wheels gross sales in constant currency was due to higher sales of Hot Wheels products. The Construction and Arts & Crafts Brands products are included in Mattel's results beginning in May 2014 as a result of the MEGA Brands acquisition.

#### *Cost of Sales*

Cost of sales as a percentage of net sales was 51.7% in the first half of 2015, as compared to 51.5% in the first half of 2014. Cost of sales decreased by \$46.7 million, or 5%, to \$987.6 million in the first half of 2015 from \$1.03 billion in the first half of 2014, as compared to a 5% decrease in net sales. Within cost of sales, product and other costs decreased by \$58.9 million, or 7%, to \$773.1 million in the first half of 2015 from \$832.0 million in the first half of 2014; freight and logistics expenses decreased by \$0.8 million, or 1%, to \$124.7 million in the first half of 2015 from \$125.5 million in the first half of 2014; royalty expenses increased by \$12.9 million, or 17%, to \$89.8 million in the first half of 2015 from \$76.9 million in the first half of 2014.

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**Table of Contents***Gross Margin*

Gross margin decreased to 48.3% in the first half of 2015 from 48.5% in the first half of 2014. Adjusted gross margin decreased to 48.3% in the first half of 2015 from 48.9% in the first half of 2014. The decrease in adjusted gross margin was due to higher royalty expenses and unfavorable product mix, primarily due to the impact of the MEGA Brands acquisition, partially offset by favorable currency impact from the timing of inventory movements and hedging gains. Price increases and Funding Our Future savings were offset by higher product-related costs.

*Advertising and Promotion Expenses*

Advertising and promotion expenses primarily consist of: (i) media costs, which primarily include the media, planning, and buying fees for television, print, and online advertisements, (ii) non-media costs, which primarily include commercial and website production, merchandising, and promotional costs, (iii) retail advertising costs, which primarily include consumer direct catalogs, newspaper inserts, fliers, and mailers and (iv) generic advertising costs, which primarily include trade show costs. Advertising and promotion expenses as a percentage of net sales increased to 10.8% in the first half of 2015 from 9.5% in the first half of 2014, primarily as a result of Mattel's investments to support core brands throughout the year.

*Other Selling and Administrative Expenses*

Other selling and administrative expenses, as reported, were \$770.0 million, or 40.3% of net sales, in the first half of 2015, as compared to \$776.2 million, or 38.6% of net sales, in the first half of 2014. Adjusted other selling and administrative expenses were \$707.7 million, or 37.0% of net sales, in the first half of 2015, as compared to \$725.9 million, or 36.1% of net sales, in the first half of 2014. The decrease in adjusted other selling and administrative expenses was primarily due to a favorable impact from changes in currency exchange rates of approximately \$23 million and Funding Our Future gross savings of approximately \$21 million, partially offset by investments in strategic initiatives of approximately \$20 million.

*Non-Operating Items*

Interest expense increased by \$4.9 million to \$41.1 million in the first half of 2015 from \$36.2 million in the first half of 2014, primarily due to higher average outstanding long-term borrowings.

*Provision for Income Taxes*

Mattel's benefit for income taxes was \$23.5 million and \$40.9 million in the first half of 2015 and 2014, respectively. Mattel recognized net discrete tax benefits of \$3.6 million and \$36.4 million in the first half of 2015 and 2014, respectively, primarily related to reassessments of prior years' tax liabilities based on the status of audits and tax filings in various jurisdictions, settlements, and enacted tax law changes.

*North America Segment*

The following table provides a summary of Mattel's gross sales by brand for the North America segment for the first half of 2015 and 2014:

	For the Six Months Ended June 30, 2015	2014	% Change as Reported	Currency Exchange Rate Impact	% Change in Constant Currency
(In millions, except percentage information)					
<b>Mattel Girls &amp; Boys Brands:</b>					
Barbie	\$ 112.3	\$ 119.4	6%		6%
Other Girls	168.9	186.0	9%		9%
Wheels	133.2	117.2	14%		14%
Entertainment	146.5	156.7	6%		6%
	560.9	579.3	3%		3%
<b>Fisher-Price Brands:</b>					
Core Fisher-Price	218.8	207.1	6%		6%
Fisher-Price Friends	82.6	86.8	5%	1%	4%
Other Fisher-Price	39.9	32.8	22%		22%
	341.3	326.7	4%	1%	5%
<b>Construction and Arts &amp; Crafts Brands</b>	75.5	43.1			
<b>Other</b>	6.2	5.8			
<b>Total Gross Sales</b>	\$ 983.9	\$ 954.9	3%		3%

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Gross sales for the North America segment were \$983.9 million in the first half of 2015, an increase of \$29.0 million or 3% as reported and in constant currency, compared to the first half of 2014. The increase in the North America segment gross sales was primarily due to higher sales of Wheels and Construction and Arts & Crafts Brands products. Of the 14% increase in Wheels gross sales in constant currency, 12% was due to higher sales of Hot Wheels products. The Construction and Arts & Crafts Brands products are included in Mattel's results beginning in May 2014 as a result of the MEGA Brands acquisition. Cost of sales increased 5% in the first half of 2015, as compared to a 2% increase in net sales, due to higher freight and logistics expenses, higher product and other costs, and higher royalty expenses. Gross margins decreased as a result of higher royalty expense and unfavorable product mix, primarily due to the impact of the MEGA Brands acquisition. Additionally, price increases and Funding Our Future savings were offset by higher product-related costs.

North America segment income decreased by 40% to \$53.1 million in the first half of 2015, as compared to \$88.2 million in the first half of 2014, primarily due to higher advertising and promotion expenses, lower gross profit, and higher other selling and administrative expenses.

*International Segment*

The following table provides a summary of percentage changes in gross sales within the International segment in the first half of 2015 versus 2014:

	<b>% Change in Gross Sales as Reported</b>	<b>Currency Exchange Rate Impact</b>	<b>% Change in Gross Sales in Constant Currency</b>
Total International Segment	12%	16%	4%
Europe	18%	17%	1%
Latin America	15%	16%	1%
Asia Pacific	14%	6%	20%

The following table provides a summary of Mattel's gross sales by brand for the International segment for the first half of 2015 and 2014:

	<b>For the Six Months Ended June 30,</b>		<b>% Change as Reported</b>	<b>Currency Exchange Rate Impact</b>	<b>% Change in Constant Currency</b>
	<b>2015</b>	<b>2014</b>			
<b>(In millions, except percentage information)</b>					
<b>Mattel Girls &amp; Boys Brands:</b>					
Barbie	\$ 164.0	\$ 211.3	22%	13%	9%
Other Girls	196.6	237.8	17%	17%	
Wheels	159.4	153.3	4%	18%	22%
Entertainment	126.1	164.1	23%	14%	9%
	646.1	766.5	16%	16%	
<b>Fisher-Price Brands:</b>					
Core Fisher-Price	177.5	192.8	8%	14%	6%

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Fisher-Price Friends	81.5	79.4	3%	14%	17%
Other Fisher-Price	0.5	1.3	63%	5%	58%
	259.5	273.5	5%	14%	9%
<b>Construction and Arts &amp; Crafts Brands</b>	27.6	18.5			
<b>Other</b>	0.3	0.7			
<b>Total Gross Sales</b>	\$ 933.5	\$ 1,059.2	12%	16%	4%



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Gross sales for the International segment were \$933.5 million in the first half of 2015, a decrease of \$125.7 million or 12% as reported, and an increase of 4% in constant currency, compared to the first half of 2014. The increase in the International segment gross sales in constant currency was primarily due to higher sales of Construction and Arts & Crafts Brands, Wheels, and Fisher-Price Friends products. The Construction and Arts & Crafts Brands products are included in Mattel's results beginning in May 2014 as a result of the MEGA Brands acquisition. The 22% increase in Wheels gross sales in constant currency was due to higher sales of Hot Wheels products. Of the 17% increase in Fisher-Price Friends gross sales in constant currency, 23% was due to higher sales of Thomas & Friends products, partially offset by lower sales of Disney Jake and the Never Land Pirates products of 3%. Cost of sales decreased 14% in the first half of 2015, as compared to a 12% decrease in net sales, primarily due to lower product and other costs and lower freight and logistics expenses, partially offset by higher royalty expenses. Gross margins increased as a result of favorable currency impact from the timing of inventory movements and hedging gains, which was partially offset by higher royalty expenses and unfavorable product mix, primarily due to the impact of the MEGA Brands acquisition. Additionally, price increases and Funding Our Future savings were offset by higher product-related costs.

International segment income decreased by 72% to \$17.7 million in the first half of 2015, as compared to \$62.3 million in the first half of 2014, driven primarily by lower sales volume and higher advertising and promotion expenses, partially offset by lower other selling and administrative expenses.

*American Girl Segment*

The following table provides a summary of Mattel's gross sales by brand for the American Girl segment for the first half of 2015 and 2014:

	For the Six Months Ended June 30,		Currency	% Change in
	2015	2014	Exchange Rate Impact	Constant Currency
(In millions, except percentage information)				
<b>American Girl Segment:</b>				
American Girl Brands	\$ 190.2	\$ 189.1	1%	1%
Other Brands	7.7	9.2		
<b>Total Gross Sales</b>	<b>\$ 197.9</b>	<b>\$ 198.3</b>		

Gross sales for the American Girl segment were \$197.9 million in the first half of 2015, a decrease of \$0.4 million or flat as reported and in constant currency, compared to the first half of 2014. Cost of sales increased 2% in the first half of 2015, as compared to a 2% decrease in net sales, primarily due to higher product and other costs. Gross margins decreased as a result of higher closeout sales.

American Girl segment income decreased \$9.5 million to a segment loss of \$1.5 million in the first half of 2015, as compared to segment income of \$8.0 million in the first half of 2014, primarily due to lower gross profit and higher other selling and administrative expenses.

**Funding Our Future**

In 2015, Mattel initiated its current cost savings program, Funding Our Future, which targets cumulative gross cost savings of approximately \$250 million to \$300 million by the end of 2016. The cost savings program is designed to

generate cost savings through various initiatives, which include simplifying Mattel's organization structure and optimizing its processes and supply chain.

For the second quarter of 2015, Mattel realized gross cost savings, excluding severance charges and investments, of approximately \$29 million (or approximately \$17 million of net savings, including severance charges and investments). Of the gross cost savings realized in the second quarter of 2015, approximately \$11 million was reflected within gross profit, approximately \$15 million within other selling and administrative expenses, and approximately \$3 million within advertising and promotion expenses.

For the first half of 2015, Mattel realized gross cost savings, excluding severance charges and investments, of approximately \$48 million (or approximately \$9 million of net savings, including severance charges and investments). Of the gross cost savings realized in the first half of 2015, approximately \$24 million was reflected within gross profit, approximately \$21 million within other selling and administrative expenses, and approximately \$3 million within advertising and promotion expenses.

### **Income Taxes**

Mattel's benefit for income taxes was \$23.5 million and \$40.9 million in the first half of 2015 and 2014, respectively. Mattel recognized net discrete tax benefits of \$4.3 million and \$3.6 million in the second quarter and first half of 2015, respectively, primarily related to reassessments of prior years' tax liabilities based on the status of audits and tax filings in various jurisdictions around the world, settlements, and enacted tax law changes. Mattel recognized net discrete tax benefits of \$40.1 million and \$36.4 million in the second quarter and first half of 2014, respectively, primarily related to reassessments of prior years' tax liabilities based on the status of audits and tax filings in various jurisdictions around the world, settlements, and enacted tax law changes.

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In the normal course of business, Mattel is regularly audited by federal, state, and foreign tax authorities. Based on the current status of federal, state, and foreign audits, Mattel believes it is reasonably possible that in the next twelve months, the total unrecognized tax benefits could decrease by approximately \$5 million related to the settlement of tax audits and/or the expiration of statutes of limitations. The ultimate settlement of any particular issue with the applicable taxing authority could have a material impact on Mattel's consolidated financial statements.

**Liquidity and Capital Resources**

Mattel's primary sources of liquidity are its cash and equivalents balances, access to short-term borrowing facilities, including its \$1.60 billion domestic unsecured committed revolving credit facility ( Credit Facility ), and issuances of long-term debt securities. Cash flows from operating activities could be negatively impacted by decreased demand for Mattel's products, which could result from factors such as adverse economic conditions and changes in public and consumer preferences, or by increased costs associated with manufacturing and distribution of products or shortages in raw materials or component parts. Additionally, Mattel's ability to issue long-term debt and obtain seasonal financing could be adversely affected by factors such as global economic crises and tight credit environments, an inability to meet its debt covenant requirements, which include maintaining consolidated debt-to-earnings before interest, taxes, depreciation, and amortization ( EBITDA ) and interest coverage ratios, or a deterioration of Mattel's credit ratings. Mattel's ability to conduct its operations could be negatively impacted should these or other adverse conditions affect its primary sources of liquidity.

Of Mattel's \$300.5 million in cash and equivalents as of June 30, 2015, approximately \$261 million was held by foreign subsidiaries. Mattel may need to accrue and pay additional income taxes if some or all of the undistributed earnings of foreign subsidiaries were repatriated. Mattel does not intend nor foresee a need to repatriate undistributed earnings of foreign subsidiaries. Mattel has several liquidity options to fund its domestic operations and obligations, including investing and financing activities such as dividends, share repurchases, and debt service. Positive cash flows generated annually by its domestic operations, the unused Credit Facility of \$1.60 billion as of June 30, 2015, and access to both long-term and short-term public and private debt markets at highly competitive interest rates are available to fund domestic operations and obligations. If these sources are not adequate, Mattel also has the ability to repatriate highly taxed foreign earnings, receive repayment of intercompany loans to foreign subsidiaries, and distribute liquidating dividends from foreign subsidiaries, all of which would have a very nominal impact, if any, on Mattel's tax liabilities. Mattel believes that its policy to indefinitely reinvest the earnings of its foreign subsidiaries will not result in and is not reasonably likely to result in a material change to Mattel's liquidity position.

*Current Market Conditions*

Mattel is exposed to financial market risk resulting from changes in interest and foreign currency exchange rates. Mattel believes that it has ample liquidity to fund its business needs, including beginning of year cash and equivalents, cash flows from operations, and access to the commercial paper markets and its Credit Facility, which it uses for seasonal working capital requirements. As of June 30, 2015, Mattel had available incremental borrowing resources totaling \$1.60 billion under the Credit Facility, and Mattel has not experienced any limitations on its ability to access this source of liquidity. Market conditions could affect certain terms of other debt instruments that Mattel enters into from time to time.

Mattel monitors the third-party depository institutions that hold the Company's cash and equivalents. Mattel's emphasis is primarily on safety and liquidity of principal, and secondarily on maximizing the yield on those funds. Mattel diversifies its cash and equivalents among counterparties and securities to minimize risks.

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

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

Mattel sponsors defined benefit pension plans and postretirement benefit plans for its employees. Actual returns below the expected rate of return, along with changes in interest rates that affect the measurement of the liability, would impact the amount and timing of Mattel's future contributions to these plans.

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### *Capital and Investment Framework*

To guide future capital deployment decisions, with a goal of maximizing stockholder value, Mattel's Board of Directors 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 35%;

To invest in capital expenditures required to maintain and grow the business;

To make strategic, opportunistic acquisitions; and

To return excess funds to stockholders through dividends and share repurchases.

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

### *Operating Activities*

Cash flows used for operating activities were \$240.8 million in the first half of 2015, as compared to \$79.2 million in the first half of 2014. The increase in cash flows used for operating activities was primarily due to higher working capital usage and lower net income.

### *Investing Activities*

Cash flows used for investing activities were \$161.2 million in the first half of 2015, as compared to \$524.7 million in the first half of 2014. The decrease in cash flows used for investing activities was primarily due to the prior year acquisition of MEGA Brands.

### *Financing Activities*

Cash flows used for financing activities were \$255.6 million in the first half of 2015, as compared to cash flows provided by financing activities of \$83.1 million in the first half of 2014. The change in cash flows used for financing activities was primarily due to prior year proceeds from long-term borrowings, partially offset by prior year share repurchases.

*Seasonal Financing*

Mattel maintains and periodically amends or replaces its domestic unsecured committed revolving credit facility with a commercial bank group. The credit facility is used as a back-up to Mattel's commercial paper program, which is used as the primary source of financing for the seasonal working capital requirements of its domestic subsidiaries. The agreement governing the credit facility was amended and restated on June 8, 2015 to, among other things, (i) extend the maturity date of the credit facility to June 9, 2020, (ii) amend the definition of consolidated earnings before interest, taxes, depreciation, and amortization ( Consolidated EBITDA ) used in calculating Mattel's financial ratio covenants and (iii) increase the maximum allowed consolidated debt-to-Consolidated EBITDA ratio to 3.50 to 1. The aggregate commitments under the credit facility remain at \$1.60 billion, with an accordion feature, which allows Mattel to increase the aggregate availability under the credit facility to \$1.85 billion under certain circumstances. In addition, applicable interest rate margins remain within a range of 0.00% to 0.75% above the applicable base rate for base rate loans and 0.88% to 1.75% above the applicable LIBOR for Eurodollar rate loans, and commitment fees range from 0.08% to 0.25% of the unused commitments under the credit facility, in each case depending on Mattel's senior unsecured long-term debt rating.

The proportion of unamortized debt issuance costs from the prior credit facility renewal related to creditors involved in both the prior credit facility and amended credit facility and borrowing costs incurred as a result of the amendment were deferred, and such costs will be amortized over the term of the amended credit facility.

Mattel is required to meet financial ratio covenants at the end of each 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 six months ended June 30, 2015. As of June 30, 2015, Mattel's consolidated debt-to-EBITDA ratio, as calculated per the terms of the credit agreement, was 2.27 to 1 (compared to a maximum allowed of 3.50 to 1), and Mattel's interest coverage ratio was 11.01 to 1 (compared to a minimum required of 3.50 to 1).

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The agreement governing the credit facility is a material agreement, and failure to comply with the financial ratio covenants may result in an event of default under the terms of the credit facility. If Mattel were to default under the terms of the credit facility, its ability to meet its seasonal financing requirements could be adversely affected.

To finance seasonal working capital requirements of certain foreign subsidiaries, Mattel avails itself of individual short-term credit lines with a number of banks. Mattel expects to extend the majority of these credit lines throughout 2015.

Mattel believes its cash on hand, amounts available under its credit facility, and its foreign credit lines will be adequate to meet its seasonal financing requirements in 2015.

*Financial Position*

Mattel's cash and equivalents decreased \$671.2 million to \$300.5 million at June 30, 2015, as compared to \$971.7 million at December 31, 2014. The decrease was primarily due to working capital usage, dividend payments, and purchases of tools, dies, and molds and other property, plant, and equipment.

Accounts receivable decreased \$291.3 million to \$803.1 million at June 30, 2015, as compared to \$1.09 billion at December 31, 2014. Inventory increased \$292.0 million to \$853.8 million at June 30, 2015, as compared to \$561.8 million at December 31, 2014. The decrease in accounts receivable and increase in inventory were due to the seasonality of Mattel's business.

Accounts payable and accrued liabilities decreased \$188.2 million to \$881.9 million as of June 30, 2015, as compared to \$1.07 billion as of December 31, 2014. The decrease was primarily due to the timing and amount of payments for various liabilities, including advertising and promotion and royalties.

Noncurrent long-term debt was \$2.10 billion as of both June 30, 2015 and December 31, 2014.

A summary of Mattel's capitalization is as follows:

	June 30, 2015		June 30, 2014		December 31, 2014	
	(In millions, except percentage information)					
2010 Senior Notes	\$ 500.0	10%	\$ 500.0	9%	\$ 500.0	9%
2011 Senior Notes	600.0	11	600.0	11	600.0	11
2013 Senior Notes	500.0	10	500.0	9	500.0	9
2014 Senior Notes	500.0	10	500.0	9	500.0	9
Total noncurrent long-term debt	2,100.0	41	2,100.0	38	2,100.0	38
Other noncurrent liabilities	543.7	10	529.0	9	584.0	10
Stockholders' equity	2,564.5	49	2,951.6	53	2,949.1	52
	\$ 5,208.2	100%	\$ 5,580.6	100%	\$ 5,633.1	100%

Mattel's debt-to-total capital ratio, including short-term borrowings and the current portion of long-term debt, increased to 45.0% at June 30, 2015 from 41.6% at December 31, 2014 as a result of lower stockholders' equity.

**Litigation**

See Item 1 Financial Statements Note 20 to the Consolidated Financial Statements Contingencies of this Quarterly Report on Form 10-Q.

**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, 2014 and did not change during the first half of 2015.

**New Accounting Pronouncements**

See Item 1 Financial Statements Note 22 to the Consolidated Financial Statements New Accounting Pronouncements of this Quarterly Report on Form 10-Q.



**Table of Contents****Non-GAAP Financial Measures**

To supplement the financial results presented in accordance with GAAP, Mattel presents certain non-GAAP financial measures within the meaning of Regulation G promulgated by the Securities and Exchange Commission. The non-GAAP financial measures included in this Quarterly Report on Form 10-Q include gross sales, adjusted gross profit, adjusted other selling and administrative expenses, adjusted operating income, adjusted earnings (loss) per share, and constant currency. Mattel uses these non-GAAP financial measures to analyze its continuing operations and to monitor, assess, and identify meaningful trends in its operating and financial performance. These measures are not, and should not be viewed as, substitutes for GAAP financial measures.

*Gross Sales*

Gross sales represent sales to customers, excluding the impact of sales adjustments, such as trade discounts and other allowances. 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 details 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 between net sales and gross sales is as follows:

	<b>For the Three Months Ended June 30,</b>		<b>% Change as Reported</b>	<b>Currency Exchange Rate Impact</b>	<b>% Change in Constant Currency</b>
	<b>2015</b>	<b>2014</b>			
	<b>(In millions, except percentage information)</b>				
Net Sales	\$ 988.2	\$ 1,062.3	7%	7%	0%
Sales adjustments	106.9	108.8			
<b>Gross Sales</b>	<b>\$ 1,095.1</b>	<b>\$ 1,171.1</b>	<b>6%</b>	<b>7%</b>	<b>1%</b>

	<b>For the Six Months Ended June 30,</b>		<b>% Change as Reported</b>	<b>Currency Exchange Rate Impact</b>	<b>% Change in Constant Currency</b>
	<b>2015</b>	<b>2014</b>			
	<b>(In millions, except percentage information)</b>				
Net Sales	\$ 1,910.9	\$ 2,008.4	5%	7%	2%
Sales adjustments	204.4	204.0			
<b>Gross Sales</b>	<b>\$ 2,115.3</b>	<b>\$ 2,212.4</b>	<b>4%</b>	<b>7%</b>	<b>3%</b>

*Adjusted Gross Margin and Adjusted Gross Profit*

Adjusted gross margin represents Mattel's reported gross profit, adjusted to exclude the impact of inventory fair value markup above cost associated with the acquisition of a business, as a percentage of net sales. Adjusted gross margin is presented to provide additional perspective on underlying trends in Mattel's core gross margin. A reconciliation

between gross margin and adjusted gross margin is as follows:

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>(In millions)</b>			
Gross Profit	\$ 472.9	\$ 492.6	\$ 923.3	\$ 974.1
<i>Gross Margin</i>	<i>47.9%</i>	<i>46.4%</i>	<i>48.3%</i>	<i>48.5%</i>
Adjustments				
MEGA Brands Inventory Fair Value Markup Above Cost		8.3		8.3
Adjusted Gross Profit	\$ 472.9	\$ 500.9	\$ 923.3	\$ 982.4
<i>Adjusted Gross Margin</i>	<i>47.9%</i>	<i>47.2%</i>	<i>48.3%</i>	<i>48.9%</i>

**Table of Contents***Adjusted Other Selling and Administrative Expenses*

Adjusted other selling and administrative expenses represents Mattel's reported other selling and administrative expenses, adjusted to exclude the impact of expenses associated with the acquisition and integration of an acquired business and restructuring and restructuring-related expenses. Adjusted other selling and administrative expenses is presented to provide additional perspective on underlying trends in Mattel's core other selling and administrative expenses. A reconciliation between other selling and administrative expenses and adjusted other selling and administrative expenses is as follows:

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>(In millions)</b>			
Other Selling and Administrative Expenses	\$ 367.6	\$ 391.7	\$ 770.0	\$ 776.2
Adjustments				
MEGA Brands Integration & Acquisition Costs	(2.6)	(11.2)	(10.3)	(11.2)
MEGA Brands Intangible Asset Amortization Expense	(4.2)	(5.0)	(8.4)	(5.0)
Severance Expense	(15.6)	(12.6)	(43.6)	(34.1)
Adjusted Other Selling and Administrative Expenses	\$ 345.2	\$ 362.9	\$ 707.7	\$ 725.9

*Adjusted Operating Income*

Adjusted operating income represents Mattel's reported operating income, adjusted to exclude the impact of inventory fair value markup above cost associated with the acquisition of a business, expenses associated with the acquisition and integration of an acquired business and the impact of restructuring and restructuring-related expenses. Adjusted operating income is presented to provide additional perspective on underlying trends in Mattel's core operating results. A reconciliation between operating income (loss) and adjusted operating income is as follows:

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>(In millions)</b>			
Operating Income (Loss)	\$ 0.6	\$ 1.0	\$ (53.9)	\$ 7.2
Adjustments				
MEGA Brands Inventory Fair Value Markup Above Cost		8.3		8.3
MEGA Brands Integration & Acquisition Costs	2.6	11.2	10.3	11.2
MEGA Brands Intangible Asset Amortization Expense	4.2	5.0	8.4	5.0
Severance Expense	15.6	12.6	43.6	34.1

Adjusted Operating Income	\$ 23.0	\$ 38.1	\$ 8.4	\$ 65.8
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**Table of Contents***Adjusted Earnings (Loss) Per Share*

Adjusted earnings per share represents Mattel's reported diluted earnings per common share, adjusted to exclude the impact of inventory fair value markup above cost associated with the acquisition of a business, expenses associated with the acquisition and integration of an acquired business, the impact of restructuring and restructuring-related expenses and certain tax benefits. Each adjustment is tax effected, if necessary, and divided by the reported weighted average number of common and potential common shares to determine the per-share impact of the adjustment. Adjusted earnings per share is presented to provide additional perspective on underlying trends in Mattel's core earnings. A reconciliation between (loss) earnings per share and adjusted earnings (loss) per share is as follows:

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>(In millions)</b>			
(Loss) Earnings Per Share	\$ (0.03)	\$ 0.08	\$ (0.21)	\$ 0.05
Adjustments				
MEGA Brands Inventory Fair Value Markup Above Cost		0.02		0.02
MEGA Brands Integration & Acquisition Costs	0.01	0.03	0.02	0.03
MEGA Brands Intangible Asset Amortization Expense	0.01	0.01	0.02	0.01
Severance Expense	0.03	0.03	0.11	0.08
Discrete Tax Items	(0.01)	(0.12)	(0.01)	(0.11)
Adjusted Earnings (Loss) Per Share	\$ 0.01	\$ 0.05	\$ (0.07)	\$ 0.08

*Constant Currency*

Percentage changes expressed in constant currency exclude the impact from changes in currency exchange rates by translating current period and prior period results using consistent exchange rates. Mattel analyzes constant currency results to provide additional perspective on changes in underlying performance results and underlying trends in Mattel's operating performance. A reconciliation of constant currency changes in gross sales by brand to the actual changes, including the impact from changes in currency exchange rates, is provided above in Results of Operations Second Quarter and Results of Operations First Half of this Quarterly Report on Form 10-Q. A reconciliation of constant currency changes in net sales to the actual changes, including the impact from changes in currency exchange rates, is provided above under Gross Sales.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.***Foreign Currency Exchange Rate Risk*

Currency exchange rate fluctuations may impact Mattel's results of operations and cash flows. Inventory purchase and sale transactions denominated in the Euro, British pound sterling, Mexican peso, Brazilian real, and Indonesian rupiah are the primary transactions that caused foreign currency transaction exposure for Mattel. Mattel seeks to mitigate its exposure to market risk by monitoring its foreign currency transaction exposure for the year and partially hedging

such exposure, using derivative instruments including foreign currency forward exchange contracts, primarily to hedge its purchase and sale of inventory and other intercompany transactions denominated in foreign currencies. These contracts generally have maturity dates of up to 18 months. For those intercompany receivables and payables that are not hedged, 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) expense, net based on the nature of the underlying transaction. Transaction gains or losses on hedged intercompany inventory transactions are recorded in the consolidated statement of operations in the period in which the inventory is sold to customers. In addition, Mattel manages its exposure to currency exchange rate fluctuations through the selection of currencies used for international borrowings. Mattel does not trade in financial instruments for speculative purposes.

Mattel's financial position is also impacted by currency exchange rate fluctuations on translation of its net investments 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 the second quarter of 2015 were related to its net investments in entities having functional currencies denominated in the Euro, Brazilian real, Mexican peso, and British pound sterling.

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

*Venezuelan Operations*

Since January 1, 2010, Mattel has accounted for Venezuela as a highly inflationary economy as the three-year cumulative inflation rate for Venezuela exceeded 100%. Accordingly, Mattel's Venezuelan subsidiary uses the US dollar as its functional currency, and monetary assets and liabilities denominated in Venezuelan bolivar fuerte ( BsF ) generate income or expense for changes in value associated with foreign currency exchange rate fluctuations against the US dollar. From January 2010 through January 2013, Mattel's Venezuelan subsidiary used the Sistema de Transacciones con Titulos en Moneda Extranjera ( SITME ) rate, which was quoted at 5.30 BsF per US dollar as of December 31, 2012, to remeasure monetary assets and liabilities denominated in BsF.

During February 2013, the Central Bank of Venezuela revised its official exchange rate to 6.30 BsF per US dollar and eliminated the SITME rate. Since February 2013, Mattel's Venezuelan subsidiary has used the official exchange rate as its remeasurement rate.

During March 2013, the Venezuelan government introduced a complementary currency exchange system, the Sistema Complementario de Administracion de Divisas 1 ( SICAD 1 ). SICAD 1 was intended to function as an auction system, allowing entities in specific sectors to bid for US dollars to be used for specified import transactions. During February 2014, the Venezuelan government introduced an additional currency exchange system, the Sistema Complementario de Administracion de Divisas 2 ( SICAD 2 ), which was expected to provide a greater supply of US dollars from sources other than the Venezuelan government and increase participation to all sectors and companies. Mattel was not able to access US dollars in Venezuela through SICAD 1 due to various factors, including restrictions placed on eligible participants, the amount of US dollars available to purchase through the auction process, and the ineligibility of past import transactions to be settled through SICAD 1. Additionally, Mattel was not able to access US dollars through SICAD 2 due to restrictions associated with SICAD 2 and limited access to the SICAD 2 system.

During February 2015, the Venezuelan government announced the launch of a new three-tiered currency exchange platform, which includes a new exchange system called the Marginal Currency System ( SIMADI ). The first tier is used for food, medicine, agriculture, and other essential goods and uses the existing official exchange rate of 6.30 BsF per US dollar. The second tier is a merger of the SICAD 1 and SICAD 2 systems, which will continue to hold periodic auctions for entities in specific sectors. The third tier is the new SIMADI system, which is intended to be a market-driven exchange that allows for legal trading of foreign currency based on supply and demand.

Mattel continues to be unable to access US dollars in Venezuela through the merged SICAD system due to restrictions placed on eligible participants, the amount of US dollars available to purchase through the auction process, and the ineligibility of past import transactions to be settled through SICAD. As such, Mattel does not believe it would have been appropriate to use the SICAD rate as its remeasurement rate as of June 30, 2015. However, had Mattel used the SICAD rate of 12.80 BsF per US dollar as of June 30, 2015 as its remeasurement rate, it would have recognized a pre-tax charge of approximately \$11 million in its consolidated statement of operations.

Mattel has not accessed US dollars in Venezuela through the SIMADI system due to the restrictions associated with SIMADI and the limited access to the exchange. As such, Mattel does not believe it would have been appropriate to

use the SIMADI rate as its remeasurement rate as of June 30, 2015. However, had Mattel used the SIMADI rate of 197.30 BsF per US dollar as of June 30, 2015 as its remeasurement rate, it would have recognized a pre-tax charge of approximately \$21 million in its consolidated statement of operations.

Mattel's Venezuelan subsidiary represented less than 0.1% of Mattel's consolidated net sales in the first half of 2015 and had approximately \$22 million of net monetary assets denominated in BsF as of June 30, 2015. Venezuela currency matters, along with economic and political instability, continue to impact the operating results of Mattel's Venezuelan subsidiary. If the Venezuelan bolivar fuerte significantly devalues in the future, or if the economic or political conditions significantly worsen, Mattel may consider ceasing operations of its Venezuelan subsidiary, which could result in a pre-tax charge to its consolidated statement of operations of up to \$95 million.



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### *Greek Operations*

During July 2015, Greece defaulted on its debt to the International Monetary Fund, which has led to renewed concerns about its economic and financial stability and the possibility that it will no longer use the Euro as its national currency. If Greece ceases to use the Euro as its national currency, the net monetary assets of Mattel's Greek subsidiary would be subject to remeasurement, with the remeasurement gains and losses impacting the consolidated statements of operations. In the first half of 2015, Mattel's Greek subsidiary represented less than 1% of Mattel's consolidated net sales, and net monetary assets for Mattel's Greek subsidiary and other subsidiaries subject to currency exchange risk in Greece were approximately \$13 million.

### **Item 4. Controls and Procedures.**

#### *Evaluation of Disclosure Controls and Procedures*

As of June 30, 2015, Mattel's disclosure controls and procedures were evaluated, with the participation of Mattel's principal executive officer and principal financial officer, to assess whether they are effective in providing 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, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Based on this evaluation, Christopher A. Sinclair, 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, 2015.

#### *Changes in Internal Control Over Financial Reporting*

During the quarter ended June 30, 2015, Mattel made no changes to its internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

The content of Part I, Item 1 Financial Statements Note 20 to the Consolidated Financial Statements Contingencies of this Quarterly Report on Form 10-Q is hereby incorporated by reference in its entirety in this Item 1.

### **Item 1A. Risk Factors.**

There have been no material changes to the risk factors disclosed under Part I, Item 1A Risk Factors in Mattel's 2014 Annual Report on Form 10-K.

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

#### *Recent Sales of Unregistered Equity Securities*

During the second quarter of 2015, Mattel did not sell any unregistered equity securities.

*Issuer Purchases of Equity Securities*

This table provides certain information with respect to Mattel's purchases of its common stock during the second quarter of 2015:

Period	Total Number of Shares (or Units) Purchased <sup>(1)</sup>	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Maximum Number (or Purchased Approximate Dollar Value) as Part of Publicly Announced Plans or Programs	
				of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup>
April 1 - 30	2,619	\$ 26.07		\$ 203,016,273
May 1 - 31	3,668	27.41		203,016,273
June 1 - 30	1,237	26.64		203,016,273
Total	7,524	\$ 26.82		\$ 203,016,273

(1) The total number of shares purchased relates to shares withheld from employees to satisfy minimum tax withholding obligations that occur upon vesting of restricted stock units. These shares were not purchased as part of a publicly announced repurchase plan or program.

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(2) *Mattel's share repurchase program was first announced on July 21, 2003. On July 17, 2013, the Board of Directors authorized Mattel to increase its share repurchase program by \$500.0 million. At June 30, 2015, share repurchase authorizations of \$203.0 million had not been executed. Repurchases under the program will take place from time to time, depending on market conditions. Mattel's share repurchase program has no expiration date.*

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

**Table of Contents****Item 6. Exhibits.**

Exhibit No.	Exhibit Description	Form	Incorporated by Reference		
			File No.	Exhibit(s)	Filing Date
3.0	Restated Certificate of Incorporation of Mattel, Inc.	8-K	001-05647	99.0	May 21, 2007
3.1	Amended and Restated Bylaws of Mattel, Inc.	10-Q	001-05647	3.1	July 20, 2011
4.0	Specimen Stock Certificate with respect to Mattel's Common Stock	10-Q	001-05647	4.0	August 3, 2007
10.1	Seventh Amended and Restated Credit Agreement dated as of June 8, 2015, by and among Mattel, Inc., as Borrower, Bank of America, N.A., as Administrative Agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Wells Fargo Securities, LLC and Citigroup Global Markets Inc., as Joint Lead Arrangers and Joint Bookrunners, Wells Fargo Bank, N.A. and Citibank N.A., as Co-Syndication Agents, Mizuho Bank, Ltd., MUFG Union Bank, N.A., and Royal Bank of Canada, as Co-Documentation Agents, and other financial institutions party thereto	8-K	001-05647	10.1	June 9, 2015
10.2	Amended and Restated 2010 Equity and Long Term Compensation Plan	DEF 14A	001-05647	Appendix A	April 9, 2015
10.3	Letter Agreement between Mattel and Joseph Johnson, dated March 11, 2015 regarding an offer of employment for the position of Senior Vice President and Corporate Controller	8-K	001-05647	10.1	May 4, 2015
10.4*+	Letter Agreement between Mattel and Christopher A. Sinclair, dated April 15, 2015, regarding an offer of employment for the position of Chief Executive Officer				
10.5*+	Letter Agreement between Mattel and Geoff Massingberd, dated May 15, 2015, regarding Mr. Massingberd's separation from certain Mattel subsidiaries				
10.6*+	Amendment Five to the Mattel, Inc. Personal Investment Plan				
12.0*	Computation of Ratio of (Loss) Earnings to Fixed Charges				
31.0*	Certification of Principal Executive Officer dated July 28, 2015 pursuant to Section 302 of				

the Sarbanes-Oxley Act of 2002

- 31.1\* Certification of Principal Financial Officer dated July 28, 2015 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.0\*\* Certifications of Principal Executive Officer and Principal Financial Officer dated July 28, 2015 pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS\* XBRL Instance Document
- 101.SCH\* XBRL Taxonomy Extension Schema Document
- 101.CAL\* XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF\* XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB\* XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE\* XBRL Taxonomy Extension Presentation Linkbase Document

+ *Management contract or compensatory plan or arrangement.*

\* *Filed herewith.*

\*\* *Furnished herewith. 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, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MATTEL, INC.

*Registrant*

By:                   /s/ JOSEPH B. JOHNSON  
                                  Joseph B. Johnson

Senior Vice President and Corporate  
Controller (Duly authorized officer and  
chief accounting officer)

Date: July 28, 2015