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Bryan G. Stockton – Chairman & Chief Executive Officer, Mattel, Inc.
Timothy J. Kilpin – Executive VP-Global Boys & Girls Brands Team, Mattel, Inc.
Kevin M. Farr – Chief Financial Officer, Mattel, Inc.

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Mattel Second Quarter 2013 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we'll conduct a question-and-answer session, and instructions will follow at that time. [Operator Instructions] As a reminder, this conference is being recorded.

I will now turn the call over to your host, Drew Vollero. Please go ahead.

Drew Vollero, SVP-Corporate Strategy, Development & Investor Relations

Thank you, Stephanie. As you know, this morning we reported Mattel's 2013 second quarter financial results. We've provided you with a slide presentation to help guide our discussion today. The slide presentation and the information required by Regulation G regarding non-GAAP financial measures is available on the Investors and Media section of our corporate website, corporate.mattel.com. In a few minutes, Bryan Stockton, Mattel's Chairman and CEO; Tim Kilpin, Mattel's Executive Vice President of Global Brands; and Kevin Farr, Mattel's CFO, will provide comments on the results, and then the call will be opened for your questions.

Certain statements made during the call may include forward-looking statements relating to the future performance of our overall business, brands and product lines. These statements are based on currently available information, and they're subject to a number of significant risks and uncertainties which could cause our actual results to differ materially from those projected in the forward-looking statements.

We describe some of these uncertainties in the Risk Factor section of our 2012 Annual Report on Form 10-K and our 2013 Quarterly Reports on Form 10-Q and in other filings we make with the SEC from time to time, as well as in other public statements. Mattel does not update forward-looking statements and expressly disclaims any obligation to do so.

Now, I'd like to turn the call over to Bryan.

Bryan G. Stockton, Chairman & Chief Executive Officer

Thank you, Drew, and good day, everyone. Before we get into a discussion on our results for the quarter, I'd like to take a moment to talk about the industry, and Mattel in general, as we exit the "pre" season and head into the second half of the year where we do about two-thirds of our business.

Overall, the global toy industry came out of the first half of 2013 in pretty good shape. Industry trends look consistent with recent history, with toy category sales flat to slightly down in the U.S. and in Western Europe and growing in Latin America, Eastern Europe and Asia.

For Mattel specifically, important emerging growth markets such as China, Russia and India continue to prove to be fertile ground as all grew by double-digits in the second quarter. According to NPD, when you include American Girl, Mattel gained total toy share in both the U.S. and the Euro 5.

At the category level, according to NPD, Dolls represent one of the fastest growing parts of the toy industry, growing 11% in the U.S. and 4% in Europe through May. As the number one player in the Doll category, Mattel is well positioned with the top 4 brands globally, including Barbie, American Girl, Monster High and Disney Princess. As NPD data reflects, we continue to grow our overall Doll share as we successfully innovate and diversify our portfolio.

Now, turning to Mattel, as I mentioned earlier, we consider the first half of the year our "pre" season, and we tend not to read too much into the numbers. That said, overall, our underlying performance is consistent with our long-term financial goals for sales, gross margin and EPS growth.

While there are a number of puts and takes by brand and country, we finished the first half with revenues up 4%, gross margins up 150 basis points and EPS up 7%. Although ongoing strategic investments impacted the bottom line, we're already seeing strong returns from these investments in places like Russia, China and American Girl stores. We expect these returns to continue into the second half of the year. We strengthened our position at retail as our consistent focus on improving the supply chain generated another quarter of reduced retail inventories and we improved our alignment of promotional spending to support our second half initiatives.

Now let's focus on results for the second quarter. Five key themes remain consistent with our first quarter performance: our powerhouse Girls portfolio, sustained International growth, strong gross margins, a continued commitment to capital deployment and strategic investments for future growth. Let me touch on each briefly.

- Our Girls portfolio continues to be the engine that's fueling our global growth. The portfolio drives approximately 40% of company revenues—and they grew again: 6% in the second quarter. In fact, this was the 15th consecutive quarter of growth for our Girls portfolio. Monster High continues to exceed expectations around the world with double-digit growth and American Girl continues its successful brand acceleration. The diversity and strength of this portfolio allowed us to grow share in the doll category in both the U.S. and Euro 5 according to NPD, when you include American Girl results.
- Second, Mattel continues to grow internationally. We saw positive growth in Europe, Latin America and Asia in the quarter and for year-to-date. In fact, we have consistently delivered revenue growth internationally in 9 of the past 10 quarters.
- Third, our gross margins remain strong, matching last year's record margin at 51.3% and are well positioned within our near-term outlook.

- Fourth, capital deployment remains an important piece of the Mattel story. In the second quarter, we paid $125 million in dividends and deployed another $119 million on share repurchases.
- And finally, we continued our commitment to strategic investments and executing the right business decisions necessary for growth. These incremental investments accounted for approximately one-third of the year-over-year increase in SG&A in the second quarter as we invested in areas like new franchise development, American Girl retail stores, emerging market infrastructure and IT systems. As a part of our "How to Grow" road map, we focused on building the right structure to support growth. And as you know, in 2011, we created a new North America Division to support better alignment with our customers. In the second quarter, we continued to strengthen these customer alignment efforts as we further consolidated U.S. operations, bringing teams supporting the North America Division together onto our southern California campus. This alignment effort contributed to the quarter's $8 million severance charge.

All in all, as I look at the second quarter, there were many similarities with the first quarter. I'm happy with our level of consistency in delivering overall sales growth—particularly with our growing Girls portfolio and robust International growth—and I'm happy with our strong gross margins.

That said, as I look to where we were inconsistent in the second quarter, I see two primary areas that impacted our performance.

- The first area is our Polly Pocket brand. As we've worked to maximize the momentum in our Girls portfolio, we made the decision to reallocate resources and execute a more focused approach to the Polly brand. That said, Polly continues to perform well in several markets, and going forward we'll have a more focused program to support momentum in those markets. This resulted in a $14 million asset impairment charge in the quarter.
- Second, Barbie experienced declines both in North America and International. There are two key underlying factors that contributed to Barbie's second quarter results: first, the shifting of North American promotional programs traditionally executed in the first half to the second half and second, increased competition from our own growing portfolio.

Let me comment on each. As I mentioned before, we're committed to innovation in our Girls portfolio to generate incremental revenue and share of the global market. And, as we've also discussed before, we've introduced new franchises that have fueled significant category growth for the industry. The Barbie brand is likely being modestly impacted by their successes. However, it's important to recognize that while we've grown our overall share of the doll category in both the U.S. and Euro 5 year-to-date per NPD data, Barbie has also continued to hold her own with revenues greater than 2010 when we launched Monster High. You can see why we still feel pretty good about Barbie's performance in the context of the portfolio that she leads. For the year, Barbie's global POS and shipping are down mid single-digits. For the second quarter in North America, shipping is down more than POS. This was largely driven by a business decision to shift promotional programs and related shipping to coincide with consumer demand in the all-important back half of the year. This decision accounted for about half of the decline in North America for Barbie in the second quarter. We expect to recapture that volume later in the year.

Now let me turn my comments to the second half of 2013. As always, we know we have to execute well to deliver another successful year and we have three key priorities for the fall. First, we have to maximize the momentum of our growing Girls portfolio. Second, we have to accelerate Fisher-Price POS globally. And third, we need to deliver strong execution on our promising fall lineup of products, content and retail programs.

There's great news across the Girls portfolio. Looking at the back half of the year, we have new initiatives on every brand including Barbie, American Girl, Disney Princess and Monster High. And as we've discussed, we have an entirely new franchise entering the market in the second half of the year with Ever After High.

We have a great calendar in the back half of the year for Barbie, where we expect to continue to grow viewership of our very successful *Barbie: Life in the Dreamhouse* animated series which is planned to have its own Nickelodeon TV special in the fall, along with a new line of product. The fall will also see greater entertainment content for Barbie with 2 second half DVD releases, an increase compared to last year, and associated product lines. Barbie continues to merge the latest trends with technology by focusing on innovation, customization and creative play across the toy line. Building on the success of last year's Barbie Photo Fashion doll, we're very excited by the second half launch of Barbie's Train and Ride Horse which features gesture-recognition software that reacts to Barbie's commands; the new Barbie Digital Makeover product that transforms an iPad into a digital mirror for endless creative play with virtual make-up; and the new Barbie Digital Dress Doll that features LED and touch-screen technology, allowing girls to design and customize Barbie's fashions. In anticipation of the packed calendar and consumer demand, our key retailers will have also granted an increase in shelf space for our top 4 retailers for Barbie in the fall.

As we look to the rest of our Girls portfolio, 2013 is turning out to be a monster year as we continue to deliver the unexpected and position Monster High as the top-of-mind brand with the older girl. The second half of the year will be our biggest yet with more dolls, franchise activation, digital engagement and our second major DVD tent-pole event: *13 Wishes*.

Disney Princess has an impressive calendar for the fall as well. There's strong retailer anticipation for Sofia the First, which is starting to ship now. And Disney will also introduce another princess into their collection with the late fall launch of their theatrical release, *Frozen*.

American Girl enters the back half of the year with tremendous momentum. Girl of the Year, Saige, is tracking double-digits ahead of last year's highly successful doll McKenna. Clearly, a little marketing goes a long way in American Girl. And we'll open our 16th store in Palo Alto, California, on the heels of our very successful opening in Columbus, Ohio, a few months ago.

And of course, we have our new franchise, Ever After High, which Tim will tell you about in a moment. I hope you're starting to get a sense for why we're so focused on the importance of maximizing execution of our amazing Girls portfolio. We have an impressive lineup for sure.

Shifting gears to Fisher-Price. We still see a big opportunity for us particularly internationally. The second quarter was marginally better than the first quarter but not where we wanted it to be. Clearly, this brand remains a work-in-progress. As we've said before, this is the year we plan to grow Fisher-Price, and to do so, we need to accelerate global POS. To achieve this growth, we expect several pieces to come together in the second half of the year.

- First, we'll have a full rollout of our new packaging which will enable a consistent and impactful look on the shelf.
- Second, we'll have increased marketing programs that optimize our Joy of Learning campaign to not only connect with mom but to more consistently convert mom.
- Third, we'll have expanded retail executions. For example, we've secured more shelf space with a major U.S. retailer on key babygear items than in prior years.
- And fourth, we'll have a strong product line rooted in innovation. As I've said many times, when we innovate, we grow. And we have several new executions coming online in the fall, including an extended Laugh & Learn line, our new co-branded and digital extensions for Little People and Imaginext, and a new babygear-toddler feeding line.

In addition to the core business, Fisher-Price Friends, which accounts for about one-third of the Fisher-Price brand, looks to continue to fire on all cylinders with an impressive second half lineup. Specifically, we have three incremental property launches for the fall.

- First, the Nickelodeon property, Bubble Guppies is just beginning to ship.
- Second, Mike the Knight anchored in great traditional play pattern and swords, castles and dragons is set to ship in the fall.

- And third, Thomas wood which launched in January has shown solid early results with the majority of shipping still ahead of us. We're also seeing great traction around execution of the Thomas & Friends fall entertainment property, *King of the Railway*.
- Lastly, we must execute against our strong pipeline of new properties coming this fall.
  - Our products based on Warner Bros.' *Man of Steel* and DreamWorks Animation's *Turbo* are meeting early expectations.
  - Disney's new property, *Planes,* looks very toyetic, and we're excited by the opportunities that will take off with this line.
  - Our new Boys franchise, Max Steel, continues to get strong TV ratings around the world, and we are just beginning the global rollout which will be supported with additional entertainment in the fall.
  - And, of course, we're very excited about our new franchise in the fashion doll category, Ever After High, a powerful addition to our Girls portfolio that we believe reaches a segment of older girls untapped by Monster High. This entirely new franchise introduces the next generation of fairytale legends who are empowered to choose their own storybook fate. It will begin to roll out globally throughout the second half of this year.

Looking at the company in aggregate, we ended our "pre" season consistent with our long-term financial goals for sales, gross margins, and EPS growth. We continue to manage our business for the long term and not quarter to quarter. We'll continue to invest and make the right business decisions to deliver more consistent growth and superior results to our stockholders in 2013 and beyond.

And now I'd like to introduce Tim Kilpin, Executive Vice President, Mattel Global Brands Team, to give you a little more insight into Ever After High. Tim?

Timothy J. Kilpin, Executive VP-Global Boys & Girls Brands Team

Thank you, Bryan. Good morning. As we go through this, I will call out the slide numbers from the presentation that was posted this morning.

And we'll start on slide 2. As Bryan mentioned, we manage a portfolio of girls' brands. And to do that, we recognize that girls play differently as they grow. Their interests are different, the way they interact with content is different, and the types of activities they engage in are different.

So on slide 3, we have built a portfolio of brands that speaks to those differences. Barbie speaks to the aspirational roles that we know girls like to play out, while Disney Princess allows girls to play out the magic of Disney's classic fairytales. We're very proud of the decade of partnership we've enjoyed with Disney as they've grown this to be a top girls' global franchise. And we're incredibly pleased with how well Monster High has performed since we launched it in 2010, speaking to an older girl, through a great story and a relevant message. American Girl plays a critical and differentiated role in the portfolio—celebrating girls by delivering on friendship and imaginative play and storytelling. We take great care to ensure that the brands in our portfolio are complementary in terms of positioning, play pattern, emotional benefit, and target age. And as a result, we've grown the category and we've grown our share.

On slide 4, what continues to drive us to look for new opportunities in this space? Because we know that as girls grow, they're always looking forward to what's new and what's next. And, as I said, we know that different girls are motivated by different themes and stories. So our ongoing objective is pretty clear: how do we continue to reach tween girls with relevant new themes?

Slide 5. We learned a lot from what worked on Monster High…

On slide 6, you can see we created a world of wonderful characters, we told great stories, and we used multiple marketing platforms to get the message across and built a broad range of merchandise to drive the franchise. We created a deep engagement with Monster High fans and it's their passion that continues to drive our sales today.

On slide 7, you'll see we plan to continue to drive growth in Monster High, in fact, through great new programs in 2013 like the trip to Scaris this spring and the upcoming *13 Wishes* DVD and retail program this fall. Monster High is a $1 billion franchise in worldwide retail sales and is still growing all around the world.

Slide 8. Its success continues to be anchored in that initial insight about feeling like a freak in high school. Monster High resonates because it speaks to that simple truth about celebrating your differences and about self acceptance.

On slide 9, what would that insight be that could drive our next tween girls opportunity? What could we apply that would be unique from, and ultimately incremental to, Monster High?

Slide 10. We know that girls at this age want to be empowered and that they want to make their own choices—about their friends, their interests, their hobbies, their lives. And that insight led us to our next Girls' franchise: Ever After High. And I'll explain in a minute how we're bringing that insight to life.

On slide 12, you'll see our pop culture inspiration came from everything that's around us today about fairytales—film, TV, and fashion—we began seeing new twists on the classic form. These were not traditional younger girl approaches, but something more sophisticated.

Slide 13. We married that inspiration to what our insights told us was a really powerful universal truth. The story of your life begins when you make it your own. You're empowered to choose your own destiny.

Slide 14. Our target audience is an older girl. She's outgrown traditional fairytales, but she likes humor, she likes a twist on the familiar, and she loves pretending to be a teenager in high school.

Slide 15. That led us to our story. Now I won't take you through the whole thing, but I do want you to understand this much: Ever After High is a boarding school where the children of fairytale legends learn to relive their parents' destinies whether they want to or not. The endings are already written, everything's in stone. Until one day, Raven, daughter of the Evil Queen, rejected her legacy. She doesn't want to be evil. Her rebellious act made anything possible. So, we've set up a world of royals and rebels. Royals want their happy endings just like it was planned. Rebels want to rewrite their destiny.

So on slide 16, you'll see the central characters, Raven Queen and Apple White. They head up the royals and rebels. They're not exactly rivals, but they do see the world differently. And, of course, they're roommates.

And on slide 17, the beauty of creating a world like this is its extendibility. We learned from Monster High that girls didn't just want to own one or two characters. They wanted them all. So far, we've created dolls for nearly 40 Monster High characters and Ever After High will be no different. Here are just some of the initial characters like Cerise Hood, daughter of Red Riding Hood, and Blondie Locks, daughter of Goldilocks.

Slide 18. We were really encouraged by our initial research, which told us that girls see these characters as different from Monster High. In fact, girls that didn't like Monster High's theme and aesthetics really love this concept.

On slide 19, as we learned from Monster High and as we're now applying with Max Steel, Ever After High will be supported by a full franchise plan.

On slide 20, you can see the Ever After High Facebook page and YouTube channel page. We launched these about three weeks ago and really haven't done anything yet to drive traffic to these locations. We're just getting them up and running. That said, we've already had over 1 million views of the content and product reviews.

Slide 21. As we've talked before about that two-way dialogue with fans on Monster High, we're already seeing that happen on Ever After High. What you see on this current slide here is fan-generated artwork and videos that have already been posted online after only three weeks. We've never seen anything like this kind of early engagement with a brand.

So slide 22, as we did with Monster High, we're starting out by telling a lot of stories to engage girls in the world. For Ever After High, we're launching like 110 minutes of animated content this fall over a dozen webisodes throughout the season and a TV special that will air around the world later this fall.

Slide 23. As you may recall, with Monster High, we kicked off with a book series that reached the New York Times' Young Adult Best Seller list. For Ever After High, we're excited to be launching this fall with a series of books by Newbery Award-winning author, Shannon Hale. These books will be available both digitally and in print.

Slide 24. Also as part of the marketing launch, we will be premiering a live-action music video later this fall, with a unique twist that's a great fit with the franchise's theme. There'll be more to come on the video later, but in the meantime, you can go to our website and hear the theme song.

Slide 25. From a toy standpoint, we will launch with a focused range of fashion dolls this fall, starting, of course, with our lead characters.

Slide 26. You'll see we've got a strong program of consumer products for this year, including apparel, accessories, jewelry, stationery, and electronics.

And slide 27, in terms of how it's all coming together at retail, we're just now placing Ever After High as an exclusive retail program in the U.S. with Justice stores. Justice will be the first to get not only fashion dolls, but back-to-school merchandise and accessories as well. Later this fall, we will make Ever After High available through all of our regular channels.

Slide 28. We'll also begin to roll out Ever After High globally this fall, starting with 14 countries this year and following with the rest of the world in 2014.

So slide 29, we're going to have a lot more to share on Ever After High in the months ahead. But in the meantime, you can see the original webisodes, and start to immerse yourselves in the world by going to our website, our Facebook page or our YouTube channel.

So, on slide 30, now you can see how Ever After High fits into the portfolio and how it's differentiated. We know that innovation and deep consumer engagement can grow the doll category, and we look forward to future franchise launches to continue to drive that growth.

Thank you, and now I will turn it over to Kevin Farr.

Kevin M. Farr, Chief Financial Officer

Thank you, Tim, and good day, everyone. As Bryan mentioned, we continue to focus on growing the business profitably. And I believe our second quarter and first half results demonstrate our continuing commitment to effectively manage our global portfolio of brands, countries and customers.

For the quarter, global revenues are up 1%, and we ended the first half with revenue up 4%. Our second quarter gross margin equaled our strong margin last year of 51.3%. And gross margin for the first half is up 150 basis points. And while our ongoing strategic investments impacted the bottom line, operating profit was flat year-to-date, including a 9% impact from the Polly Pocket asset impairment charge. Overall, our results were consistent with our expectations. And with some of those strategic investments coming online in the second half, we're off to a good start to deliver another solid year for our shareholders. Our results also demonstrate our continuing commitment to deploy capital back to our shareholders—we paid a quarterly dividend of $0.36 per share, reflecting an annual dividend of $1.44, a 16% increase over last year and we repurchased about 2.7 million shares of our stock in the quarter.

Solid sales and gross margins give us the opportunity to reinvest in our business. One of our key strategies to grow is to develop new franchises. Franchises are great investments for Mattel because we can research, refine, and roll out new brands quickly and efficiently as we leverage our existing talent and infrastructure to launch them globally. Relative to other industries, new franchises like Monster High, Max Steel, and Ever After High only take a few years to incubate and bring to market and they represent small investments of $10 million to $20 million. In the case of Monster High, the payback has been extraordinary as we leveraged that concept into a global brand that exceeds $1 billion at retail. While not everything could be a Monster High, we're confident that hitting singles and doubles with our new franchises will drive strong returns.

Now, before I start reviewing the slide deck with you, I did want to highlight a couple of key items in the P&L. As I said earlier, our gross margin for the quarter was 51.3% which is consistent with our goal of delivering gross margins in the low to mid 50% range. For the quarter, favorable mix, O.E. 3.0 savings, and our pricing actions were partially offset by increased input costs, the unfavorable impact of foreign exchange, and higher royalties. Unfortunately, there recently has been volatility in crude oil prices and foreign exchange. That said, we manage a basket of costs including input costs where there's always puts and takes. And we continue to focus on executing manufacturing efficiency programs to fully or partially offset these puts and takes. And as we began to enter our peak production, so far, our overall basket of cost, including foreign exchange, has been fairly consistent with our cost assumptions.

In regard to SG&A, excluding the $14 million impact of the Polly impairment charge, our spending is on plan and consistent with the outlook we gave you on the first quarter call. If you recall, we suggested that the first quarter year-over-year increase of $23 million was a good run rate to estimate our SG&A expenses in the near term. Second quarter SG&A expense was up about $41 million, with about a third of the incremental expense due to the Polly impairment charge, another third of the incremental expense is due to our continued investment in strategic growth initiatives, and the final one-third due to higher employee-related cost including merit increases, higher benefit expenses, and severance. For the full year, we continue to plan SG&A expenses to be higher than last year. That said, we continue to see that the quality of our overall SG&A expenses continue to improve as we shift spending to future drivers of growth.

With respect to the impairment charge for Polly, as Bryan said, given the strong growth in our overall Girls portfolio and Polly's recent performance, we've made the strategic decision to execute a more focused approach to Polly going forward. Our plan is to reallocate resource to other core brands in our doll portfolio. As a result, the reduction in expectations for future Polly Pocket revenues and profits triggered a $14 million non-cash impairment charge in the quarter. Going forward, amortization expenses for the remaining asset are expected to be immaterial to Mattel's results.

Overall, I'm pleased with how we managed the first half. But with that said, there's plenty of work to be done as we focus on executing in the all-important second half of the year.

Now let's turn to the slide deck. Starting on page 4, you can see that our worldwide gross sales are up 1% for the quarter and 4% year-to-date. Continued strength in our International Region, which was up 4% in the quarter, offset performance in the North American Region which was down 2%. Our Girls portfolio led by Monster High and American Girl, along with strong results in Fisher-Price Friends, helped drive the growth. And we grew share in the U.S. and Euro 5, and global shipping and POS remain in balance.

Turning to page 5 of the presentation, you can see the brand perspective on sales.

- Worldwide sales from Mattel Girls and Boys brands were up 1% for the quarter, and 6% year-to-date. Growth in our Girls portfolio was driven by Monster High, which was partially offset by declines in Barbie. As Bryan mentioned, Barbie sales were down for two reasons: First, the shifting of North American promotional programs to the second half and second, some increased competition from the success of our own growing Girls portfolio. Hot Wheels was down 1% with growth internationally and strong results coming from our core die-cast line. Our entertainment properties including Warner Bros. *Man of Steel*, the initial shipments of Disney's *Planes* and DreamWorks' *Turbo* helped offset a strong Batman comparison to last year. Max Steel was just starting to ship around the globe, but very early results in the whole market of Latin America are encouraging.
- Worldwide sales for Fisher-Price brands were down 3% for the quarter and down 5% year-to-date. The lower sales were primary the result of declines in several of our Fisher-Price Core brands partially offset by strong performance of Fisher-Price Friends including our new Thomas wood line and the initial shipments of our Mike the Knight brand.
- And American Girl had another great quarter with 14% growth in sales.

On page 6, we highlight the performance of our North American region. Overall, sales for the region were down 2% in the quarter and up 2% year-to-date. For the quarter, strengths in our Girls portfolio driven by Monster High and American Girl and our Fisher-Price Friends business was offset by softness in Barbie and Fisher-Price Core.

Our International business seen on page 7 grew 4% this quarter and 6% year-to-date. For the quarter, all of our regions grew in both U.S. dollars and local currency. And we continue to see strong results in our emerging markets (in China, India, Russia, and Eastern Europe as well as Mexico) and Brazil grew for the quarter.

Now let's review the P&L starting on page 8 of the slide presentation. I've already talked to you about gross margin performance for the second quarter. Year-to-date, the first half gross margin of 52.7% is up 150 basis points over last year, consistent with our goal of delivering gross margins in the low to mid 50% range over the near term.

With respect to SG&A expenses as seen on page 9, I've already covered the details of the drivers of increased expense in the second quarter. For the quarter, SG&A expenses as a percentage of net sales was 33.5%, including a 120 basis point increase related to the impairment charge.

Page 10 of the presentation summarizes the company performance of company-wide cost-savings initiatives and our continuing efforts on our ongoing Operational Excellence 3.0 program. For the quarter, we delivered incremental O.E. 3.0 gross savings of $9 million, and we're on track to deliver our full-year target of around $50 million in gross savings.

Turning to page 11, operating income in the first quarter was $95 million or 8.1% of net sales, down 320 basis points compared with last year's second quarter. The decrease in operating income was driven by higher SG&A expenses including the $14 million impairment charge partially offset by slightly higher sales and flat gross margins.

Turn to page 12, earnings per share for the quarter were $0.21, a decrease of $0.07 compared to the prior year's second quarter. The decrease in EPS was driven by lower operating income and an increase in share count partially offset by lower non-operating expenses and a favorable tax rate driven by the benefit of discrete period tax items. The impact of foreign exchange in the quarter was a negative $0.03 per share. For the second quarter, our worldwide effective tax rate reflects discrete period tax benefits related to the reassessment of previously accrued taxes based on the current status of foreign and state audits and enacted law changes. We currently expect a worldwide effective tax rate for the year to be 22%.

Slide 13 outlines the HIT integration and amortization costs Mattel incurred in 2012 and the first half of 2013. For the quarter, integration expenses were $1 million, flat compared to the second quarter of 2012. For the full year, we expect these expenses to be about $10 million compared to $24 million in 2012.

We discuss cash flow on page 14. Year-to-date, cash flow used for operations was $286 million compared to $62 million last year. The increase was primarily due to higher working capital usage, partially offset by higher net income. Cash used for investing is significantly lower than last year when we acquired HIT Entertainment for $685 million. Capital expenditures are up slightly to $115 million. We've repurchased 2.9 million shares of stock year-to-date at a total cost of $127 million. And we continue to pay our quarterly dividend of $0.36 per share at a total cost year-to-date of $249 million. As a result, our balance sheet remained strong. Our cash on hand at the end of the period was $823 million, up $451 million from the prior year. And our debt-to-total capital ratio was 36.7%, down from 38.1% in the prior year.

Today, we announced our third quarter dividend of $0.36 per share, a 16% increase to prior year. We also announced that we increased our share repurchase authorization by $500 million. We remain committed to our capital deployment strategy and expect to end the year with cash and debt levels consistent with our framework. As you know, effective capital deployment is critical to achieving top third to top quartile total shareholder returns.

Starting this quarter, we also enhanced our level of disclosure in our 10-Q and 10-K filings for consolidated and segment revenues. You'll find schedules that outline these enhancements including the quarterly schedules provided this morning. We have also posted these schedules on our corporate website in the Investor section under the subheading, Financial Information.

In summary, excluding the impairment charge, our underlying performance in the first half of the year is consistent with our long-term financial goals for sales and operating profits. As we look ahead, we remain keenly focused on growing our business consistently, growing it profitably and deploying the cash generated in value-enhancing ways to reward our shareholders.

This concludes my review of the financial results. Now we'd like to open the call to questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Sean McGowan with Needham & Company. Your line is open.

<Q – Sean McGowan – Needham & Co. LLC>: Thanks. I have a couple of questions if I can. Bryan, remind us of what you've said in the past about the extent to which Barbie's affected by the success of some other Girls products. My impression was that up until now you've thought that it really wasn't affected. Are you seeing something changing there?

<A – Bryan Stockton – Mattel, Inc.>: Good day, Sean.

<Q – Sean McGowan – Needham & Co. LLC>: Hi.

<A – Bryan Stockton – Mattel, Inc.>: Not really. What we've said in the past with Barbie is: it's very difficult to estimate the impact of other brands on the Barbie brand simply because the base year—which is 2010—Barbie revenues through the first half of this year are still higher than that base year. So it's very difficult to estimate, if you want to call it, cannibalization. It's hard to do. We've said it's highly likely that that's going on. We've never said it's not going on. It's just difficult to give an exact number.

What we believe is likely occurring in the second quarter is for the first time in Monster High history, we've been able to actually keep up with consumer demand. The shelves are full for the first time. We work very hard in operations to ramp up our production as quickly as we can. Monster High continues to grow at extraordinary double-digit rates globally. Engagement by girls continues to grow. In fact, we've had a 12% increase in the unique visitors to our websites. So, there's a lot of momentum there. And so, what we believe we're seeing is maybe a little bit more impact.

But we go back to – if you look at Barbie's performance in the context of the overall portfolio, she's doing quite well relative to competition. Her revenues are still stronger than 2010. And we think we have a very strong second half for Barbie. So, I think we're being consistent. We may be seeing a little bit more of an impact in the second quarter but we're certainly not troubled.

<Q – Sean McGowan – Needham & Co. LLC>: Okay. Thanks. Could you comment generally about what you're seeing in point of sales, for your products across the retail channels, relative to your ship in?

<A – Bryan Stockton – Mattel, Inc.>: Sure. We work really hard to try to balance out POS and shipments and inventory. And I would tell you that, generally, as you look across the brands and countries, we're pretty well aligned. POS is down sort of low single-digit and domestic retail inventories are down sort of low single-digit. So, we're feeling pretty good about where we are at the moment.

I think what's really important is because we've worked so hard on retail inventories and, frankly, getting our own inventory staged for all these second half initiatives, we think we're in pretty good shape. And the reason that's important, if you think about what's ahead of us in the second half, from an entertainment standpoint—we have *Planes*, Sofia, *Frozen*, *Turbo*, the *Man of Steel* DVD. We've got, from our own IP—the new Thomas property and Thomas wood, Ever After High, Monster High, and Max Steel. There's a lot of new stuff that we're trying to get ready for and, so, as you look at our inventories at Mattel, they're up slightly as we do a little building in anticipation of that.

<Q – Sean McGowan – Needham & Co. LLC>: Great. Thanks. And last question then, was there meaningful revenue in the second quarter from Max Steel and Superman?

<A – Bryan Stockton – Mattel, Inc.>: Well, Superman, obviously, we were pleased with the results of Superman in the first half. There'll be more action and activity on Superman for the DVD in the second half, but nothing of any consequence. For Max Steel, we've begun shipping to some degree in Latin America where, as you recall, that's a $100 million at retail base business. We're encouraged by the shipment and POS response we're seeing. The new content has been in Latin America for the year. So, we're excited about what the potential may be for Max Steel, but I would tell you, it's still early.

<A – Kevin Farr – Mattel, Inc.>: Yeah. And I think, Sean, as I mentioned, when we looked at our shipping for the quarter, more or less Warner Bros.' *Man of Steel*, initial shipments of *Planes* and DreamWorks' *Turbo* helped offset a strong Batman comparison last year.

<Q – Sean McGowan – Needham & Co. LLC>: Okay. But Bryan's comments there, do you think you're basically done with Superman or there could be more in the second half?

<A – Bryan Stockton – Mattel, Inc.>: There's going to be, I would say, the typical kind of second half support for a DVD launch and that's important to Warner Bros. and it's important to us. So we're going to make sure we support it fully.

<A – Kevin Farr – Mattel, Inc.>: Yeah. And I think Superman, overall, as we look at it today, is pretty consistent with our expectations.

<Q – Sean McGowan – Needham & Co. LLC>: Okay, well, lot of Turbo ads on the all-star game last night. So…

<A – Kevin Farr – Mattel, Inc.>: Go see the movie tonight.

<A – Bryan Stockton – Mattel, Inc.>: It opens tonight, Sean. I expect to see you there.

<A – Kevin Farr – Mattel, Inc.>: And buy some toys.

<Q – Sean McGowan – Needham & Co. LLC>: Okay. Thanks.

Operator: Our next question comes from Steph Wissink with PiperJaffray. Your line is open.

<Q – Steph Wissink – Piper Jaffray, Inc.>: Hi. Good day, everyone. Just a couple of questions for us. The first one, Bryan, if you could just share with us a little bit around your philosophy on the share repurchase program. Should we think about that as really offsetting dilution or more of a dilution-plus type of an event?

<A – Bryan Stockton – Mattel, Inc.>: Sure, Steph. Well, first, I want to welcome you to Mattel. We're thrilled to have you on the team. So good morning and welcome. Now, as we think about share repurchase, we really think about it in terms of our overall capital deployment strategy. And as we think about that capital deployment strategy, there's a number of things that we try to do and if I pick specifically in share repurchase, we really think about: how do we want to invest? We can buy another company, as we did with HIT. We can reinvest it in our own company, as we tend to do on an ongoing basis. I would tell you that our share repurchase strategy, in general, tends to be opportunistic. We have a very disciplined approach in terms of how we think about how and when and why to buy the shares. And we like it a lot and we think it's served us well over the years. And, Kevin, you might want to add a little more color.

<A – Kevin Farr – Mattel, Inc.>: Yeah. I think we've got a capital investment framework that we've followed for the last decade. And really, from the perspective of our capital investment framework, first, we try to invest in the business. And this year, we expect to invest about $220 million to $230 million in CapEx. Next priority is to have a top quartile dividend. And as I indicated today we paid – we're going to pay a dividend of $0.36 per share. It's up $0.16 versus last year. And we look at it to be top quartile from the perspective of both dividend yields and payout ratios.

And next, we look at, really, share repurchases or M&A. And we're very disciplined and opportunistic about share repurchases just like we are about M&A.

<Q – Steph Wissink – Piper Jaffray, Inc.>: Okay. That's really helpful. Thanks. Just one more for us. Guys, you mentioned the investment spend in the second quarter. Can you just give us some sense of where you think you are on that, maybe investment spending horizon curve and how we should think about the monetization of some of those activities in the second quarter and into the second half? Thank you.

<A – Kevin Farr – Mattel, Inc.>: Yeah, be happy to. Our approach to strategic growth investments is discipline and case-by-case. We manage strategic investments in the context of the annual basis. And we do that in delivering operating profit growth of 6% to 8% for the full year, consistent with delivering top third to top quartile TSR.

And so far, we've had a really good batting average in our investments over the last couple years as many of them are already paying off, including:

- The three new American Girl stores we opened last year in St. Louis, Houston, and Miami, as well as the recently very successful opening of a new store in Columbus,
- The development and launch of new franchises like Max Steel, Ever After High, and
- Infrastructure and head count in emerging markets including China, India, Russia and Eastern Europe.
- And we're also making strategic IT investments in things like Product Lifecycle Management. The implementation of this system has gone live.

…It was an important consideration as we raised our outlook on gross margins to low to mid 50% range over the near term. In the future, we'll share more of the details; our strategic growth investments are keenly focused on delivering more consistent growth.

That said, as we look at strategic investments made over the last couple years…we made about $30 million incremental last year (2011 vs. 2012). In the first half (of 2013), about a third of our $64 million increase in SG&A are strategic investments. And as you look forward, I think the information that we provided you on the call about a run rate for future quarters of about $23 million is still relevant as you look at the balance of the year.

<Q – Steph Wissink – Piper Jaffray, Inc.>: All right. Outstanding. Best of luck, guys.

<A – Bryan Stockton – Mattel, Inc.>: Thank you.

Operator: Our next question comes from Drew Crum with Stifel. Your line is open.

<Q – Drew Crum – Stifel, Nicolaus & Co., Inc.>: Okay, thanks. Good morning, everyone. So, Bryan, just wanted to get your thoughts on Fisher-Price. Are your expectations for it to still grow in 2013? Do you need Core to grow in order to grow Fisher-Price overall? And what is the impact to gross margin? I think going into the second quarter you guys suggested that gross margin would moderate as we made our way through the year as Fisher-Price saw an uptick in growth. So I just wanted to get an update there.

<A – Bryan Stockton – Mattel, Inc.>: Drew, let me start with Fisher-Price.

We have been working very hard, as you know, on trying to get that brand repositioned with moms, and specifically to connect with moms, and done a lot of work on the brand positioning and how to connect, primarily through digital.

We've also spent a lot of time working on the execution of that at retail both with new packaging that you're seeing rolling out and with more – I'd say more robust retail positioning.

We're, I would say, slightly pleased that Fisher-Price seems to be making a bit of a turn in the second quarter. And we certainly are not declaring victory on Fisher-Price, but I think as you look at the second half, and I think we've been consistent with this, it's really a second half opportunity as the new packaging comes in, as consumers get more experience with the website, as we get our retail programs better executed, as we really get the digital and brand positioning to evolve from just connecting to converting with mom.

And there's an awful lot of new product innovation in the Fisher-Price Core. So, to answer your question, yes, we need to have the Core pick up in POS globally—and that's important to us.

The other part of Fisher-Price that we also want to think about is the Fisher-Price Friends portfolio. As you know, that's a really important part of Fisher-Price. It's about a third of the overall Fisher-Price portfolio, so we spend a lot of time thinking about it. And since we made the investment in HIT Entertainment, we spend even more time thinking about it. As you'll recall now, about half of our portfolio is our own intellectual property. So, when we think about the exciting things happening with that including – I talked about Thomas wood and the *King of the Railway*, a movie that's coming out, Bubble Guppies, Mike the Knight, continued strength of Jake and Never Land Pirates, we think we're going to see continued momentum on Friends, but we are expecting to see some improvements of Fisher-Price Core.

And that relates to gross margin. We've been pretty consistent that Fisher-Price gross margins are very attractive relative to competition in Infant/Preschool. Structurally, that market's a little bit lower than the other segments like Fashion Dolls, for example. So, we may see some impact. And Kevin, you may want to make a comment on that.

<A – Kevin Farr – Mattel, Inc.>: Yeah, I think, our execution in the middle P&L remains solid and we're pleased to see our gross margin expand 150 basis points to 52.7% in the first half of the year. Our outlook hasn't changed for full-year gross margins and our goal is to deliver gross margins in the low to mid 50% range over the near term.

<Q – Drew Crum – Stifel, Nicolaus & Co., Inc.>: Okay. Very good, very helpful. And then moving on to Ever After High, can you talk about your plans for placement at retail and is there any risk that you cannibalize against some of your other properties? Plans to grow the Fashion Doll category or are you going to take share from competitors or yourself?

<A – Bryan Stockton – Mattel, Inc.>: So, I'm going to ask Tim to comment on this in just a minute. But I think one of the things that is really important is we spent a lot of time over the past few years really thinking hard about how to manage this overall Girls portfolio. And when you think of how we've been able to consistently grow this for 15 quarters—across a portfolio that includes Disney Princess and Barbie at the younger age, and Monster High and American Girl for the older age, and now with Ever After High—I think one of most important things that Tim talked about in his presentation was really this white space that they discovered. Because Ever After High is really about girl empowerment to rewrite your story the way that you want your life to come out. That's a different girl. It's a different positioning than Monster High, which is all about celebrating your differences. So, that's one of the things we've worked very hard across the portfolio is to make sure that each brand has a unique positioning and reason for being. Tim, do you want to comment a little bit about the issue of how you think this'll play out at retail?

<A – Tim Kilpin – Mattel, Inc.>: Yeah, sure. Couple of things. First of all, as I mentioned earlier, we are in Justice stores now. And one of the reasons we started there was because it was a great opportunity for us to showcase the franchise across multiple categories of product. So with toys and consumer products, you could really help kind of tell the larger story in one place at one time. That said, we are rolling out to all of our regular channels throughout the course for the rest of this year both here in the U.S. and around some key countries internationally. And we're very pleased about the retail support we've gotten. Everybody recognizes, to Bryan's point, how this fits into the portfolio, how it's differentiated versus the rest of the portfolio and its reason for being on the shelf. And so we've got very good support, great promotional plans lined up with all of our major accounts.

<A – Kevin Farr – Mattel, Inc.>: Yeah, and I think our overarching strategy really is to innovate in the category and grow the category. And as Bryan said earlier, we've got top four brands in the category, with Barbie, with American Girl, Monster High and Disney's Princesses. So, from an outlook perspective, we want to continue to innovate and, yeah, we are competing against ourselves. But we want to grow the category and, overall, grow our sales.

<Q – Drew Crum – Stifel, Nicolaus & Co., Inc.>: Okay. Thanks, guys.

Operator: Our next question comes from Michael Kelter with Goldman Sachs. Your line is open.

<Q – Ivan Holman – Goldman Sachs & Co.>: Thank you. Good morning. This is Ivan sitting in for Michael. I was hoping to dig in a little bit deeper on gross margins. It looked like they were flat in the quarter year-over-year…so first quarter in a couple that they didn't expand. We were just trying to understand, is there anything in the quarter that makes you think that this was just a temporary pause beyond just kind of cadence of shipping, or, is kind of flat the correct way to think about margins for the balance of the year? As we look at the drivers that you've broken out, some of them are exogenous in terms of growing margins, maybe currency, et cetera. But where do you see the lowest hanging fruit in order to be able to expand margins over the balance of the year? Thank you.

<A – Kevin Farr – Mattel, Inc.>: Yes. I think just from a – stepping back a little bit, I think second quarter gross margin of 51.3% was consistent with our expectations. And we don't manage our business to grow gross margins sequentially every quarter. Rather, we manage gross margins on an annual basis; achieve gross margin within the low to mid 50% range over the near term. There was some impact of forex this year on gross margins. But as we look to the future, really, I think our performance is consistent with our goal of delivering gross margins in the low to mid 50% range.

<Q – Ivan Holman – Goldman Sachs & Co.>: Great. Thank you. But just as a follow-up, I noticed the product mix seemed to be a little bit of a benefit to gross margins in 2Q. Is there anything in the way that order books are forming up for the third and fourth quarter where you think you might be able to see another benefit from product mix or is that something that you expect to be net neutral over the balance of the year?

<A – Kevin Farr – Mattel, Inc.>: Yeah, there's a lot of moving pieces but I think product mix has been a tailwind for a while with the growth of our doll portfolio. As Bryan said, it's grown for 15 consecutive quarters.

<Q – Ivan Holman – Goldman Sachs & Co.>: Thank you very much.

<A – Kevin Farr – Mattel, Inc.>: You're welcome.

Operator: Our next question comes from Gerrick Johnson with BMO Capital. Your line is open.

<Q – Gerrick Johnson – BMO Capital Markets (United States)>: Good morning. Bryan, can you talk about the Barbie promotions you were talking about earlier? What had precisely shifted? And then, within Barbie, any comments on certain areas of Barbie that might be performing better, perhaps core dolls versus accessories, vice versa?

<A – Bryan Stockton – Mattel, Inc.>: Sure. Well, I think the first thing we have to realize is a number of things are moving around at retail as retailer strategies evolve. You can imagine that – and this is frankly a global phenomenon.

As you look at what's going on with layaway, for example, things are shifting around as retailers try to figure out how they can differentiate themselves. And so, as a result, what we've tried to do is we've tried to better align our spending with both our second-half initiatives and where retailers are headed. So, I think one of the things that's really great about our North American Division is they've worked very hard on supply chain. They're now working hard on "how do we optimize our promotional spending with our retail partners?" And as a result, they decided along with our customers that we frankly should shift some spending out of the first half and into the second half simply because there's so much activity across the portfolio. And as I mentioned, on Barbie, we've got some very strong products, Barbie: Life in the Dreamhouse. So I would say it was a joint decision between us and our customers to, as I would say, not only fish where the fish are but to fish when the fish are feeding and that's in the second half and really around the layaway time period and the holiday spending. So, I think you'd see that across our promotional spending, not just retail spending but also our consumer spending as we try to support these programs.

Now, as it relates to Barbie, really what continues to do well is our core fashion segments and accessories. And we think that should carry through to the fall. And we're very excited in the fall about Barbie's new Dreamhouse because it's really innovative. It's got two elevators in it that we really love and girls give us positive feedback. So, it's really the core fashion segment and that's good for Barbie.

<Q – Gerrick Johnson – BMO Capital Markets (United States)>: Okay. And Max Steel, you said earlier, returns in Latin America were promising. I have seen it sneak out on the shelves here in the U.S. Can you talk about how the early performance is here or elsewhere?

<A – Bryan Stockton – Mattel, Inc.>: Well, it's really way too early. Latin America has 10 years of history with Max and a lot of momentum with Max. So, it doesn't surprise us that we're seeing some positive impact there. And the reason I say that is, as we develop this property, we spent a lot of time with boys in Latin America because that was really the core of the franchise, and the story played well not only in Latin America but in North America and Europe and Asia. So, we're pleased with what we're seeing in Latin America. It is way too early on shipments or POS. But what we do know is that the TV ratings are very, very solid. We like it; our TV partners like it. And usually, if boys are watching it, they begin to pick up on the characters and the play patterns. So we're feeling positive. But way too early to make a call.

<Q – Gerrick Johnson – BMO Capital Markets (United States)>: Okay. Okay. Great. And one last one if I could sneak it in there. Kevin, can you talk about the tax rate? And forgive me if I missed this, but why was that especially low this quarter?

<A – Kevin Farr – Mattel, Inc.>: Yeah. It related to a reassessment of routine state and tax audits of previously accrued taxes and as a result of our reassessment of those audits, we had a discrete tax benefit that we recognized in the quarter. That said, when you look at the full-year rate, we expect the full-year rate to be around 22%.

<Q – Gerrick Johnson – BMO Capital Markets (United States)>: Full-year rate to be around 22% including the low 6.9% in this quarter?

<A – Kevin Farr – Mattel, Inc.>: That's correct.

<Q – Gerrick Johnson – BMO Capital Markets (United States)>: Okay, great. Thank you.

Operator: Our next question comes from Eric Handler with MKM Partners. Your line is open.

<Q – Eric Handler – MKM Partners LLC>: Yes. Hi. Thanks for taking my question. Actually, two questions for you.

First on Ever After High, you're going after girls—tweens nine to 13. You said maybe you get a little bit of cannibalization off your existing products. But typically the girls nine to 13, what are they playing with? What type of products are you competing with outside of your own girl dolls?

And then secondly, just a follow-up to a prior question, if you look at sort of your O.E. 3.0 plan, you're looking $50 million run rate for the full year. You've already done $14 million. So you're looking at $36 million in gross savings in the back half of the year. The severance and investment has sort of negated those gross savings. So your net savings has been pretty de minimis for the first half of the year. Will severance and investment subside so that you can actually get some leverage in the back half of the year off of those gross savings?

<A – Bryan Stockton – Mattel, Inc.>: Great. Well, Eric, good morning, and let me start. I'm going to ask Tim to amplify what I talk about. Then we'll ask Kevin to address the O.E. 3.0 question.

We're excited about Ever After High, again, because it's in a—what we believe is a—unique white space for this older girls segment that Monster High has not yet tapped. And as we build these brands, and we saw this with Monster High and we're trying to replicate that with Max Steel and again with Ever After High, we're really creating a franchise. It's not a doll. It's not a plaything. It's truly a franchise. It's an attitude. It's apparel. It's a whole bunch of things. So, we're going to be I think well positioned. Tim, would you like to amplify on that?

<A – Tim Kilpin – Mattel, Inc.>: Yeah. I think that is an important thing to understand is that both of Monster High as we've seen it and we expect with Ever After High that girls are interacting with this brand, not just with dolls, but with apparel, and accessories, and stationery, and publishing, and electronics. That's been one of the strengths of Monster High and we expect to replicate that. And things like publishing are not just ways for us to tell a story, but ways to monetize the brand as well.

<A – Kevin Farr – Mattel, Inc.>: Yeah. And I think finally on O.E. 3.0., yes, we have made some investments in the first half of the year. And generally, those investments have big paybacks quite quickly. So, when you look at it for the balance of the year, I think you will see with regard to the $36 million of gross savings that those would flow through. And as you know, we use gross savings to more or less fund our strategic growth investments.

<Q – Eric Handler – MKM Partners LLC>: Okay. And then just one thing for follow-up. When you look – with regards to Ever After High franchise, when you look at Monster High and you look at the $1 billion plus of revenues that's generated each year…How much of that is toys? How much is apparel? How much is – however you want to slice up the pie? How much – how does that get divided up?

<A – Bryan Stockton – Mattel, Inc.>: Well, it's such a solid franchise and it's like Barbie. There's a substantial portion of that that is consumer products. Toys is still the majority of what consumers are spending money on. But there is a substantial consumer products business, and that's why we always focus on, it's a franchise, it's not just a toy brand.

<Q – Eric Handler – MKM Partners LLC>: Okay. Thank you.

Operator: Our next question comes from Tim Conder with Wells Fargo Securities. Your line is open.

<Q – Tim Conder – Wells Fargo Securities LLC>: Thank you. A couple questions here, gentlemen. Bryan, you mentioned a couple times in your preamble that your share year-to-date had grown in the U.S. and Euro 5 when you include American Girl. If you exclude American Girl, can you give us any color on your share, number one?

And then second question, Kevin, just to clarify – this has been asked I think a couple different ways. But the $23 million year-over-year increase in the operating and other expenses there that you gave in the first quarter call, this year, if you'd back out the impairment, it was about $27 million. And from the last question and again in the previous, it sounds like maybe the timing, whether that was severance or whatever that's been a little front-end loaded, and that for the year, that quarterly $23 million year-over-year quarterly run rate is still pretty fair? Just to confirm that or if you could just give some more color, please.

<A – Kevin Farr – Mattel, Inc.>: Yeah. You want me to cover that first? I think, yeah, you have it right. If you look at the quarter, the second quarter, and you take out the $14 million impairment charge, you get $27 million, and severance was up about – around $5 million in the quarter. So, that run rate was – in the second quarter is very consistent with the guidance we gave you in the first quarter. And I think as you look forward to the balance of the year, I would still use that guidance in the third and fourth quarter against 2012 adjusted SG&A.

<A – Bryan Stockton – Mattel, Inc.>: Tim, as it relates to...

<Q – Tim Conder – Wells Fargo Securities LLC>: So, are you...

<A – Bryan Stockton – Mattel, Inc.>: As it relates to our market share, the way that we think about it is we always think about our category share including American Girl. And it's really for two reasons. Number one, it's a $600 million plus brand that is one of the top brands in the world and one of the top brands in the country. So we always think about our category share with that in there.

Secondly, there's frankly a technical reason to do it. Historically, NPD, when they used their diary panel, covered American Girl, and it was always a part of the share calculation. Now that NPD is using POS data from retailers, American Girl is not included in their coverage, so we have to make an adjustment to come up with a realistic estimate of our share. And by the way, we always get confirmation with NPD that the statement that we're making is factually correct. So, we have to adjust it because it's such a big and important part of our portfolio.

<A – Kevin Farr – Mattel, Inc.>: And, Tim, did you have a follow-up question to my answer?

<Q – Tim Conder – Wells Fargo Securities LLC>: Yes. No. Well, thank you, Kevin and Bryan, for both of those. But are you implying, Kevin, on the question for you that the severance will likely be lower than what we've seen in the first half of the year? That it'll likely be lower in the second half of the year?

<A – Kevin Farr – Mattel, Inc.>: Again, we look at O.E. 3.0 opportunities on a case-by-case basis, too. And we would have the flexibility to, if we had another good idea which would generate a quick payback, we would do it. But I think a good part of the savings in O.E. 3.0 for this year is packaging. And there's really no cost associated with optimizing our packaging.

<Q – Tim Conder – Wells Fargo Securities LLC>: Great, great. Okay. Thank you both, gentlemen. Appreciate it.

<A – Bryan Stockton – Mattel, Inc.>: Thanks, Tim.

Operator: Our next question comes from Felicia Hendrix with Barclays. Your line is open.

<Q – Felicia Hendrix – Barclays Capital, Inc.>: Hi. Thank you, and good morning. Bryan, first question for you. You definitely seem optimistic about the second half. And thank you for laying that road map out for us. And then also your view in the first half was that it was in line with expectations but was lower than ours and the Street's. So, I'm just wondering, as we're now through half of the year, are you seeing anything different or anything that's changed at retail from where you were thinking about it from the beginning of the year? Again, I understand that from a company's perspective internally you're on plan. But I'm just wondering if you've seen anything change from the industry perspective.

<A – Bryan Stockton – Mattel, Inc.>: Good morning, Felicia. No. We're working very closely with our customers globally. I think everybody is still very excited about the fall holiday season. We're not hearing anything that is other than complementary to the toy business. We are working very hard to get the right shelf space and the right merchandising in place. So, I think from a customer standpoint, we're feeling good. And I think when you then take it up to a macro level, people still expect the toy industry to continue to grow. We're seeing growth—outside of the U.S., for example, in Western Europe. And so, I think everybody's still positive about toys.

<A – Kevin Farr – Mattel, Inc.>: Yeah, I think the outlook for the industry really is unchanged—it's expected to grow on a global basis, about 4% to 6%. And the U.S. is about 30% of that global business.

<Q – Felicia Hendrix – Barclays Capital, Inc.>: Okay. Thank you. Helpful. And, Kevin, you've given some long-term benchmark goals and operating income up 6% to 8% is one of them. So do you – even though year-to-date you're operating income is flat, do you still expect that to be up 6% to 8% for the year?

<A – Kevin Farr – Mattel, Inc.>: Well, I'm not going to give guidance on bottom-line guidance on operating income. I can say, though, that the 6% to 8% is consistent with what we target and we need to achieve that to deliver top third to top quartile TSR. And I think as we look at the first half, we have been delivering that consistently.

<Q – Felicia Hendrix – Barclays Capital, Inc.>: Okay. And while we use the term guidance, just wondering, have you guys discussed – and Bryan, this is for you. I'm going to put on the hot spot for a second. Have you guys discussed internally at all about giving guidance? This quarter you missed Street estimates by a lot. We obviously were all wrong and misgauged kind of this second quarter. But it also creates a lot of volatility. So, I'm just wondering, have you guys talked about that? Bryan, you're still – you're relatively new to the role. So just wondering if you're looking at that decision differently than the company might have in the past?

<A – Bryan Stockton – Mattel, Inc.>: No, it's a great question. And the answer is, no, we're not thinking about it differently, and I'll explain why. Number one, as we've said, I think, consistently from the Bob Eckert era to now the Bryan Stockton era, we don't manage this business quarter-by-quarter. We really think about it in terms of a "pre" season and a "the" season. That's why, in my comments and Kevin's comments, when you look at the first half or really third of the year, it's a half of a calendar but third of a business year, the revenue's up 4%; the gross margins are up 150 basis points; the EPS is up. So, we like where we are at the turn. And we've all been in this business long enough and you've covered us long enough to know and others that sometimes you get hiccups in some quarters that catch us all a little bit by surprise. But overall, when we look at our performance for the year, and that's really what we focus on, delivering performance not only of category-growth performance but TSR performance for our stockholders. So, we're going to continue to give, I'd say, strategic insights as to where we think we'd like to be and leave it at that. But if we start getting into the quarter-by-quarter guidance, it just is…we don't think particularly helpful in keeping the discussions with you all really focused on the strategic issues that we're all trying to address.

<A – Kevin Farr – Mattel, Inc.>: And again, I think as we look at our performance, we look at it more than just a year. We look at it over the long term. We think about that as over the next two to three years. And I think if you look at our performance over the 1-year period, the 3-year period, the 5-year period, and 10-year period, we have been delivering top third to top quartile performance.

So, I think we've been focused on the right things to generate long-term shareholder value.

<Q – Felicia Hendrix – Barclays Capital, Inc.>: Okay. Thanks. And Kevin, just quickly – why the share count increase? Is that stock option exercise or something else?

<A – Kevin Farr – Mattel, Inc.>: It does relate to stock option exercises, yes, over the last couple of years.

<Q – Felicia Hendrix – Barclays Capital, Inc.>: Okay. Okay. Great. Thank you.

<A – Bryan Stockton – Mattel, Inc.>: Thank you.

Operator: Our next question comes from James Hardiman with Longbow Research. Your line is open.

<Q – James Hardiman – Longbow Research LLC>: Hi. Good morning. Thanks for taking my call. Most of my questions have been answered. I did have a couple of clarifications. I guess, first, you mentioned that you materially under-shipped Barbie during the first half but that you want to recapture that in the second half. Does that mean that wholesale is actually going to exceed retail in the second half of the year for Barbie? And I guess more broadly, how should I think about the overall relationship between wholesale versus retail trends in the first half and whether or not that changes during the back half of the year?

<A – Bryan Stockton – Mattel, Inc.>: Hey, good morning, Jim. Well, I think our hope would be that we want to continue to grow all of our brands. And POS drives shipments, so we would hope to see POS improve and see shipments improve. So, I'm not going to make a comment about how we think about the consumption of Barbie. But we like to keep our POS and our inventory and our shipments in balance. And we think we've got some strong programs for the second half to do that.

<A – Kevin Farr – Mattel, Inc.>: I think we have time for one more question.

<Q – James Hardiman – Longbow Research LLC>: Yeah, if I may. Just on the calendar, there's a whole lot of brands that you guys are bringing to the table this year: Sofia, Ever After High, Max Steel, Mike the Knight, Planes, Frozen, Bubble Guppies. If I just think about all of these different brands, the toy properties in particular, which of those began to ship in 2Q? I'm assuming that the vast majority of these will ship or at least begin to ship in the third quarter. Are there any that are entirely a fourth quarter event? Maybe chronologically, how should I think about when these begin – brands begin to ship and how they ramp?

<A – Bryan Stockton – Mattel, Inc.>: Well, it's a difficult question to answer because a lot of it depends on the timing of the launch of certain things. I would tell you, on internal things, with the exception of Ever After, we should begin to start seeing some shipments on things like Max Steel and more shipments on Thomas wood and Mike the Knight some time during the third quarter as retailers begin to get ready to set their planograms. That's really what drives it is those planogram set dates.

As I think about Ever After High, as Tim said, we're beginning the global rollout late in the fourth quarter. So, we'll see something happen there. But as we launch these brands, we have to be patient. You have to get the brand, seated with consumers, let them really engage with it and then begin shipment. So, that's how we think about it internally.

And as it relates to the other initiatives with our entertainment partners, it's really driven by the timing of their launches. For example, *Frozen*—it's not a global launch in the fourth quarter—it's late here in the U.S; it's going to be staggered throughout the rest of the world. So, it really depends on the date. So I'm not going to give you specific guidance on quarter. But I would tell you that's kind of how we think about it. And frankly, we're excited about it and our retail partners are excited about it. We've spent a lot of time planning in this first half to make sure that we execute well in the second half. As I said, that was one of our three priorities is: one, we've got to get the Girls portfolio momentum to continue to build; two, make sure that we continue to make progress on Fisher-Price; and three, execute all those great programs that you just highlighted.

<A – Drew Vollero – Mattel, Inc.>: Operator, we have time for one more quick question.

Operator: Our final question comes from Mike Swartz with SunTrust. Your line is open.

<Q – Mike Swartz – SunTrust Robinson Humphrey>: Hey. Good morning, guys. I just want to touch real briefly on costs and input costs, I guess, for the second half of the year. And I think, Kevin, you said the current cost basket, how you look at it, is really kind of in line with expectations going in the year. And I think it's just with the volatility and the rise and in crude oil now that you're in the middle of production. Are there any offsets that give you comfort that it's kind of in line with the prior expectations?

<A – Kevin Farr – Mattel, Inc.>: Yeah. I think our expectations is that due to the rise in oil and the volatility in foreign exchange that costs are going to go up. And when we look at our overall basket of cost, as I said earlier, they're pretty consistent with our cost assumptions. And we continue day in and day out to work on incremental manufacturing efficiency programs to kind of offset those puts and takes that we always see in those basket of costs.

<Q – Mike Swartz – SunTrust Robinson Humphrey>: Okay. So, there's nothing like labor, transportation, freight that you can point to that's kind of offsetting? It's just more kind of internal initiatives on efficiency?

<A – Kevin Farr – Mattel, Inc.>: That's correct. And our O.E. 3.0 efforts on packaging too.

<Q – Mike Swartz – SunTrust Robinson Humphrey>: Okay, great. Thanks, guys.

<A – Kevin Farr – Mattel, Inc.>: You're welcome.

Drew Vollero, SVP-Corporate Strategy, Development & Investor Relations

Thank you. There will be a replay of this call available beginning at 11:30 a.m. Eastern Time. The number to call for the replay is area code 404-537-3406 and the passcode is 97787871. Thank you for participating in today's call. Thank you.

Operator: Thank you. Ladies and gentlemen, that does conclude today's conference. You may all disconnect and have a wonderful day.