

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

- Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 1996.
- Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____.

Commission File Number 001-05647

MATTEL, INC.

(Exact name of registrant as specified in its charter)

Delaware

95-1567322

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

333 Continental Boulevard, El Segundo, California

90245-5012

(Address of principal executive offices)

(Zip Code)

(Registrant's telephone number)

(310) 252-2000

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

Title of each class	Name of each exchange on which registered
Common stock, \$1 par value (and the associated Preference Share Purchase Rights)	New York Stock Exchange Pacific Stock Exchange
6-7/8% Senior Notes Due 1997	New York Stock Exchange
6-3/4% Senior Notes Due 2000	(None)

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

(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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statement incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K.

The aggregate market value of the voting stock held by non-affiliates of the registrant as of the close of business on March 14, 1997 was \$7,086,336,967.

Number of shares outstanding of registrant's common stock as of March 14, 1997:
Common Stock - \$1 par value -- 271,247,348 shares

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Mattel, Inc. Annual Report to Shareholders for the year

ended December 31, 1996 (Incorporated into Parts I, II and IV).

2. Portions of the Mattel, Inc. 1997 Notice of Annual Meeting of Stockholders and Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after the close of the registrant's fiscal year (Incorporated into Part III).

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PART I

ITEM 1. BUSINESS

Mattel, Inc. designs, manufactures, markets and distributes a broad variety of toy products on a worldwide basis. The Company's business is dependent in great part on its ability each year to redesign, restyle and extend existing core products and product lines and to design and develop innovative new toys and product lines. New products have limited lives, ranging from one to three years, and generally must be updated and refreshed each year.

Core brands have historically provided the company with relatively stable growth. The Company's principal core brands are: i) BARBIE fashion dolls and doll clothing and accessories; ii) FISHER-PRICE toys and juvenile products, including the POWER WHEELS line of battery-powered, ride-on vehicles; iii) the Company's Disney-licensed toys; and iv) HOT WHEELS vehicles and playsets; each of which has broad worldwide appeal. Additional product lines consist of large dolls, including CABBAGE PATCH KIDS; preschool toys, including SEE 'N SAY talking toys; the UNO and SKIP-BO card games; the SCRABBLE game, which the Company owns in markets outside of the United States and Canada; and other toy products. Revenues for 1996 of \$3.8 billion were a record level for the Company.

For 1997 and beyond, the Company plans to focus on those brands which have fundamental play patterns and worldwide appeal, are sustainable, and will deliver consistent profitability. Rather than only four core brands, emphasis will be placed upon six core categories of expertise. These categories are: Fashion Dolls (BARBIE); Infant and Preschool (FISHER-PRICE, Disney and SEE 'N SAY); Entertainment (Disney and Nickelodeon); Wheels (HOT WHEELS); Large Dolls (CABBAGE PATCH KIDS); and Small Dolls (POLLY POCKET). Consummation of the proposed merger with Tyco Toys, Inc. ("Tyco"), which is discussed in detail below and in Note 7 to the Consolidated Financial Statements, will add, among other brands, SESAME STREET characters, MAGNA DOODLE and VIEW-MASTER to the Infant and Preschool category and MATCHBOX, Tyco Electric Racing and Tyco Radio Control to the Wheels category.

As used herein, unless the context requires otherwise, "Mattel" or the "Company" refers to Mattel, Inc., and its subsidiaries, and "Fisher-Price" refers to Fisher-Price, Inc., a Delaware corporation and wholly-owned subsidiary of Mattel.

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

COMPETITION AND INDUSTRY BACKGROUND

Competition in the toy industry is based primarily on price, quality and play value. In recent years, the toy industry has experienced rapid consolidation driven, in part, by the desire of industry competitors to offer a range of products across a broader variety of categories. In the United States, the Company competes with several large toy companies, including Hasbro, Inc. and Tyco Toys, Inc., as well as a number of smaller toy companies. (See "Significant Events.") The larger toy companies have pursued a strategy of focusing on core product lines. Core product lines are those lines which are expected to be marketed for an extended period of time, and which historically have provided relatively consistent growth in sales and profitability. By focusing on core product lines, toy manufacturers have been able to reduce their reliance on new product introductions and the associated risk and volatility. The juvenile products market, in which Fisher-Price is one of the leading companies, is more fragmented. The more significant competitors in this area include: Gerry Baby Products Company; Century Products Company; Graco Children's Products, Inc.; Cosco, Inc.; and Evenflo Juvenile Furniture Company, Inc.

The toy industry is also experiencing a shift toward greater consolidation of retail distribution channels, such as large specialty toy stores and discount retailers, including Toys R Us, Wal-Mart, Kmart and

Target, which have increased their overall share of the retail market. This consolidation has resulted in an increased reliance among retailers on the large toy companies because of their financial stability and ability to support products through advertising and promotion and to distribute products on a national basis. These retailers' growing acceptance of electronic data interchange has provided toy manufacturers with an ability to more closely monitor consumers' acceptance of a particular product or product line.

Over the last ten years, toy companies based in the United States have expanded their international marketing and manufacturing operations. The Company believes a strong international distribution system can add significantly to the sales volume of core product lines and extend the life cycles of newly-developed products.

SEASONALITY

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Sales of toy products at retail are seasonal, with a majority of retail sales occurring during the period from September through December. Consequently, shipments of toy products to retailers are greater in the third and fourth quarters than in each of the first and second quarters combined. As the large toy retailers become more efficient in their control of inventory levels, this seasonality is increasing.

In anticipation of this seasonal increase in retail sales, the Company significantly increases its production in advance of the peak selling period, resulting in a corresponding build-up of inventory levels in the first three quarters of the year. In addition, the Company and others in the industry develop sales programs, including offering extended payment terms, to encourage retailers to purchase merchandise earlier in the year. These sales programs, coupled with seasonal shipping patterns, result in significant peaks in the third and fourth quarters in the respective levels of inventories and accounts receivable, which contribute to a seasonal working capital financing requirement. See "Seasonal Financing."

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PRODUCTS

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The Company has achieved consistent sales and earnings growth by focusing on a number of core brands supplemented by various new product introductions. The Company's principal core brands are BARBIE fashion dolls and doll clothing and accessories; FISHER-PRICE toys and juvenile products, including the POWER WHEELS line of battery-powered, ride-on vehicles; the Company's Disney-licensed toys; and HOT WHEELS vehicles and playsets, each of which has broad worldwide appeal. Additional product lines consist of large dolls, including CABBAGE PATCH KIDS; preschool toys, including SEE 'N SAY talking toys; the UNO and SKIP-BO games; the SCRABBLE game, which the Company owns in markets outside of the United States and Canada; and other toy products. Core brands are expected to be marketed for an extended period of time and historically have provided relatively consistent growth in sales and profitability. For the year ended December 31, 1996, principal core brands accounted for approximately 87% of gross sales. In order to provide greater flexibility in the manufacture and delivery of products, and as part of a continuing effort to reduce manufacturing costs, the Company has concentrated production of most of its core brands in Company-owned facilities and generally uses independent contractors for the production of non-core products.

With respect to new product introductions, the Company's strategy is to begin production on a limited basis until a product's initial success has been proven in the marketplace. The production schedule is then modified to meet anticipated demand. The Company further limits its risk by generally having independent contractors manufacture new product lines in order to minimize capital expenditures associated with new product introductions. This strategy has reduced inventory risk and significantly limited the potential loss associated with new product introductions.

New product introductions in 1996 included Olympic Gymnast BARBIE [registered trademark] doll, Songbird BARBIE [registered trademark] doll, SHOPPIN' FUN [trademark] BARBIE [registered trademark] and KELLY [registered trademark] dolls, BARBIE [registered trademark] DREAM HOUSE [registered trademark] Playset, a Victorian-style fold-up house, the addition of a series of plush puppies and a Cruella DeVil fashion doll based on the live action feature "101 Dalmations" to the Company's Disney line, HOT WHEELS [registered trademark] MEGA RIG [trademark], a construction vehicle that transforms into a construction site with working vehicles and play accessories, CONSTRUX [registered trademark] building sets, BARBIE [trademark] FASHION DESIGNER [trademark] CD ROM, FISHER-PRICE [registered trademark] WONDER TOOLS [trademark] and FISHER-PRICE [registered trademark] CREATIVE EFFECTS [trademark] instant camera and various children's products such as three-wheel strollers.

New product introductions planned for 1997 include WORKIN' OUT [trademark] BARBIE [registered trademark] doll with special suction-cup shoes,

Dentist BARBIE [registered trademark] doll, BARBIE [registered trademark] CRUISIN' CAR [trademark] motorized car which runs in preset drive patterns, MY VERY OWN [trademark] BARBIE [registered trademark] child size vanity, Talking BARBIE [trademark] doll with interactive CD ROM, BARBIE [trademark] computer screen saver CD ROM, CABBAGE PATCH KIDS [registered trademark] BRUSHING TEETH BABY [trademark] with real tooth brush and liquid gel, The Wubbulous World of Dr. Seuss plush and puppets, the addition of a series of fashion dolls and action figures based on the animated feature "Hercules" to the Company's Disney line, the addition of a series of Disney and Dr. Seuss themed puzzles to the Company's game brand, HOT WHEELS [registered trademark] X-V RACERS [trademark] motorized vehicles with charger, FISHER-PRICE [registered trademark] LITTLE PEOPLE [trademark] childrens play inside schoolhouse, FISHER-PRICE [registered trademark] SIDE-BY-SIDE WAGON [trademark] with seating for two children and FISHER- PRICE [registered trademark] HIDEAWAY HOLLOW [trademark] forest-themed playsets with bunny family.

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INTERNATIONAL OPERATIONS

Revenues from the Company's international operations represented approximately 37%, 39% and 40% of total consolidated revenues in 1996, 1995 and 1994, respectively. Generally, products marketed internationally are the same as those marketed domestically, although some are developed or adapted for particular international markets. The Company sells its products directly through its marketing operations in Argentina, Australia, Austria, the Benelux countries, Canada, Chile, Colombia, France, Germany, Greece, Italy, Japan, Mexico, New Zealand, Portugal, Scandinavia, Spain, Switzerland, the United Kingdom, Venezuela, and in certain areas of Eastern Europe and Asia. In addition to direct sales, the Company sells principally through distributors in certain parts of Latin America, the Middle East, South Africa and Southeast Asia. It also licenses some of its products to other toy companies for sale in various other countries. See "Licenses and Distribution Agreements."

The strength of the US dollar relative to other currencies can significantly affect the revenues and profitability of the Company's international operations. The Company enters into foreign currency forward exchange contracts and swap agreements primarily as hedges of inventory purchases, sales and other intercompany transactions denominated in foreign currencies to limit the effect of exchange rate fluctuations on the Company's results of operations and cash flows. See "Financial Instruments." For financial information by geographic area, see Note 8 to the Consolidated Financial Statements in the Annual Report to Shareholders, incorporated herein by reference.

PRODUCT DESIGN AND DEVELOPMENT

Through its product design and development group, the Company regularly refreshes, redesigns and extends existing product lines and develops innovative new product lines. The Company's success is dependent on its ability to continue this activity. Product design and development are principally conducted by a group of professional designers and engineers employed by the Company.

License agreements with third parties permit the Company to utilize the trademark, character or product of the licensor in its product line. A principal licensor is The Walt Disney Company, which licenses many of its characters and entertainment properties for use on the Company's products. The Company also has entered into license agreements with, among others, the following: Viacom International Inc. relating to its Nickelodeon properties; Bluebird Toys (UK) Ltd.; and Original Appalachian Artworks, Inc. A number of these licenses relate to product lines that are significant to the Company.

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

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The Company devotes substantial resources to product design and development. During the years ended December 31, 1996, 1995 and 1994, the Company expended approximately \$126 million, \$111 million and \$93 million, respectively, in connection with the design and development of products, exclusive of royalty payments. See Note 10 to the Consolidated Financial Statements in the Annual Report to Shareholders, incorporated herein by reference.

ADVERTISING AND PROMOTION

The Company supports its product lines with extensive advertising and consumer promotions. Advertising continues at varying levels throughout the year and peaks during the Christmas season. Advertising includes television and radio commercials and magazine and newspaper ads. Promotions include in-store displays, coupons, merchandising materials and major events focusing on products and tie-ins with various consumer product companies. To further promote the Company and its products, the Company participates in the attractions "It's A Small World" at Disneyland and Walt Disney World and "Autopia" and "Storybook Land" at Disneyland Paris under a ten and one-half year agreement with The Walt Disney Company. The Company also participates in toy stores in Disneyland, near Disneyland Paris and in the Disney Village Market Place near Walt Disney World. Separately, a total of twenty-six BARBIE Boutiques are located in F.A.O. Schwarz toy stores, including the "BARBIE on Madison" boutique at the F.A.O. Schwarz flagship store in New York City.

During the years ended December 31, 1996, 1995 and 1994, Mattel spent approximately \$614 million (16% of net sales), \$584 million (16% of net sales) and \$516 million (16% of net sales), respectively, on worldwide advertising and promotion.

MARKETING AND SALES

The Company's toy products are sold throughout the world. In the United States, the Company's products are distributed directly to large retailers, including discount and free-standing toy stores, chain stores and department stores, and other retail outlets and, to a limited extent, to wholesalers. Discount and free-standing toy stores continue to increase their market share. During the year ended December 31, 1996, Toys R Us and Wal-Mart accounted for approximately 22% and 12%, respectively, of worldwide consolidated net sales and were the only customers accounting for 10% or more of consolidated net sales.

In general, the Company's major domestic and international customers review its product lines and product concepts for the upcoming year at showings beginning in late summer. The Company also participates in the domestic and international toy industry trade fairs in the first quarter of the year. A majority of the full-year orders are received by May 1. As is traditional in the toy industry, these orders may be canceled at any time before they are shipped. Historically, the greater proportion of shipments of products to retailers occurs during the third and fourth quarters of the year. See "Seasonality."

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Through its marketing research departments, the Company conducts basic consumer research and product testing and monitors demographic factors and trends. This information assists the Company in evaluating consumer acceptance of products, including an analysis of increasing or decreasing demand for its products.

The Company bases its production schedules on customer orders, modified by historical trends, results of market research and current market information. The actual shipments of products ordered and the order cancellation rate are affected by consumer acceptance of the product line, the strength of competing products, marketing strategies of retailers and overall economic conditions. Unexpected changes in these factors can result in a lack of product availability or excess inventory in a particular product line.

MANUFACTURING

The Company's products are manufactured in Company-owned facilities and by independent contractors. Products are also purchased from unrelated entities that design, develop and manufacture the products. In order to provide greater flexibility in the manufacture and delivery of products, and as part of a continuing effort to reduce manufacturing costs, the Company has concentrated production of most of its core products in the Company's facilities and generally uses independent contractors for the production of non-core products.

Mattel's manufacturing facilities are located in the states of California, Indiana, Kentucky, Georgia, and New York, and in the United Kingdom, Mexico, China, Indonesia, Malaysia and Italy. The Company also utilizes independent contractors to manufacture products in the United States, Mexico, the Far East and Australia. To protect the stability of its product supply, the Company produces many of its key products in more than one facility.

All foreign countries in which the Company's products are manufactured (principally China, Indonesia, Malaysia and Mexico) currently enjoy "most

favored nation" ("MFN") status under US tariff laws, which provides a favorable category of US import duties. As a result of continuing concerns in the United States Congress regarding China's human rights policies, and disputes regarding Chinese trade policies, including the country's inadequate protection of US intellectual property rights, there has been, and may be in the future, opposition to the extension of MFN status for China.

The loss of MFN status for China would result in a substantial increase in the import duty for toys manufactured in China and imported into the United States and would result in increased costs for the Company and others in the toy industry. The impact of such an event on the Company would be significantly mitigated by the Company's ability to source product for the US market from countries other than China and ship product manufactured in China to markets outside the US. Toward that end, the Company has expanded its production capacity in other countries. A number of other factors, including the Company's ability to pass along the added costs through price increases and the pricing policies of vendors in China, could further mitigate the impact of a loss of China's MFN status.

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On February 8, 1994, the European Union ("EU") adopted quotas on the importation of certain classes of toys (as well as other products) manufactured in China. The impact of these quotas on the Company's business has been significantly mitigated by shifts in demand in favor of toy categories not subject to the quotas, and by the ability of the Company to source product for the EU from countries other than China and ship product manufactured in China elsewhere.

With the implementation of the Uruguay Round agreement effective January 1, 1995, all US duties on dolls and traditional toys were completely eliminated. Canada also eliminated its tariffs on dolls and most toy categories in 1995, with the exception of certain toy sets and board games which will have their duties eliminated over ten years. Meanwhile, both the EU and Japan began implementing Uruguay Round tariff reductions that, by 1999, will lower the tariffs on dolls by over 40% in the EU and by 15% in Japan. The EU and Japan are fully eliminating tariffs on several other toy categories over a period of ten years.

COMMITMENTS

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In the normal course of business, the Company enters into contractual arrangements to obtain and protect the Company's right to create and market certain toys and for future purchases of goods and services to ensure availability and timely delivery. Such arrangements include royalty payments pursuant to licensing agreements and commitments for future inventory purchases. Certain of these commitments routinely contain provisions for guaranteed or minimum expenditures during the terms of the contracts. Current and future commitments for guaranteed payments reflect the Company's focus on expanding its product lines through alliances with businesses in other industries, such as television and motion picture entertainment companies. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Commitments" and Note 6 to the Consolidated Financial Statements in the Annual Report to Shareholders, incorporated herein by reference.

LICENSES AND DISTRIBUTION AGREEMENTS

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The Company's level of licensing activity has expanded in recent years. Royalty expense during the years ended December 31, 1996, 1995 and 1994 was approximately \$121 million, \$104 million and \$84 million, respectively. See Note 6 to the Consolidated Financial Statements in the Annual Report to Shareholders, incorporated herein by reference.

The Company also distributes products which are independently designed and manufactured.

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FINANCIAL INSTRUMENTS

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From time to time, the Company enters into foreign currency forward exchange contracts and swap agreements primarily as hedges for payment of inventory purchases, collection of sales and various other intercompany transactions. The contracts are intended to fix a portion of the Company's product cost and intercompany cash flows, and thereby moderate the impact of foreign currency fluctuations. The Company does not trade in financial instruments nor does it enter into contracts for speculative purposes.

For additional information regarding foreign currency contracts, see

"International Operations" above and Note 6 to the Consolidated Financial Statements in the Annual Report to Shareholders, incorporated herein by reference.

SEASONAL FINANCING

The Company's financing of seasonal working capital typically grows throughout the first half of the year and peaks in the third or fourth quarter, when accounts receivable are at their highest due to increased sales volume and Company sales programs, and when inventories are at their highest in anticipation of expected second half sales volume. See "Seasonality." Domestic borrowings for seasonal financing under the Company's revolving credit agreement are generally repaid in full by year-end from cash flows generated in the fourth quarter from sales and collection of accounts receivable.

The Company maintains and periodically amends or replaces an unsecured revolving credit agreement with a commercial bank group that is utilized to finance the seasonal working capital requirements of its domestic and certain international operations. The agreement in effect during 1996, which was recently amended (see below), was renegotiated in the first quarter of 1996 to increase the total facility to \$800.0 million from \$650.0 million. Within the facility, up to \$400.0 million was a standard revolving credit line available for advances and backup for commercial paper issuances (a five-year facility). Interest was charged at various rates selected by the Company not greater than the base rate charged by the agent bank, plus a commitment fee of up to .09% of the unused line available for advances. The remaining \$400.0 million (a five-year facility) was available for nonrecourse purchases of certain trade accounts receivable of the Company by the commercial bank group providing the credit line. Outstanding receivables sold are reduced by collections and cannot exceed the \$400.0 million at any time. The agreement required the Company to comply with certain financial covenants for consolidated debt-to-capital, interest coverage and tangible net worth levels.

During 1996, the Company entered into and renewed agreements providing for up to \$140.0 million of nonrecourse purchases of certain trade accounts receivable of the Company by a commercial bank at various purchase dates.

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Effective in March 1997, the Company amended its revolving credit agreement. The new agreement consists of unsecured facilities providing a total of \$1.0 billion in seasonal financing from substantially the same group of commercial banks. The facilities provide for up to \$600.0 million in advances and backup for commercial paper issuances (a five-year facility), and up to an additional \$400.0 million (a five-year facility) for nonrecourse purchases of certain trade accounts receivable by the bank group. In connection with the agreement, the Company is to comply with certain financial covenants for consolidated debt-to-capital and interest coverage.

The Company believes the amounts available to it under its revolving credit agreement and foreign credit lines will be adequate to meet its seasonal financing requirements.

RAW MATERIALS

Packaging materials, mostly plastics and zinc, which are essential to the production and marketing of toy products, are currently in adequate supply. These and other raw materials are generally available from a number of suppliers.

After very volatile pricing in the resin and packaging industries in 1995, 1996 saw a return to pricing stability. While management believes that resin and packaging prices have temporarily stabilized, there can be no assurance that the volatility experienced in 1995 will not return, resulting in a material impact on the Company's gross margins and earnings.

TRADEMARKS, COPYRIGHTS, AND PATENTS

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

The Company customarily seeks patent, trademark or copyright protection covering its products, and it owns or has applications pending for United States and foreign patents covering many of its products. A number of these trademarks and copyrights relate to product lines that are significant to the Company, and the Company believes its rights to these

properties are adequately protected.

The Company also licenses various of its trademarks, characters and other property rights to others for use in connection with the sale by others of non-toy and other products which do not compete with the Company's products.

GOVERNMENT REGULATIONS

The Company's toys are subject to the provisions of the Consumer Product Safety Act, the Federal Hazardous Substances Act and the Flammable Fabrics Act, and the regulations promulgated thereunder. The Consumer Product Safety Act and the Federal Hazardous Substances Act enable the Consumer Product Safety Commission (the "CPSC") to exclude from the market consumer products that fail to comply with applicable product safety regulations or otherwise create a substantial risk of injury, and articles that contain excessive amounts of a banned hazardous substance. The Flammable Fabrics Act enables the CPSC to regulate and enforce flammability standards for fabrics used in consumer products. The CPSC may also require the repurchase by the manufacturer of articles which are banned. Similar laws exist in some states and cities and in various international markets.

Fisher-Price's car seats are subject to the provisions of the National Highway Transportation Safety Act, which enables the National Highway Traffic Safety Administration ("NHTSA") to promulgate performance standards for child restraint systems. Fisher-Price conducts periodic tests to ensure that its child restraint systems meet applicable standards. A Canadian agency, Transport Canada, also regulates child restraint systems sold for use in Canada. As with the CPSC, NHTSA and Transport Canada can require the recall and repurchase or repair of products which do not meet their respective standards.

The Company maintains a quality control program to ensure product safety compliance with the various federal, state and international requirements.

EFFECTS OF INFLATION

Inflation rates in the US and major foreign countries in which the Company operates have not had a significant impact on operating results for the three years ended December 31, 1996. The US Consumer Price Index increased 3.3% in 1996, 2.5% in 1995, and 2.7% in 1994. The Company is afforded some protection from the impact of inflation as a result of high turnover of inventories and benefited from inflation on the repayment of fixed-rate liabilities during these periods.

EMPLOYEES

The total number of persons employed by the Company and its subsidiaries at any one time varies because of the seasonal nature of its manufacturing operations. At December 31, 1996, the Company's total number of employees, including its international operations, was approximately 26,000.

SIGNIFICANT EVENTS

Accounting Matters

In connection with a review of Mattel's Annual Report on Form 10-K for the year ended December 31, 1995, the staff of the Division of Corporation Finance of the Securities and Exchange Commission has made inquiries of Mattel regarding its accounting for certain matters during 1994 and 1995. In the course of that review, the staff identified two matters on which it disagrees with Mattel on the application of generally accepted accounting principles ("GAAP") to Mattel's accounting treatment under certain contracts with The Walt Disney Company ("Disney").

The first relates to the timing of accrual of minimum royalty obligations to Disney under a contract relating to Mattel's sale of infant and preschool toys based on Disney characters (the "I&P Agreement"). The staff believes that under GAAP, Mattel should have accrued for a shortfall in those obligations during 1994 and 1995.

The second relates to the appropriate method of amortizing payment obligations under contracts with Disney involving the placement of Mattel

sponsored stores and sponsorship of attractions at Disney theme parks (the "Theme Parks Agreements"). The staff believes that under GAAP, the payments should have been amortized over the life of the Theme Parks Agreements by the straight-line method rather than at a rate based upon the pattern of usage and, accordingly, that certain adjustments made by Mattel during the fourth quarters of 1994 and 1995 were inappropriate.

In addition, Mattel made an accounting error in closing out inventory hedge contracts in 1994 and 1995. Mattel recognized the resulting gain during the period the hedge contracts were closed rather than during the period the related inventory was sold as required by GAAP. This affected the timing of income during the period 1994-96, but has no impact at the end of the period or going forward or on the amount of Mattel's income during the period.

While Mattel believes that its accounting treatment for the first two matters discussed above was correct, it decided to make a catch-up adjustment to results in the fourth quarter of 1996 in the amount of \$21.8 million before taxes, or \$15.1 million after taxes (\$0.05 per share). Application of the staff's interpretation during 1994-96 would have decreased Mattel's reported pre-tax income in 1994 and 1995 and increased its reported pre-tax income in 1996 as follows:

(i) for 1994, a reduction in pre-tax income of \$19.5 million (5.2% of pre-tax income), from \$393.6 million to \$374.2 million, of which \$11.8 million is attributable to the I&P Agreement, \$4.9 million is attributable to the Theme Parks Agreements and \$2.8 million is attributable to hedge accounting, and of which \$10.8 million (20.5% of pre-tax income) is applicable to the fourth quarter;

(ii) for 1995, a reduction in pre-tax income of \$8.2 million (1.6% of pre-tax income), of which \$2.0 million is attributable to the I&P Agreement, \$3.3 million is attributable to the Theme Parks Agreements and \$2.9 million is attributable to hedge accounting, and of which \$4.0 million (2.5% of pre-tax income) is applicable to the fourth quarter; and

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(iii) for 1996, an increase in pre-tax income of \$5.9 million (1.0% of pre-tax income), of which \$0.7 million is attributable to the Theme Parks Agreements and \$5.6 million is applicable to hedge accounting, offset by \$0.4 million attributable to the I&P Agreement.

Mattel's accounting treatment for royalty obligations under the I&P Agreement and payments under the Theme Parks Agreements was determined with the concurrence of Mattel's independent auditors, Price Waterhouse. Mattel's accounting treatment for the royalty shortfall under the I&P Agreement and the 1994 adjustment to its payment obligations under the Theme Parks Agreements were also reviewed by a second accounting firm, Ernst & Young, whose views with respect to the accounting treatment of such matters were reflected in an independent report prepared by the law firm of Davis Polk & Wardwell for the Audit Committee of Mattel's Board of Directors. That report to the Audit Committee also concluded that Mattel's accounting treatment for these matters was in accordance with GAAP. While Mattel continues to believe its original accounting treatment was appropriate, Mattel has taken the fourth quarter charge described above.

The Tyco Merger

Mattel and Tyco are continuing to progress towards their previously announced merger (the "Merger"). Tyco has established a meeting date of March 18, 1997 for its stockholders to vote on the proposed Merger. Consummation of the Merger is conditioned upon, among other things, the absence of any preliminary or permanent injunction or other order issued by any court or other judicial or administrative body or competent jurisdiction which prohibits or prevents the consummation of the Merger.

Under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act") and the rules promulgated thereunder, the Merger may not be consummated until notifications have been given and certain information has been furnished to the Antitrust Division of the United States Department of Justice (the "Antitrust Division") and the United States Federal Trade Commission (the "FTC") and specified waiting periods have expired. On November 25, 1996, Tyco and Mattel each filed a Notification and Report Form for review under the HSR Act with the FTC and the Antitrust Division. On December 23, 1996, the FTC submitted to Mattel and Tyco a request for additional information and documentary material (the "Second Request"). Mattel and Tyco responded to the Second Request on February 18, 1997.

Mattel and Tyco do not believe that any additional governmental filings in the United States, other than a Certificate of Merger to be filed in Delaware, are required with respect to the Merger. At any time before or after consummation of the Merger, the FTC or the Antitrust Division or certain private parties could take such action under the antitrust laws as they deem necessary or desirable, including seeking

divestiture of substantial assets of Tyco or Mattel.

Mattel and Tyco do not believe that the consummation of the Merger will result in a violation of any applicable antitrust laws. However, there can be no assurance that a challenge to the Merger on antitrust grounds will not be made or, if such a challenge is made, of the result.

Based upon recent discussions between Mattel and Tyco with respect to their respective businesses and general conditions in the toy industry and the economy as a whole, Mattel currently expects that the combined net sales of Mattel and Tyco for the first full year of combined operations after the Merger (assumed to be the fiscal year ending December 31, 1998) will be \$5 billion. Such estimate assumes that the overall net sales of each of Mattel and Tyco will grow at an average rate of 7% per year from their combined historical base. The foregoing projection is based upon management's best estimate of future performance based upon the information available to it at this time; however, such projection is based upon numerous assumptions with respect to industry performance, general business, financial, market and economic conditions and other matters, many of which are beyond the control of Mattel and Tyco. Investors are strongly cautioned not to attribute undue certainty to management's projections. Mattel has no present intention to update the foregoing projection.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

NAME	AGE	POSITION	EXECUTIVE OFFICER SINCE
John W. Amerman	65	Chairman of the Board	1980
Jill E. Barad	45	President & Chief Executive Officer and a Director of Mattel, Inc.	1984
Bruce L. Stein	42	President, Mattel Worldwide and a Director of Mattel, Inc.	1996
Astrid Autolitano	58	President, Mattel International	1996
Byron Davis	49	President, Fisher-Price, Inc.	1995
Joseph C. Gandolfo	54	President, Mattel Worldwide Manufacturing Operations	1990
Ned Mansour	48	President, Corporate Operations and a Director of Mattel, Inc.	1992
William J. Quinlan	52	President, ARCO TOYS	1995
Francesca Luzuriaga	42	Executive Vice President & Chief Financial Officer	1994

Glenn Bozarth	43	Senior Vice President, Corporate Communications	1997
Kevin M. Farr	39	Senior Vice President & Controller	1996
Douglas Glen	49	Senior Vice President & Chief Strategy Officer	1997
E. Joseph McKay	56	Senior Vice President, Human Resources	1993
John T. Phippen	52	Senior Vice President & Chief Information Officer	1995
Barnett Rosenberg	52	Senior Vice President, General Counsel & Secretary	1996
William Stavro	57	Senior Vice President	1993

Mr. Amerman has been Chairman of the Board since February 1987 and a member of the Board of Directors since November 1985. On December 31, 1996, he retired as Chief Executive Officer.

Ms. Barad has been President & Chief Executive Officer since January 1997 and a member of the Board of Directors since November 1991. From August 1992 until December 1996, she was President and Chief Operating Officer. From December 1989 until August 1992, she was President, Mattel USA. Prior to that she served in various executive positions in the Marketing, Product Design and Product Development areas.

Mr. Stein has been President, Mattel Worldwide and a member of the Board of Directors since August 1996. From October 1995 to August 1996 he served as President and Chief Executive Officer of Sony Interactive Entertainment. From November 1994 to October 1995, he was a consultant for DreamWorks SKG and Mandalay Entertainment. From June, 1994 to October, 1994, he served as President and Chief Operating Officer of Marvel Entertainment Group. Prior to that, he served as President of the Kenner Products division of Hasbro, Inc. from 1990 to June, 1994.

Ms. Autolitano has been President, Mattel International since September 1996. From August 1995 to September 1996, she served as Executive Vice President-Latin America and Mexico. Prior to that, she served as Senior Vice President-Latin America and Mexico from December 1989 to August 1995.

Mr. Davis has been President, Fisher-Price, Inc. since April 1995. From March 1993 to April 1995, he served as President - Toys, Fisher-Price. Prior to that, he served as Senior Vice President - Sales, Fisher-Price from June 1991 to March 1993.

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Mr. Gandolfo has been President, Mattel Worldwide Manufacturing Operations since April 1990.

Mr. Mansour has been President, Corporate Operations and a member of the Board of Directors since August 1996. From April 1991, he served in several senior managerial positions at Mattel, including President, Mattel-USA, Chief Administrative Officer, General Counsel and Secretary.

Mr. Quinlan has been President, ARCO TOYS since January 1992.

Ms. Luzuriaga has been Executive Vice President & Chief Financial Officer since December 1995. From March 1989 until December 1995, she served in several senior managerial positions at Mattel, including Controller, Treasurer and Executive Vice President, Finance.

Mr. Bozarth has been Senior Vice President, Corporate Communications since February 1996. From June 1990 to February 1996, he served as Vice President, Corporate Communications.

Mr. Farr has been Senior Vice President and Controller since September 1996. From June 1993 to September 1996, he served as Vice President, Tax. Prior to that, he served as Senior Director, Taxes from August 1992 to June 1993.

Mr. Glen has been Senior Vice President & Chief Strategy Officer since February 1997. From August 1994 through February 1997, he served as President of Mattel Media. From March 1992 through August 1994, he was Group Vice President, Business Development and Strategic Planning, for Sega of America.

Mr. McKay has been Senior Vice President, Human Resources since November 1993. From December 1991 until November 1993, he was Vice President, Human Resources. He was Senior Director, Human Resources from March 1991 to December 1991. Prior to that he was Vice President, Human Resources-Administration of Mileage Plus, Inc.

Mr. Phippen has been Senior Vice President & Chief Information Officer since June 1993. From February 1991 to June 1993, he served as Senior Vice President, Information Systems.

Mr. Rosenberg has been Senior Vice President, General Counsel and Secretary since August 1996. From June 1992 to August 1996, he served as Deputy General Counsel and Assistant Secretary of Pitney Bowes, Inc. Prior to that, he was in private law practice with Morgan, Lewis & Bockius from July 1990 to June 1992.

Mr. Stavro has been Senior Vice President & Treasurer since May 1995. From November 1993 to May 1995, he was Vice President & Treasurer. From March 1992 to November 1993, he was Vice President & Assistant Treasurer. Prior to that he was Assistant Treasurer for more than five years.

ITEM 2. PROPERTIES

Mattel owns its corporate headquarters consisting of approximately 335,000 square feet in El Segundo, California, which is subject to a \$45.0 million mortgage. Mattel also leases buildings in El Segundo consisting of approximately 350,000 square feet, which are primarily used for its design and development and audio visual departments. Fisher-Price owns its headquarters facilities in East Aurora, New York, consisting of approximately 290,000 square feet.

The Company maintains sales offices in California, Illinois, New York and Texas, and warehouse and distribution facilities in California, Georgia, Indiana, Kentucky, Tennessee and Texas. The Company owns a computer facility in Phoenix, Arizona. Internationally, the Company has offices and/or warehouse space in Argentina, Australia, Austria, Belgium, Canada, Colombia, Chile, Denmark, France, Germany, Greece, Hong Kong and in certain other areas of Asia, Italy, Mexico, The Netherlands, New Zealand, Poland, Spain, Switzerland, the United Kingdom and Venezuela. The Company's principal manufacturing facilities are located in China, Indonesia, Italy, Malaysia, Mexico, the United Kingdom and the United States. See "Manufacturing."

Most of the Company's facilities are occupied under leases and, for the most part, are fully utilized, although excess manufacturing capacity exists from time to time based on product mix and demand. With respect to leases which are scheduled to expire during the next twelve months, the Company may negotiate new lease agreements, renew leases or utilize alternative facilities.

ITEM 3. LEGAL PROCEEDINGS

THE GREENWALD LITIGATION AND RELATED MATTERS

On October 13, 1995, Michelle Greenwald filed a complaint (Case No. YC 025 008) against the Company in Superior Court of the State of California, County of Los Angeles (the "Greenwald Action"). The plaintiff is a former Mattel employee who was terminated by the Company in July 1995. The complaint seeks \$50 million in general and special damages, plus punitive damages, for (i) breach of oral, written and implied contract, (ii) wrongful termination in violation of public policy and (iii) violation of California Labor Code Section 970. The plaintiff claims that her termination resulted from complaints made by her to management concerning (i) general allegations that Mattel did not account properly for sales and certain costs associated with sales; and (ii) more specific allegations that Mattel failed to account properly for certain royalty obligations to Disney. On December 5, 1996, the Company's motion for summary adjudication of the plaintiff's public policy claim was granted. On February 10, 1997, Ms. Greenwald filed a writ seeking appeal of the court's order granting the motion. On February 20, 1997 the writ was denied. The Company has filed a motion for summary judgment on the remaining causes of action. The motion is scheduled for hearing on April 15, 1997.

The Company believes the allegations of the complaint in the Greenwald Action to be without merit and intends to defend the action vigorously.

In April 1996 the Audit Committee of the Company's Board of Directors commenced an investigation with the assistance of the law firm of Davis Polk & Wardwell ("Davis Polk") and the accounting firm of Ernst & Young. In July 1996, Davis Polk and Ernst & Young issued a report to the Audit Committee in which they stated that they had found no evidence that Mattel accounted for sales and costs associated with sales in a manner which is inconsistent with generally accepted accounting principles ("GAAP"). With respect to Disney royalty obligations, Davis Polk and Ernst & Young concluded that Mattel's accounting treatment for the Disney royalties represented a reasonable application of GAAP given the facts and circumstances as they existed at the time the accounting decisions were made. See "Significant Events."

THE LEWIS ACTION

On April 23, 1996, a purported class and derivative action entitled Lewis v. Vogelstein et al. (Case No. 14954) was commenced in the Delaware Court of Chancery, New Castle County (the "Lewis Action") against the Company and its directors. The plaintiff alleges that the directors of the Company breached their fiduciary duties by causing the Company to adopt the Mattel 1996 Stock Option Plan (the "1996 Plan"). Specifically, the plaintiff alleges that the formula option grants to non-employee directors

as permitted by the 1996 Plan constitute corporate waste. The complaint seeks (i) to have the case certified as a class action, (ii) to have the 1996 Plan declared void, (iii) a preliminary and permanent injunction enjoining the grant of stock options to non-employee directors under the 1996 Plan, and (iv) attorney's fees. The 1996 Plan was approved by the Company's stockholders on May 8, 1996.

Mattel's motion to dismiss the Lewis Action was heard on October 29, 1996. In an opinion released on March 7, 1997, the court held that there was no merit to the plaintiff's claim that the proxy disclosure provided to stockholders regarding their approval of the 1996 Plan was defective. However, the court let stand the plaintiff's claim that the non-employee director option grants constituted corporate waste. In particular, the court focused on the one-time grants which directors receive upon initially joining the Board. These are options to purchase 15,000 shares which vest immediately and have a ten-year term; provided, however, that such options terminate sixty days after the director ceases to be a member of the Board, for whatever reason.

The Company believes the allegations of the complaint in the Lewis Action to be without merit and intends to defend the action vigorously.

ENVIRONMENTAL

The Company's Fisher-Price subsidiary has executed a consent order with the State of New York involving a remedial action/feasibility study for voluntary cleanup of contamination at one of its manufacturing plants. The ultimate liability associated with this cleanup presently is estimated to be less than \$1,425,000, approximately \$873,500 of which has been incurred through December 31, 1996.

GENERAL

The Company is involved in various litigation and other legal matters which are being defended and handled in the ordinary course of business. None of these matters is expected to result in outcomes having a material adverse effect on the Company's liquidity, operating results or consolidated financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED
- - - - - STOCKHOLDER MATTERS

For information regarding the markets in which the Company's common stock is traded, see the cover page hereof, and for information regarding the high and low sales prices of the Company's common stock for the last two calendar years, see Note 9 to the Consolidated Financial Statements in the Annual Report to Shareholders, incorporated herein by reference.

As of March 1, 1997, the Company had approximately 42,000 holders of record of its common stock.

The Company paid dividends on its Common Stock of \$0.038 per share in January 1995, \$0.048 per share in April, July and October 1995 and January 1996, and \$0.060 per share in April, July and October 1996. The payment of dividends on the Common Stock is at the discretion of the Company's Board of Directors and is subject to customary limitations. The dividends have been adjusted to reflect five-for-four stock splits which the Company declared on its common stock to holders of record on January 6, 1995 and February 16, 1996.

ITEM 6. SELECTED FINANCIAL DATA

The information under the caption "Five-Year Financial Summary" on page 37 in the Annual Report to Shareholders is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
- - - - - RESULTS OF OPERATIONS

The information under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 38 through 41 in the Annual Report to Shareholders is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of Mattel, Inc. and Subsidiaries, together with the report of Price Waterhouse LLP dated February 5, 1997, included on pages 42 through 61 in the Annual Report to Shareholders are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND
- - - - - FINANCIAL DISCLOSURE

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required under this Item relating to members of the Board of Directors is incorporated by reference herein from the Company's 1997 Notice of Annual Meeting of Stockholders and Proxy Statement. The information with respect to executive officers of the Company appears under the heading "Executive Officers of the Registrant" in Part I herein.

ITEM 11. EXECUTIVE COMPENSATION

The information required under this Item is incorporated by reference herein from the Company's 1997 Notice of Annual Meeting of Stockholders and Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required under this Item is incorporated by reference herein from the Company's 1997 Notice of Annual Meeting of Stockholders and Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required under this Item is incorporated by reference herein from the Company's 1997 Notice of Annual Meeting of Stockholders and Proxy Statement.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENTS, AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report:

	Annual Report Page Number(1)

(1) Financial Statements	
Consolidated Balance Sheets as of December 31, 1996 and 1995	42-43
Consolidated Statements of Income for the years ended December 31, 1996, 1995 and 1994	44
Consolidated Statements of Cash Flows for the years ended December 31, 1996, 1995 and 1994	45
Consolidated Statements of Shareholders' Equity for the years ended December 31, 1996, 1995 and 1994	46
Notes to Consolidated Financial Statements	47-59
Report of Price Waterhouse LLP, Independent Accountants to the Company	61

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Incorporated by reference from the indicated pages of the Annual Report to Shareholders for the year ended December 31, 1996. With the exception of the information incorporated by reference in Items 1, 5, 6, 7, 8 and 14 of this report, the Annual Report to Shareholders is not deemed filed as part of this report.

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(2) Financial Statement Schedule for the years ended December 31, 1996, 1995 and 1994 (1)

Schedule II - Valuation and Qualifying Accounts and Allowances

(3) Exhibits (Listed by numbers corresponding to Item 601 of Regulation S-K)

- 3.0 Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.0 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993)
 - 3.1 Certificate of Amendment of Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit B to the Company's Proxy Statement dated March 23, 1996)
 - 3.2 By-laws of the Company, as amended to date (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1992)
 - 4.0 Rights Agreement, dated as of February 7, 1992, between the Company and The First National Bank of Boston, as Rights Agent (incorporated by reference to Exhibit 1 to the Company's Registration Statement on Form 8-A, dated February 12, 1992)
- (The Company has not filed certain long-term debt instruments under which the principal amount of securities authorized to be issued does not exceed 10% of the total assets of the Company. Copies of such agreements will be provided to the Securities and Exchange Commission upon request.)
- 10.0 First Amended and Restated Credit Agreement dated as of March 13, 1997 among the Company, the Banks named therein and Bank of America National Trust and Savings Association, as Agent (to be filed on a Current Report on Form 8-K)
 - 10.1 Transfer and Administration Agreement dated as of March 11,

1997 among the Company, Mattel Factoring, Inc., the Banks named therein and NationsBank of Texas, N.A., as Agent (to be filed on a Current Report on Form 8-K)

- 10.2 Receivables Purchase Agreement dated as of September 13, 1996 among the Company, Mattel Sales Corp., Fisher-Price, Inc., and Bank of America N.T.S.A. (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996)

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All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

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- 10.3 Stock Subscription Warrant dated as of June 28, 1991 between Fisher-Price, Inc. and certain investors (incorporated by reference to Exhibit 4(c) to Fisher-Price's Report on Form 10-K for the transition period from July 1, 1991 to December 29, 1991)
- 10.4 Distribution Agreement dated April 11, 1996 among the Company, Morgan Stanley & Co. Incorporated and CS First Boston Corporation (incorporated by reference to Exhibit 99.0 to the Company's Current Report on Form 8-K dated April 11, 1996)
- 10.5 Indenture dated as of February 15, 1996 between the Company and Chemical Trust Company of California, as Trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated April 11, 1996)
- 10.6* Form of Underwriting Agreement among the Company, Morgan Stanley & Co. Incorporated and CS First Boston Corporation

Executive Compensation Plans and Arrangements of the Company

- 10.7 Form of Indemnity Agreement between Mattel and its directors and certain of its executive officers (incorporated by reference to Exhibit B to Notice of Annual Meeting of Stockholders of the Company dated March 24, 1987)
- 10.8 Form of Employment Agreement between the Company and certain executive officers (incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended December 31, 1992)
- 10.9 Form of Amended & Restated Employment Agreement between the Company and certain executive officers (incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993)
- 10.10# Amended and Restated Employment Agreement dated July 29, 1996 between the Company and Jill E. Barad
- 10.11# Employment Agreement dated September 23, 1996 between the Company and John W. Amerman
- 10.12# Amended and Restated Employment Agreement dated September 9, 1996 between the Company and Joseph C. Gandolfo
- 10.13# Amended and Restated Employment Agreement dated July 29, 1996 between the Company and Ned Mansour
- 10.14* Employment Agreement dated December 20, 1996 between the Company and Bruce L. Stein

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- 10.15 Mattel, Inc. Management Incentive Plan (incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995)
- 10.16 Mattel, Inc. Long-Term Incentive Plan (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995)
- 10.17 Mattel, Inc. Financial Security Program Agreement for certain

officers (incorporated by reference to Exhibit 10.7 of the Company's Registration Statement No. 2-95161 on Form S-1, filed January 7, 1985)

- 10.18 Form of Deferred Compensation Plan for Directors (incorporated by reference to Exhibit No. 10.11 of Amendment No. 1 of the Company's Annual Report on Form 10-K for the fiscal year ended December 26, 1987)
- 10.19 Mattel, Inc. 1990 Stock Option Plan (the "1990 Plan") (incorporated by reference to Exhibit A to the Notice of Annual Meeting of Stockholders and Proxy Statement of the Company dated March 15, 1990)
- 10.20 Amendment No. 1 to the Mattel, Inc. 1990 Stock Option Plan (incorporated by reference to the information under the heading "Amendment to Mattel 1990 Stock Option Plan" on page F-1 of the Joint Proxy Statement/Prospectus of the Company and Fisher-Price included in the Company's Registration Statement on Form S-4, Registration Statement No. 33-50749)
- 10.21 Amendment No. 2 to the Mattel 1990 Stock Option Plan (incorporated by reference to Exhibit A to the Company's Proxy Statement dated March 22, 1995)
- 10.22 Notice of Grant of Stock Options and Grant Agreement for the 1990 Plan (incorporated by reference to Exhibit 99.0 to the Company's Current Report on Form 8-K dated May 31, 1994)
- 10.23 Grant Agreement for a Non-Qualified Stock Option for the 1990 Plan (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K dated May 31, 1994)
- 10.24 Form of Restricted Stock Award Agreement under the 1990 Plan (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993)
- 10.25 Amended and Restated Mattel, Inc. 1996 Stock Option Plan (the "1996 Plan") (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the Quarter ended September 30, 1996)

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- 10.26 Form of Option Agreement for Outside Directors under the 1996 Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the Quarter ended September 30, 1996)
- 10.27* Form of Option Agreement under the 1996 Plan
- 10.28 Mattel, Inc. Supplemental Executive Retirement Plan effective as of October 7, 1990 (incorporated by reference to Exhibit 10.10 of the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 1990)
- 10.29 Mattel, Inc. Amended & Restated Supplemental Executive Retirement Plan as of May 1, 1996 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the Quarter ended June 30, 1996)
- 10.30 Description of the Mattel, Inc. Deferred Compensation Plan for Officers (incorporated by reference to Exhibit 10.16 to the Mattel, Inc. Annual Report on Form 10-K for the year ended December 31, 1991)
- 10.31 Fisher-Price, Inc. Matching Savings Plan, 1994 Restatement (incorporated by reference to Exhibit 99.8 to the Company's Current Report on Form 8-K dated March 21, 1995)
- 10.32 The Fisher-Price, Inc. Pension Plan (1989 Restatement) (incorporated by reference to Exhibit 10(1) to Fisher-Price's Registration Statement on Form 10 dated June 28, 1991)
- 10.33 Mattel, Inc. Personal Investment Plan, 1993 Restatement (incorporated by reference to Exhibit 99.9 to the Company's Current Report on Form 8-K dated March 21, 1995)
- 10.34 First Amendment to the Mattel, Inc. Personal Investment Plan, 1993 Restatement (incorporated by reference to Exhibit 99.10 to the Company's Current Report on Form 8-K dated March 21, 1995)
- 10.35 Second Amendment to the Mattel, Inc. Personal Investment Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995)

- 10.36 Third Amendment to the Mattel, Inc. Personal Investment Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995)
- 10.37 Fourth Amendment to the Mattel, Inc. Personal Investment Plan (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995)

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- 10.38 Fifth Amendment to the Mattel, Inc. Personal Investment Plan, 1993 Restatement (incorporated by reference to Exhibit 99.0 to the Company's Current Report on Form 8-K dated February 14, 1997)
- 10.39 Mattel, Inc. Hourly Employee Personal Investment Plan (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 dated February 20, 1996)
- 10.40 First Amendment to the Mattel, Inc. Hourly Employee Personal Investment Plan (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K dated February 14, 1997)
- 11.0* Computation of Income per Common and Common Equivalent Share
- 13.0* Pages 36 through 63 of the Mattel, Inc. Annual Report to Shareholders for the year ended December 31, 1996
- 21.0* Subsidiaries of the Registrant
- 23.0* Consent of Price Waterhouse LLP
- 24.0* Power of Attorney (on page 30 of Form 10-K)
- 27.0* Financial Data Schedule (EDGAR filing only)

(b) Reports on Form 8-K

Mattel, Inc. filed the following Current Reports on Form 8-K during the quarterly period ended December 31, 1996:

Date of Report	Items Reported	Financial Statements Filed
October 15, 1996	5, 7	None
November 21, 1996	5, 7	None
November 22, 1996	5, 7	None

(c) Exhibits Required by Item 601 of Regulation S-K

See Item (3) above

(d) Financial Statement Schedule

Schedule II - Valuation and Qualifying Accounts and Allowances

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Copies of Form 10-K (which includes Exhibit 24.0), Exhibits 11.0, 13.0, 21.0 and 23.0 and the Annual Report to Shareholders are available to stockholders of the Company without charge. Copies of other Exhibits can be obtained by stockholders of the Company upon payment of twelve cents per page for such Exhibits. Written requests should be sent to Secretary, Mattel, Inc., 333 Continental Boulevard, El Segundo, California 90245-5012.

* Filed herewith.

Certain portions of this Exhibit were omitted from the copies filed as part of this Annual Report on Form 10-K. Complete copies of this Exhibit have been filed separately, together with an application to obtain confidential treatment with respect thereto.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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/ Kevin M. Farr

KEVIN M. FARR
Senior Vice President and
Controller

Date: As of March 17, 1997

POWER OF ATTORNEY

We, the undersigned directors and officers of Mattel, Inc. do hereby severally constitute and appoint Jill E. Barad, Ned Mansour, Robert Normile, Barnett Rosenberg, Leland P. Smith and John L. Vogelstein, and each of them, our true and lawful attorneys and agents, to do any and all acts and things in our name and behalf in our capacities as directors and officers and to execute any and all instruments for us and in our names in the capacities indicated below, which said attorneys and agents, or any of them, may deem necessary or advisable to enable said Corporation to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations and requirements of the Securities and Exchange Commission, in connection with this Annual Report on Form 10-K, including specifically, but without limitation, power and authority to sign for us or any of us, in our names in the capacities indicated below, any and all amendments hereto; and we do each hereby ratify and confirm all that said attorneys and agents, or any one of them, shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature -----	Title -----	Date -----
/s/ John W. Amerman ----- JOHN W. AMERMAN	Chairman of the Board	March 17, 1997
/s/ Francesca Luzuriaga ----- FRANCESCA LUZURIAGA	Executive Vice President and Chief Financial Officer (principal financial officer)	March 17, 1997
/s/ Jill E. Barad ----- JILL E. BARAD	Director, President and Chief Executive Officer	March 17, 1997

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Signature -----	Title -----	Date -----
/s/ Harold Brown ----- HAROLD BROWN	Director	March 17, 1997
/s/ James A. Eskridge ----- JAMES A. ESKRIDGE	Director	March 17, 1997
/s/ Tully M. Friedman ----- TULLY M. FRIEDMAN	Director	March 17, 1997
/s/ Ronald M. Loeb ----- RONALD M. LOEB	Director	March 17, 1997
/s/ Ned Mansour ----- NED MANSOUR	Director and President, Corporate Operations	March 17, 1997
/s/ Edward H. Malone ----- EDWARD H. MALONE	Director	March 17, 1997
/s/ Edward N. Ney ----- EDWARD N. NEY	Director	March 17, 1997
/s/ William D. Rollnick ----- WILLIAM D. ROLLNICK	Director	March 17, 1997
/s/ Christopher A. Sinclair ----- CHRISTOPHER A. SINCLAIR	Director	March 17, 1997
/s/ Bruce L. Stein	Director and President,	March 17, 1997

- -----
BRUCE L. STEIN

Mattel Worldwide

/s/ John L. Vogelstein

JOHN L. VOGELSTEIN

Director

March 17, 1997

REPORT OF INDEPENDENT ACCOUNTANTS
ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors of Mattel, Inc.

Our audits of the consolidated financial statements referred to in our report dated February 5, 1997 appearing on page 61 of the December 31, 1996 Annual Report to Shareholders of Mattel, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the Financial Statement Schedule listed in Item 14(a)(2) of this Form 10-K. In our opinion, this Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PRICE WATERHOUSE LLP

Los Angeles, California
February 5, 1997

VALUATION AND QUALIFYING ACCOUNTS AND ALLOWANCES

(In thousands)

	Balance at Beginning of Year -----	Additions Charged to Operations -----	Net Deductions -----	Balance at End of Year -----
Allowance for Doubtful Accounts -----				
Year Ended December 31, 1996	\$ 10,788	\$ 18,098	\$ (14,532)(a)	\$ 14,354
Year Ended December 31, 1995	16,100	14,682	(19,994)(a)	10,788
Year Ended December 31, 1994	21,024	7,282	(12,206)(a)	16,100
Allowance for Inventory Obsolescence -----				
Year Ended December 31, 1996	\$ 22,751	\$ 59,737	\$ (55,351)(b)	\$ 27,137
Year Ended December 31, 1995	28,536	40,368	(46,153)(b)	22,751
Year Ended December 31, 1994	19,432	37,039	(27,935)(b)	28,536

(a) Includes write-offs, recoveries of previous write-offs, and currency translation adjustments.

(b) Primarily represents relief of previously established reserves resulting from the disposal of related inventory, raw material write-downs and currency translation adjustments.

SHELF

UNDERWRITING AGREEMENT

March __, 1997

Mattel, Inc.
333 Continental Boulevard
El Segundo, California 90245-5012

Dear Sirs and Mesdames:

We (the "Representatives") are acting on behalf of the underwriter or underwriters (including ourselves) named below (such underwriter or underwriters being herein called the "Underwriters"), and we understand that Mattel, Inc., a Delaware corporation (the "Company"), proposes to issue and sell from time to time shares (the "Common Shares") of its common stock, \$1.00 par value per share ("Common Stock").

All capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the document entitled "Mattel, Inc. Underwriting Agreement Standard Provisions (Common Stock)" dated March __, 1997 (the "Underwriting Agreement"), a copy of which is attached hereto. All terms and conditions of the Underwriting Agreement are herein incorporated by reference in their entirety and shall be deemed to be a part of this agreement (this "Agreement") to the same extent as if such provisions had been set forth in full herein, except that (i) if any term defined in such document is otherwise defined herein, the definition set forth herein shall control and (ii) all references in such document to a type of agreement that has not been entered into in connection with the transactions contemplated hereby shall not be deemed to be a part of this Agreement.

Subject to the terms and conditions set forth in the Underwriting Agreement and on the basis of the representations and warranties contained therein, the Company hereby agrees to sell and the Underwriters agree to purchase, severally and not jointly, the respective number of Common Shares set forth below opposite their names at a purchase price of \$____ per share (the "Purchase Price").

Table with 2 columns: Name, Number of Common Shares. Includes entries for Morgan Stanley & Co. Incorporated and Credit Suisse First Boston Corporation, with a total of 3,000,000 shares.

The Underwriters will pay for the Common Shares on March __, 1997 against delivery of the Common Shares for the respective accounts of the several Underwriters at 10:00 a.m., New York City time, on such date. The time and date of such payment and delivery are hereinafter referred to as the "Closing Date".

The Company is advised by the Representatives that the Underwriters propose to make a public offering of the respective portions of the Common Shares as soon after this Agreement has become effective, as in the Representative's judgment is advisable. The Company is further advised by the Representatives that the Common Shares are to be offered to the public initially at a price of \$____ per share (the "Public Offering Price") and to certain dealers at a price that represents a concession not in excess of \$____ per share under the Public Offering Price, and that any Underwriter may allow, and such dealers may reallow, a concession, not in excess of \$____ per share, to any Underwriter or to certain other dealers.

The Company hereby agrees that, without the prior written consent of Morgan Stanley & Co. Incorporated on behalf of the Underwriters, it will not, during the period ending 30 days after the date of the Prospectus, (i) issue, offer, pledge, sell, contract to sell, sell any option or contract to issue or sell any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Common Stock, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise. The foregoing sentence shall not apply to: (A) the Common Shares to be sold

pursuant hereto, (B) the issuance by the Company of shares of Common Stock upon the exercise of options, warrants or other rights to acquire Common Stock outstanding as of the date hereof and which are disclosed in the Prospectus or incorporated by reference therein, or (C) the issuance of Common Stock and other securities convertible into Common Stock in accordance with the provisions of the Acquisition Agreement.

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Please confirm your agreement by having an authorized officer sign a copy of this Agreement in the space set forth below.

Very truly yours,

MORGAN STANLEY & CO.
INCORPORATED
CREDIT SUISSE FIRST BOSTON
CORPORATION

Acting severally on behalf of themselves
and the several Underwriters named herein

By: MORGAN STANLEY & CO.
INCORPORATED

By: -----
Glenn R. Robson
Principal

Accepted:

MATTEL, INC.

By: -----

William Stavro
Senior Vice President and Treasurer

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MATTEL, INC.

UNDERWRITING AGREEMENT

STANDARD PROVISIONS
(COMMON STOCK)

March __, 1997

From time to time, Mattel, Inc., a Delaware corporation (the "Company"), may enter into one or more underwriting agreements that provide for the sale of Common Stock, \$1.00 par value per share ("Common Stock"), to the several underwriters named therein. The standard provisions set forth herein may be incorporated by reference in any such underwriting agreement (an "Underwriting Agreement"). The Underwriting Agreement, including the provisions incorporated therein by reference, is herein sometimes referred to as this "Agreement." Terms defined in the Underwriting Agreement are used herein as therein defined.

The Company has filed with the Securities and Exchange Commission (the "Commission") a registration statement on Form S-3 (No. 333-1307) for the registration under the Securities Act of 1933, as amended (the "Securities Act"), of shares of Common Stock (the "Common Shares"), and the offering thereof from time to time in accordance with Rule 415 of the Rules and regulations of the Commission promulgated pursuant to the Securities Act. Such registration statement (and any further registration statements which may be filed by the Company for the purpose of registering additional shares of Common Stock or other securities of the Company and in connection with which this Agreement is included or incorporated by reference as an exhibit), including all documents incorporated therein by reference, as from time to time amended or supplemented by the filing of documents pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Securities Act or otherwise, are referred to herein as the "Registration Statement." The Company has filed with, or transmitted for filing to, or shall promptly hereafter file with or transmit for filing to, the Commission a prospectus supplement (the "Prospectus Supplement") specifically relating to the Common Shares pursuant to Rule 424 under the Securities Act. The term "Basic Prospectus" means the prospectus included in the Registration Statement. The term "Prospectus" means the Basic Prospectus together with the Prospectus Supplement. The term "preliminary prospectus" means a preliminary prospectus supplement specifically relating to the Common Shares, together with the Basic Prospectus. As used herein, the terms "Basic Prospectus," "Prospectus" and "preliminary prospectus" shall include in each case the documents, if any, incorporated by reference therein. If the Company elects to rely on Rule 434 promulgated pursuant to the Securities Act, all references to the Prospectus shall be deemed to include, without limitation, the form of

prospectus and the term sheet, taken together, provided to the Agents by the Company in reliance on such Rule 434 (the "Rule 434 Prospectus"). Unless the context otherwise requires, all references in this Agreement to documents, financial statements and schedules and other information which is "contained," "included," "stated," "described in," or "referred to" in the Registration Statement or the Prospectus shall be deemed to mean and include all such documents, financial statements and schedules and other information which is or is deemed to be incorporated by reference in the Registration Statement or the Prospectus, as the case may be; and all references in this Agreement to "amendments" or "supplements" to the Registration Statement or Prospectus shall be deemed to mean and include the filing of any document under the Exchange Act after the date of this Agreement which is or is deemed to be incorporated by reference in the Registration Statement or the Prospectus, as the case may be. If the Company files a registration statement to register securities and relies on Rule 462(b) promulgated pursuant to the Securities Act for such registration statement to become effective upon filing with the Commission (the "Rule 462 Registration Statement"), then any reference to "Registration Statement" herein shall be deemed to be to both the registration statement referred to above (No. 333-1307) and the Rule 462 Registration Statement, as each such registration statement may be amended pursuant to the Securities Act.

1. Representations and Warranties. The Company represents and warrants to each of the Underwriters that:

(a) The Registration Statement has become effective; no stop order suspending the effectiveness of the Registration Statement is in effect, and no proceedings for such purpose are pending before or threatened to the Company by the Commission.

(b) (i) Each document, if any, filed or to be filed pursuant to the Exchange Act and incorporated by reference in the Prospectus complied or will comply when so filed in all material respects with the Exchange Act and the applicable rules and regulations of the Commission thereunder, (ii) each part of the Registration Statement, when such part became effective, did not contain and each such part, as amended or supplemented, if applicable, will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (iii) the Registration Statement and the Prospectus comply and, as amended or supplemented, if applicable, will comply in all material respects with the Securities Act and the applicable rules and regulations of the Commission thereunder and (iv) the Prospectus does not contain and, as amended or supplemented, if applicable, will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that the representations and warranties set forth in this paragraph (b) do not apply to statements or omissions in the Registration Statement or the Prospectus based upon information relating to any Underwriter furnished to the Company in writing by such Underwriter through the Representatives expressly for use therein.

(c) The firm of accountants that has certified the applicable financial statements and supporting schedules of the Company and its subsidiaries and the firm of

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accountants that has reviewed the historical financial information of Tyco Toys, Inc., a Delaware Corporation ("Tyco") that is included in certain pro forma financial statements (the "Tyco Historical Financial Information") filed with the Commission as part of the Registration Statement and the Prospectus are independent public accountants with respect to the Company and its subsidiaries and, to the best knowledge of the Company, after due inquiry, Tyco, as the case may be, as required by the Securities Act and the Exchange Act. The historical and pro forma financial statements, together with related schedules and notes, set forth in the Prospectus and the Registration Statement comply as to form in all material respects with the requirements of the Securities Act, including, without limitation, Regulation S-X. Such historical financial statements of the Company and its subsidiaries and, to the best knowledge of the Company, after due inquiry, the Tyco Historical Financial Information fairly present in all material respects the financial position of the Company and its subsidiaries, on the one hand, and Tyco, on the other hand, as of the dates indicated and the results of operations and changes in financial position for the periods therein specified in conformity with generally accepted accounting principles consistently applied throughout the periods involved (except as otherwise stated therein). Such pro forma financial statements have been prepared on a basis consistent with the historical financial statements of the Company and its subsidiaries and, to the best knowledge of the Company, after due inquiry, the Tyco Historical Financial Information, except for the pro forma adjustments specified therein, and give effect to assumptions made on a reasonable basis and present fairly in all material respects the historical financial position of the Company and its subsidiaries, on the one hand, and Tyco, on the other hand, and present fairly in all material respects the acquisition of Tyco by the Company (the "Acquisition"), pursuant to the terms of the Agreement and Plan of Merger, dated as of November 17, 1996, as amended as of November 22, 1996 (the "Acquisition Agreement"), by and among the Company, Truck Acquisition Corp., a Delaware corporation, and Tyco, and which pro forma financial statements are set forth in the Current Report on Form 8-K, as filed with the Commission on March 4, 1997 (the "Tyco Acquisition Current Report").

(d) The Company has been duly incorporated, is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has the corporate power and authority to own its property and to conduct its business as described in the Prospectus and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(e) Each subsidiary of the Company has been duly incorporated, is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has the corporate power and authority to own its property and to conduct its business as described in the Prospectus except to the extent that the failure of any such subsidiary, singly or in the aggregate, to be so duly incorporated or validly existing or to have such corporate power and authority, would not have a material adverse effect on the Company and its subsidiaries

taken as a whole or on the business of the Company and its subsidiaries taken as a whole. Each subsidiary of the Company is duly qualified

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to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure of any such subsidiary, singly or in the aggregate, to be so qualified or be in good standing would not have a material adverse effect on the Company and its subsidiaries taken as a whole or on the business of the Company and its subsidiaries taken as a whole.

(f) This Agreement has been duly authorized, executed and delivered by the Company.

(g) The authorized capital stock of the Company conforms as to legal matters to the description thereof contained in the Prospectus.

(h) All outstanding shares of Common Stock have been duly authorized and validly issued and are fully paid and non-assessable.

(i) The Common Shares have been duly authorized and, when issued and delivered in accordance with the terms of this Agreement, will be validly issued, fully paid and non-assessable, and the issuance of such Shares will not be subject to any preemptive or similar rights.

(j) The execution and delivery by the Company of, and the performance by the Company of its obligations under, this Agreement will not contravene any provision of applicable law or the certificate of incorporation or by-laws of the Company or any agreement or other instrument binding upon the Company or any of its subsidiaries that is material to the Company and its subsidiaries, taken as a whole, or any judgment, order or decree of any governmental body, agency or court having jurisdiction over the Company or any subsidiary, and no consent, approval, authorization or order of, or qualification with, any governmental body or agency is required for the performance by the Company of its obligations under this Agreement, except such as may be required by the securities or Blue Sky laws of the various states in connection with the offer and sale of the Common Shares.

(k) There has not occurred any material adverse change, or any development involving a prospective material adverse change, in the condition, financial or otherwise, or in the earnings, business or operations of the Company and its subsidiaries, taken as a whole, from that set forth in the Prospectus (exclusive of any amendments or supplements thereto subsequent to the date of this Agreement).

(l) There are no legal or governmental proceedings pending or threatened to the Company to which the Company or any of its subsidiaries is a party or to which any of the properties of the Company or any of its subsidiaries is subject that are required to be described in the Registration Statement, the Prospectus or any documents incorporated by reference in the Registration Statement or the Prospectus that are not so described or any statutes, regulations, contracts or other documents that are required to be described in the Registration Statement, the Prospectus or any documents incorporated

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by reference in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement that are not so described or filed as required.

(m) The Company and its subsidiaries own or possess the patents, patent rights, licenses, inventions, copyrights, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), trademarks, service marks and trade names presently employed by them in connection with the business now operated by them, and neither the Company nor any of its subsidiaries has received any notice of infringement of or conflict with asserted rights of others with respect to any of the foregoing which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would result in any material adverse change, or any notice of any other development with respect to the foregoing involving a prospective material adverse change, in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company and its subsidiaries taken as a whole, except as may be described in writing to, and accepted for exclusion by, the Representatives.

(n) Each preliminary prospectus filed as a part of the Registration Statement as originally filed or as part of any amendment thereto, or filed pursuant to Rule 424 under the Securities Act,

complied when so filed in all material respects with the Securities Act and the applicable rules and regulations of the Commission thereunder.

(o) The Company is not and, after giving effect to the offering and sale of the Common Shares and the application of the net proceeds thereof as described in the Prospectus, will not be an "investment company" or an entity "controlled" by an "investment company," as such terms are defined in the Investment Company Act of 1940, as amended.

(p) The Company and its subsidiaries are (i) in compliance with any and all applicable foreign, federal, state and local laws and regulations relating to the protection of human health and safety, the environment or hazardous or toxic substances or wastes, pollutants or contaminants ("Environmental Laws"), (ii) have received all permits, licenses or other approvals required of them under applicable Environmental Laws to conduct their respective businesses and (iii) are in compliance with all terms and conditions of any such permit, license or approval, except where such noncompliance with Environmental Laws, failure to receive required permits, licenses or other approvals or failure to comply with the terms and conditions of such permits, licenses or approvals would not, singly or in the aggregate, have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(q) In the ordinary course of its business, the Company conducts a periodic review of the effect of Environmental Laws on the business, operations and properties of the Company and its subsidiaries, in the course of which it identifies and evaluates associated costs and liabilities (including, without limitation, any capital or operating expenditures required for clean-up, closure of properties or compliance with Environmental Laws or any permit, license or approval, any related constraints on

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operating activities and any potential liabilities to third parties). On the basis of such review, the Company has reasonably concluded that such associated costs and liabilities would not, singly or in the aggregate, have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(r) Neither the Company nor any of its subsidiaries has, directly or indirectly, paid or delivered any fee, commission or other sum of money or item or property, however characterized, to any finder, agent, government official or other party, in the United States or any other country, which is in any manner related to the business, assets or operations of Company or any of its subsidiaries, which is, or may be with the passage of time or discovery, illegal under any federal, state or local laws of the United States (including without limitation the U.S. Foreign Corrupt Practices' Act) or any other country having jurisdiction; and neither the Company nor any of its subsidiaries has participated, directly or indirectly, in any boycotts or other similar practices affecting any of its actual or potential customers.

(s) There are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to include any securities of the Company held by such person with the Common Shares registered pursuant to the Registration Statement.

(t) The terms, conditions and provisions of the Acquisition and the Acquisition Agreement are fairly and accurately described in all material respects in that certain Registration Statement on Form S-4 (No. 333-21785), as filed with the Commission on February 14, 1997 (the "Tyco Acquisition Registration Statement"). The representations and warranties contained in Section 4.4 of the Acquisition Agreement are true and correct.

(u) To the best of the Company's knowledge, the representations and warranties of Tyco set forth in the Acquisition Agreement are true and correct in all material respects.

(v) The Common Shares are listed on the New York Stock Exchange and the Pacific Stock Exchange.

2. Public Offering. The Company is advised by the Representatives that the Underwriters propose to make a public offering of their respective portions of the Underwriters' Common Shares as soon after this Agreement has been entered into as in the Representatives' judgment is advisable. The terms of the public offering of the Common Shares is set forth in the Prospectus.

3. Purchase and Delivery. Except as otherwise provided in this Section 3, payment for the Common Shares shall be made by wire transfer of immediately available (same day) funds to an account designated by the

Company at the time set forth in the Underwriting Agreement, upon delivery to the Representatives for the respective accounts of the several Underwriters of the Common Shares, registered in such names and in such denominations as the

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Representatives shall request in writing not less than one full business day prior to the Closing Date.

4. Conditions to Closing. The several obligations of the Underwriters hereunder are subject to the following conditions:

(a) Subsequent to the execution and delivery of the Underwriting Agreement and prior to the Closing Date,

(i) there shall not have occurred any downgrading, nor shall any notice have been given of any intended or potential downgrading or of any review for a possible change that does not indicate the direction of the possible change, in the rating accorded any of the Company's securities by any "nationally recognized statistical rating organization," as such term is defined for purposes of Rule 436(g)(2) under the Securities Act; and

(ii) there shall not have occurred any change, or any development involving a prospective change, in the condition, financial or otherwise, or in the earnings, business or operations, of the Company and its subsidiaries, taken as a whole, from that set forth in the Prospectus, that, in the judgment of the Representatives, is material and adverse and that makes it, in the judgment of the Representatives, impracticable to market the Common Shares on the terms and in the manner contemplated in the Prospectus.

(b) The Representatives shall have received on the Closing Date a certificate, dated the Closing Date and signed by an executive officer of the Company, to the effect set forth in clause (a)(i) above and to the effect that the representations and warranties of the Company contained in this Agreement are true and correct as of the Closing Date and that the Company has complied with all of the agreements and satisfied all of the conditions on its part to be performed or satisfied on or before the Closing Date.

The officer signing and delivering such certificate may rely upon the best of his knowledge as to proceedings threatened.

(c) The Representatives shall have received on the Closing Date an opinion of Irell & Manella LLP, counsel for the Company, dated the Closing Date, to the effect that:

(i) the Company has been duly incorporated, is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has the corporate power and authority to own its property and to conduct its business as described in the Prospectus and is duly qualified to transact business and is in good standing in the State of California;

(ii) this Agreement has been duly authorized, executed and delivered by the Company;

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(iii) the authorized capital stock of the Company conforms as to legal matters to the description thereof contained in the Prospectus;

(iv) the Common Shares have been duly authorized and, when issued and delivered in accordance with the terms of this Agreement, will be validly issued, fully paid and non-assessable, and the issuance of such Common Shares will not be subject to any preemptive rights contained in any charter document of the Company or, to such counsel's knowledge, any similar rights;

(v) the execution and delivery by the Company of, and the performance by the Company of its obligations under, this Agreement will not contravene any provision of applicable law or the certificate of incorporation or by-laws of the Company or, to the best of such counsel's knowledge, any agreement or other instrument binding upon the Company or any of its subsidiaries that is material to the Company and its subsidiaries, taken as a whole, or, to the best of such counsel's knowledge, any judgment, order or decree of any governmental body, agency or court having jurisdiction over the Company or any subsidiary, and no consent, approval, authorization or order of, or qualification with, any

governmental body or agency is required for the performance by the Company of its obligations under this Agreement, except such as may be required by the securities or Blue Sky laws of the various states in connection with the offer and sale of the Common Shares.

(vi) to the best of such counsel's knowledge, neither the Company nor any of its subsidiaries has received any notice of infringement of or conflict with asserted rights of others with respect to any of the patents, patent rights, licenses, inventions, copyrights, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), trademarks, service marks and trade names presently employed by them in connection with the business now operated by the Company or its subsidiaries which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would result in any material adverse change, or notice of any other development with respect to the foregoing involving a prospective material adverse change, in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company and its subsidiaries, taken as a whole, except as may be disclosed in writing by the Company to, and accepted for exclusion by, the Representatives;

(vii) the statements (1) in the Prospectus under the captions "Description of Capital Stock," "The Underwriters" (relating solely to this Agreement or the Underwriting Agreement) and "Plan of Distribution," and (2) in the Registration Statement under Item 15, in each case insofar as such statements constitute summaries of the legal matters, documents or proceedings referred to therein, fairly present the information called for with respect to such legal matters, documents and proceedings and fairly summarize the matters referred to therein in all material respects;

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(viii) to the best of such counsel's knowledge, there are no legal or governmental proceedings pending or threatened to which the Company or any of its subsidiaries is a party or to which any of the properties of the Company or any of its subsidiaries is subject or any development in such proceedings that are required to be described in the Registration Statement, the Prospectus or the documents incorporated by reference in the Registration Statement or the Prospectus that are not so described and there are no statutes, regulations, contracts or other documents that are required to be described in the Registration Statement, the Prospectus or any documents incorporated by reference in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement that are not so described or filed as required;

(ix) the Company is not, and after giving effect to the offering and sale of the Common Shares and the application of the net proceeds thereof as described in the Prospectus, will not be an "investment company" or an entity "controlled" by an "investment company," as such terms are defined in the Investment Company Act of 1940, as amended;

(x) such counsel (1) is of the opinion that each document filed pursuant to the Exchange Act and incorporated by reference in the Registration Statement and the Prospectus (except for financial statements and schedules as to which such counsel need not express any opinion) complied when so filed as to form in all material respects with the Exchange Act and the applicable rules and regulations of the Commission thereunder and (2) is of the opinion that the Registration Statement and the Prospectus (except for financial statements and schedules included therein as to which such counsel need not express any opinion) comply as to form in all material respects with the Securities Act and the rules and regulations of the Commission thereunder; and

(xi) no facts have come to the attention of such counsel that would lead such counsel to believe that (1) (except for financial statements and schedules as to which such counsel need not express any belief) the Registration Statement and the prospectus included therein at the time the Registration Statement (and the documents incorporated by reference in the Registration Statement and such prospectus) became effective contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading and (2) (except for financial statements and schedules as to which such counsel need not express any belief) the Prospectus and the documents incorporated by reference therein as of the Closing Date contain an untrue statement of a material fact or omit to state a

material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

In rendering such opinion, such counsel may rely on such certificates of officers of the Company and/or governmental entities as such counsel deems appropriate, subject to reasonable approval of counsel to the Underwriters.

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(d) The Representatives shall have received on the Closing Date an opinion of the general counsel or the assistant general counsel of the Company, dated the Closing Date, to the effect that:

(i) the Company is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a material adverse effect on the Company and its subsidiaries taken as a whole;

(ii) based upon opinions, oral or written, of foreign counsel, each of the subsidiaries of the Company meeting the definition of "Significant Subsidiary" under Regulation S-X of the Commission has been duly incorporated, is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has the corporate power and authority to own its property and to conduct its business as described in the Prospectus and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a material adverse effect on the Company and its subsidiaries, taken as a whole;

(iii) the execution and delivery by the Company of, and the performance by the Company of its obligations under, this Agreement will not contravene any agreement or other instrument binding upon the Company or any of its subsidiaries that is material to the Company and its subsidiaries, taken as a whole, or any judgment, order or decree of any governmental body, agency or court having jurisdiction over the Company or any subsidiary, and no consent, approval, authorization or order of or qualification with any governmental body or agency is required for the performance by the Company of its obligations under this Agreement, except such as may be required by the securities or Blue Sky laws of the various states in connection with the offer and sale of the Common Shares;

(iv) the Company and its subsidiaries own or possess the patents, patent rights, licenses, inventions, copyrights, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), trademarks, service marks and trade names presently employed by them in connection with the business now operated by them, and neither the Company nor any of its subsidiaries has received any notice of infringement of or conflict with asserted rights of others with respect to any of the foregoing which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would result in any material adverse change, or notice of any other development with respect to the foregoing involving a prospective material adverse change, in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company and its

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subsidiaries, taken as a whole, except as may be disclosed in writing by the Company to, and accepted for exclusion by, the Representatives;

(v) there are no legal or governmental proceedings pending or threatened to the Company to which the Company or any of its subsidiaries is a party or to which any of the properties of the Company or any of its subsidiaries is subject or any development in such proceedings that are required to be described in the Registration Statement, the Prospectus or the documents incorporated by reference in the Registration Statement or the Prospectus that are not so described and there are no statutes, regulations, contracts or other documents that are required to be described in the Registration Statement, the Prospectus or any documents incorporated by reference in the Registration Statement

or the Prospectus or to be filed as exhibits to the Registration Statement that are not so described or filed as required;

(vi) the terms, conditions and provisions of the Acquisition and the Acquisition Agreement are fairly and accurately described in all material respects in the Tyco Acquisition Registration Statement;

(vii) such counsel (1) is of the opinion that each document filed pursuant to the Exchange Act and incorporated by reference in the Registration Statement and the Prospectus (except for financial statements and schedules as to which such counsel need not express any opinion) complied when so filed as to form in all material respects with the Exchange Act and the applicable rules and regulations of the Commission thereunder and (2) is of the opinion that the Registration Statement and the Prospectus (except for financial statements and schedules included therein as to which such counsel need not express any opinion) comply as to form in all material respects with the Securities Act and the rules and regulations of the Commission thereunder; and

(viii) no facts have come to the attention of such counsel that would lead such counsel to believe that (1) (except for financial statements and schedules as to which such counsel need not express any opinion) the Registration Statement and the prospectus included therein at the time the Registration Statement (and the documents incorporated by reference in the Registration Statement and such prospectus) became effective contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading and (2) (except for financial statements and schedules as to which such counsel need not express any belief) the Prospectus and the documents incorporated by reference therein as of the Closing Date contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

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In rendering such opinion, such counsel may rely on such certificates of officers of the Company and/or governmental entities as such counsel deems appropriate, subject to reasonable approval of counsel to the Underwriters.

(e) The Representatives shall have received on the Closing Date an opinion of Latham & Watkins, special counsel for the Underwriters, dated the Closing Date, covering the matters referred to in subparagraphs (ii), (iii), (iv), (vii) (but only as to the statements in the Prospectus under "Description of Capital Stock," "The Underwriters" and "Plan of Distribution") and (xi) of paragraph (c) above.

With respect to the subparagraph (xi) of paragraph (c) above, Irell & Manella LLP may state that their opinion and belief are based upon their participation in the preparation of the Registration Statement and Prospectus and any amendments or supplements thereto and documents incorporated therein by reference and review and discussion of the contents thereof, but are without independent check or verification, except as specified. With respect to subparagraph (xi) of paragraph (c) above, Latham & Watkins may state that their opinion and belief are based upon their participation in the preparation of the Registration Statement and Prospectus and any amendments or supplements thereto (but not including documents incorporated therein by reference) and review and discussion of the contents thereof (including documents incorporated therein by reference), but are without independent check or verification, except as specified.

The opinion of Irell & Manella LLP described in paragraph (c) above shall be rendered to the Representatives at the request of the Company and shall so state therein.

(f) The Representatives shall have received on or prior to the Closing Date letters, in form and substance satisfactory to the Representatives, from the Company's independent public accountants (dated the Closing Date) and from Tyco's independent accountants (dated on or prior to the Closing Date), containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained of the Company and the Tyco Historical Financial Information contained in or incorporated by reference into the Prospectus.

5. Covenants of the Company. In further consideration of the agreements of the Underwriters herein contained, the Company covenants as follows:

(a) To furnish the Representatives, without charge, a signed copy of the Registration Statement (including exhibits thereto) and for delivery to each other Underwriter a conformed copy of the Registration Statement (without exhibits thereto) and, during the period mentioned in paragraph (c) below, as many copies of the Prospectus, any documents incorporated by reference therein and any supplements and amendments thereto or to the Registration Statement as the Representatives may reasonably request.

(b) Before amending or supplementing the Registration Statement or the Prospectus with respect to the Common Shares, to furnish to the Representatives a copy

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of each such proposed amendment or supplement and not to file any such proposed amendment or supplement to which the Representatives reasonably object; provided, however, that the foregoing requirement shall not apply to any of the Company's periodic filings with the Commission required to be filed pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act or pursuant to Item 5 (including related exhibits filed pursuant to Item 7) of Form 8-K, copies of which filings the Company will cause to be delivered to the Representatives promptly after being transmitted for filing with the Commission.

(c) If, during such period after the first date of the public offering of the Common Shares as in the opinion of counsel for the Underwriters the Prospectus is required by law to be delivered in connection with sales by an Underwriter or dealer, any event shall occur or condition exist as a result of which it is necessary to amend or supplement the Prospectus in order to make the statements therein, in the light of the circumstances when the Prospectus is delivered to a purchaser, not misleading, or if, in the opinion of counsel for the Underwriters, it is necessary to amend or supplement the Prospectus to comply with law, forthwith to prepare, file with the Commission and furnish, at its own expense, to the Underwriters, and to the dealers (whose names and addresses the Representatives will furnish to the Company) to which Common Shares may have been sold by the Representatives on behalf of the Underwriters and to any other dealers upon request, either amendments or supplements to the Prospectus so that the statements in the Prospectus as so amended or supplemented will not, in the light of the circumstances when the Prospectus is delivered to a purchaser, be misleading or so that the Prospectus, as amended or supplemented, will comply with law.

(d) To endeavor to qualify the Common Shares for offer and sale under the securities or Blue Sky laws of such jurisdictions as the Representatives shall reasonably request and to maintain such qualification for as long as the Representatives shall reasonably request.

(e) To make generally available to its security holders and to the Representatives as soon as practicable an earning statement covering a twelve-month period beginning on the first day of the first full fiscal quarter after the date of this Agreement, which earning statement shall satisfy the provisions of Section 11(a) of the Securities Act and the rules and regulations of the Commission thereunder. If such fiscal quarter is the last fiscal quarter of the Company's fiscal year, such earning statement shall be made available not later than 90 days after the close of the period covered thereby and in all other cases shall be made available not later than 45 days after the close of the period covered thereby.

(f) Whether or not any sale of Common Shares is consummated, to pay all expenses incident to the performance of its obligations under this Agreement, including: (i) the preparation and filing of the Registration Statement and the Prospectus and all amendments and supplements thereto, (ii) the preparation, issuance and delivery of the Common Shares, (iii) the fees and disbursements of the Company's counsel and the Company's and Tyco's accountants, (iv) the qualification of the Common Shares under securities or Blue Sky laws in accordance with the provisions of Section 5(d), including

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filing fees and the fees and disbursements of counsel for the Underwriters in connection therewith and in connection with the preparation of any Blue Sky or Legal Investment Memoranda, (v) the printing and delivery to the Underwriters in quantities as hereinabove stated of copies of the Registration Statement and all amendments thereto and of the Prospectus and any amendments or supplements thereto, (vi) the fees and expenses, if any, incurred with respect to any filing with the National Association of Securities Dealers, Inc., and (vii) all document production charges and expenses of counsel to the

Underwriters (but not including their fees for professional services) in connection with the preparation of this Agreement.

6. Indemnification and Contribution. (a) The Company agrees to indemnify and hold harmless each Underwriter and each person, if any, who controls such Underwriter within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act from and against any and all losses, claims, damages and liabilities (including, without limitation, any legal or other expenses reasonably incurred by any Underwriter or any such controlling person in connection with investigating or defending any such action or claim) caused by any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or any amendment thereof, any preliminary prospectus or the Prospectus (as amended or supplemented if the Company shall have furnished any amendments or supplements thereto), or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages or liabilities are caused by any such untrue statement or omission or alleged untrue statement or omission based upon information relating to any Underwriter furnished to the Company in writing by such Underwriter through the Representatives expressly for use therein.

(b) Each Underwriter agrees, severally and not jointly, to indemnify and hold harmless the Company, its directors, its officers who sign the Registration Statement and each person, if any, who controls the Company within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act to the same extent as the foregoing indemnity from the Company to such Underwriter, but only with reference to information relating to such Underwriter furnished to the Company in writing by such Underwriter through the Representatives expressly for use in the Registration Statement, any preliminary prospectus, the Prospectus or any amendments or supplements thereto.

(c) In case any proceeding (including any governmental investigation) shall be instituted involving any person in respect of which indemnity may be sought pursuant to either paragraph (a) or (b) above, such person (the "indemnified party") shall promptly notify the person against whom such indemnity may be sought (the "indemnifying party") in writing and the indemnifying party, upon request of the indemnified party, shall retain counsel reasonably satisfactory to the indemnified party to represent the indemnified party and any others the indemnifying party may designate in such proceeding and shall pay the fees and disbursements of such counsel related to such proceeding. In any such proceeding, any indemnified party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the indemnifying party

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and the indemnified party shall have mutually agreed to the retention of such counsel or (ii) the named parties to any such proceeding (including any impleaded parties) include both the indemnifying party and the indemnified party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. It is understood that the indemnifying party shall not, in respect of the legal expenses of any indemnified party in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the fees and expenses of more than one separate firm (in addition to any local counsel) for all such indemnified parties and that all such fees and expenses shall be reimbursed as they are incurred. Such firm shall be designated in writing by the Representatives, in the case of parties indemnified pursuant to paragraph (a) above, and by the Company, in the case of parties indemnified pursuant to paragraph (b) above. The indemnifying party shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party from and against any loss or liability by reason of such settlement or judgment. Notwithstanding the foregoing sentence, if at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel as contemplated by the second and third sentences of this paragraph, the indemnifying party agrees that it shall be liable for any settlement of any proceeding effected without its written consent if (i) such settlement is entered into more than 30 days after receipt by such indemnifying party of the aforesaid request and (ii) such indemnifying party shall not have reimbursed the indemnified party in accordance with such request prior to the date of such settlement. No indemnifying party shall, without the prior written consent of the indemnified party (which consent shall not be unreasonably withheld), effect any settlement of any pending or threatened proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such proceeding.

(d) To the extent the indemnification provided for in paragraph (a) or (b) of this Section 6 is unavailable to an indemnified party or

insufficient in respect of any losses, claims, damages or liabilities referred to therein, then each indemnifying party under such paragraph, in lieu of indemnifying such indemnified party thereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (i) in such proportion as is appropriate to reflect the relative benefits received by the Company, on the one hand, and the Underwriters, on the other hand, from the offering of the Common Shares or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company, on the one hand, and of the Underwriters, on the other hand, in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefits received by the Company, on the one hand, and the Underwriters, on the other hand, in connection with the offering of the Common Shares shall be deemed to be in the same respective proportions as (x) the net proceeds from the offering of such Common Shares (before deducting expenses) received by the Company, as set forth on the cover page of the Prospectus Supplement, and (y) the amount by which the aggregate Public Offering Price of the Common Shares exceeds the aggregate Purchase Price paid by the

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Underwriters for the Common Shares, as set forth in the Underwriting Agreement, bear to the aggregate public offering price of the Common Shares. The relative fault of the Company, on the one hand, and of the Underwriters, on the other hand, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or by the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Underwriters' respective obligations to contribute pursuant to this Section 6 are several in proportion to the respective number of Common Shares they have purchased hereunder, and not joint.

(e) The Company and the Underwriters agree that it would not be just or equitable if contribution pursuant to this Section 6 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in paragraph (d) above. The amount paid or payable by an indemnified party as a result of the losses, claims, damages and liabilities referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 6, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Common Shares underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages that such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The remedies provided for in this Section 6 are not exclusive and shall not limit any rights or remedies which may otherwise be available to any indemnified party at law or in equity.

7. Termination. This Agreement shall be subject to termination, by notice given by the Representatives to the Company, if (a) after the execution and delivery of the Underwriting Agreement and prior to the Closing Date (i) trading generally shall have been suspended or materially limited on the New York Stock Exchange, (ii) trading of any securities of the Company shall have been suspended on any exchange or in any over-the-counter market, (iii) a general moratorium on commercial banking activities in New York shall have been declared by either Federal or New York State authorities or (iv) there shall have occurred any outbreak or escalation of hostilities or any change in financial markets or any calamity or crisis that, in the judgment of the Representatives, is material and adverse and (b) in the case of any of the events specified in clauses (a) (i) through (iv), such event, singly or together with any other such event, makes it, in the judgment of the Representatives, impracticable to market the Common Shares on the terms and in the manner contemplated in the Prospectus.

8. Defaulting Underwriters. If, on the Closing Date, any one or more of the Underwriters shall fail or refuse to purchase Common Shares that it has or they have agreed to purchase hereunder on such date, and the aggregate amount of Common Shares which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase is not more than

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one-tenth of the aggregate amount of the Common Shares to be purchased on such date, the other Underwriters shall be obligated severally in the proportions that the amount of Common Shares set forth opposite their respective names in the Underwriting Agreement bears to the aggregate amount of Common Shares set forth opposite the names of all such non-defaulting Underwriters, or in such other proportions as the Representatives may specify, to purchase the Common Shares which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase on such date; provided that in no event shall the amount of Common Shares that any Underwriter has agreed to purchase pursuant to this Agreement be increased pursuant to this Section 8 by an amount in excess of one-ninth of such amount of Common Shares without the written consent of such Underwriter. If, on the Closing Date, any Underwriter or Underwriters shall fail or refuse to purchase Common Shares and the aggregate amount of Common Shares with respect to which such default occurs is more than one-tenth of the aggregate amount of Common Shares to be purchased on such date, and arrangements satisfactory to the Representatives and the Company for the purchase of such Common Shares are not made within 36 hours after such default, this Agreement shall terminate without liability on the part of any non-defaulting Underwriter or the Company. In any such case either the Representatives or the Company shall have the right to postpone the Closing Date but in no event for longer than seven days, in order that the required changes, if any, in the Registration Statement and in the Prospectus or in any other documents or arrangements may be effected. Any action taken under this paragraph shall not relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Agreement.

If this Agreement shall be terminated by the Underwriters, or any of them, because of any failure or refusal on the part of the Company to comply with the terms or to fulfill any of the conditions of this Agreement, or if for any reason the Company shall be unable to perform its obligations under this Agreement, the Company will reimburse the Underwriters or such Underwriters as have so terminated this Agreement with respect to themselves, severally, for all out-of-pocket expenses (including the fees and disbursements of their counsel) reasonably incurred by such Underwriters in connection with this Agreement or the offering of the Common Shares.

9. Representations and Indemnities to Survive. The respective indemnity and contribution agreements and the representations, warranties and other statements of the Company, its officers and the Underwriters set forth in this Agreement will remain in full force and effect, regardless of any termination of this Agreement, any investigation made by or on behalf of any Underwriter or the Company or any of the officers, directors or controlling persons referred to in Section 6 and delivery of and payment for the Common Shares.

10. Successors. This Agreement will enure to the benefit of and be binding upon the parties hereto and their respective successors and the officers, directors and controlling persons referred to in Section 6, and no other person will have any right or obligation hereunder.

11. Counterparts. The Underwriting Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

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12. Applicable Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York.

13. Headings. The headings of the sections of this Agreement have been inserted for convenience of reference only and shall not be deemed a part of this Agreement.

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IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the date first written above.

MATTEL, INC.

By:

William Stavro
Senior Vice President and Treasurer

MORGAN STANLEY & CO. INCORPORATED
CREDIT SUISSE FIRST BOSTON CORPORATION

Acting severally on behalf of themselves
and the several Underwriters named herein

By: MORGAN STANLEY & CO. INCORPORATED

By:

Glenn R. Robson
Principal

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT, dated as of July 29, 1996 (the "Agreement"), is between Mattel, Inc., a Delaware corporation ("Mattel"), and Jill E. Barad (the "Executive").

The Executive and Mattel are parties to an Amended and Restated Employment Agreement, dated as of November 30, 1993, as amended (the "Existing Employment Agreement"), providing for the employment of the Executive.

The Executive and Mattel desire to clarify certain provisions of the Existing Employment Agreement that govern the respective rights and obligations of the Executive and Mattel, as the case may be, upon a termination of the Executive's employment and therefore deem it appropriate to amend and restate the Existing Employment Agreement in its entirety.

In consideration of the premises and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Executive and Mattel agree to amend and restate the Existing Employment Agreement in its entirety as follows:

1. Employment Period. Mattel hereby agrees to employ and continue in its employ the Executive, and the Executive hereby accepts such employment and agrees to remain in the employ of Mattel, for the period commencing on the date of this Agreement and ending on the fifth anniversary of such date (the "Employment Period"); provided that commencing on the first day of the month

next following the effective date hereof, and on the first day of each month thereafter (the most recent of such dates is hereinafter referred to as the "Renewal Date"), the Employment Period shall be automatically extended so as to terminate five years from such Renewal Date, unless at least 60 days prior to any Renewal Date Mattel or the Executive shall give notice to the other that the Employment Period shall not be so extended.

2. Duties.

(a) Executive's Position and Duties. During the Employment Period, the Executive's positions (including titles) shall be as follows:

(i) President & Chief Operating Officer of Mattel Inc., reporting to the Chief Executive Officer, for the period commencing on the date of this Agreement and ending on December 31, 1996, when Executive will be appointed by the Board of Directors to assume the position of President and Chief Executive Officer, Mattel, Inc. on January 1, 1997; and

(ii) President and Chief Executive Officer, Mattel, Inc., reporting to the Board of Directors, for the period commencing on the date Executive is so appointed, and continuing until her title is expanded (I) on a date in 1997 when Executive elects to assume the additional position of Chairman of the Board of Directors, or (II) prior to the end of 1997, when John W. Amerman's term as Chairman of the Board of Directors will expire

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and Executive is thereupon appointed to the position of Chairman of the Board of Directors, whichever comes first.

Upon Executive's appointment as President and Chief Executive Officer, Mattel, Inc., the Executive's duties, responsibilities, and authority shall include a shared responsibility with the President, Mattel-Worldwide for overseeing the President-Worldwide Manufacturing Operations and Mattel's overall manufacturing functions, and a shared responsibility with the President, Corporate Operations for overseeing the Chief Financial Officer and Mattel's overall financial functions, and the Executive shall report directly to the Board of Directors on a continuing and uninterrupted basis. Throughout the Employment Period, the Executive's duties, responsibilities, and authority shall not be less than those held by the Executive on the date she becomes entitled to her various positions and any additions and modifications thereto shall be consistent with duties, responsibilities, and authority generally assigned to chief executive officers of Mattel as the Board of Directors of Mattel may in its discretion and acting in good faith, assign to the Executive. The Executive's services shall be performed in Los Angeles, California and the Executive shall not be transferred outside the area without the Executive's consent, other than for normal business travel and temporary assignments.

(b) Full Time. The Executive agrees to devote her full business time to the business and affairs of Mattel and to use her best efforts to perform faithfully and efficiently the responsibilities assigned to her hereunder to the extent necessary to discharge such responsibilities, except for (i) services on corporate, civic or charitable boards or committees not significantly interfering with the performance of such responsibilities; (ii) periods of vacation and sick leave to which she is entitled; and (iii) the management of personal investments and affairs. The Executive will not engage in any outside business activity (as distinguished from personal investment activity and affairs), including, but not limited to, activity as a consultant, agent, partner or officer, or provide business services of any nature directly or indirectly to a corporation or other business enterprise.

3. Compensation.

(a) Base Salary. During the Employment Period, the Executive shall receive a base salary ("Base Salary") at a bi-weekly rate at least equal to the bi-weekly salary paid to the Executive by Mattel on the date of this Agreement. The Base Salary shall be reviewed at least every two years and may be increased at any time and from time to time by action of the Board of Directors of Mattel or any committee thereof or any individual having authority to take such action in accordance with Mattel's regular practices. Any increase in the Base Salary shall not serve to limit or reduce any other obligation of Mattel

hereunder, and after any such increase, the Base Salary shall not be reduced.

(b) Bonus Programs. In addition to the Base Salary, the Executive shall participate throughout the Employment Period in Mattel's cash, deferred bonus, incentive plans and programs ("Bonus Programs") as may be in effect from time to time with respect to executives employed by Mattel at a participation level reflecting the Executive's responsibilities, including, but not limited to, the Management Incentive Plan ("MIP") and the Long-Term Incentive Plan ("LTIP") as they may be modified from time to time and any plans or programs substituted therefor; provided that, except as provided in Section 5(f) hereof, the determination of the amounts to be paid pursuant to such plans or programs shall be made by the Board of Directors of Mattel or a committee thereof authorized to take such action and shall be made in accordance with Mattel's compensation practice and the terms and provisions of such plans or programs; provided further that the Executive's eligibility for and participation in each of the Bonus Programs shall be at a level and on terms and conditions no less favorable than those available to any other comparably situated executive or consultant.

(c) Incentive and Savings Plans. In addition to the Base Salary and participation in the Bonus Programs, during the Employment Period the Executive shall be entitled to participate in all incentive and savings plans and programs, including, but

not limited to, stock option plans and retirement plans, as may be in effect from time to time with respect to executives employed by Mattel. It is hereby provided that in consideration of Executive's agreement herein to waive and renounce any and all rights and benefits under the 1990 Supplemental Executive Retirement Plan, Executive shall become vested in the 1994 Supplemental Executive Retirement Plan ("SERP") upon attaining age 50, provided however, that Executive's eligibility to receive benefits under the SERP shall be postponed until Executive attains age 55, at which time, the benefit component attributable to Executive's age shall be based on an early retirement benefit (full benefit reduced by 25%) as if the Executive had attained age 55 upon retirement.

(d) Benefit Plans. The Executive and/or her family, as the case may be, shall be entitled to receive all amounts which she or her family is or would have been entitled to receive as benefits under all medical, dental, disability, group life, accidental death and travel accident insurance plans and programs of Mattel in which the Executive is a participant as in effect from time to time with respect to executives employed by Mattel.

(e) Expenses. During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the policies and practices of Mattel as in effect from time to time with respect to executives employed by Mattel.

(f) Fringe Benefits. The Executive shall be entitled to fringe benefits, commensurate with those available to comparable level executives, including an automobile and related expenses as well as the use of a company-issued gasoline credit card, club memberships and related expenses, and financial and legal counseling in accordance with the policies of Mattel as in effect from time to time with respect to executives employed by Mattel. It is further agreed and understood that Executive is entitled to purchase all of her office furnishings for \$1.00, upon her termination from Mattel, irrespective of the reason for termination.

(g) Vacation. During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the policies of Mattel as in effect from time to time with respect to executives employed by Mattel.

(h) Home Mortgage Loan. Mattel agrees that the existing provisions of the home mortgage loan, which was previously provided to Executive pursuant to terms and conditions memorialized in the Amended and Restated Employment Agreement dated as of November 30, 1993, shall remain in effect, except that if Executive's employment is terminated for reasons other than "Cause" by Mattel, or for "Good Reason" by the Executive, or in connection with a "Change in Control" (as such terms are

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hereinafter defined), the principal amount of the loan and all accrued unpaid interest shall be forgiven and forever canceled.

(i) Certain Amendments. Nothing herein shall be construed to prevent Mattel from amending, altering, eliminating or reducing any plans, benefits or programs so long as the Executive continues to have the opportunity to receive compensation and benefits consistent with Sections 3(a) through (h).

4. Termination.

(a) Death or Disability. This Agreement shall terminate automatically upon the Executive's death; provided that Base Salary, all bonuses and earned benefits will be continued and paid for a period of six (6) months thereafter, unless a longer period is otherwise specified. Mattel may terminate this Agreement, after having established the Executive's Disability, by giving to the Executive written notice of its intention to terminate her employment, and her employment with Mattel shall terminate effective on the 90th day after receipt of such notice (the "Disability Effective Date"). For purposes of this Agreement, the Executive's Disability shall occur and shall be deemed to have occurred only when the Executive becomes entitled to receive disability benefits under the Mattel Long-Term Disability Plan for exempt employees.

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(b) Cause. Mattel may terminate the Executive's employment for "Cause" if a majority, consisting of at least 2/3 of the non-management members of the Board of Directors of Mattel, determines that "Cause" exists. For purposes of this Agreement, "Cause" means (i) an act or acts of dishonesty on the Executive's part which are intended to result in her substantial personal enrichment at the expense of Mattel; (ii) repeated violations by the Executive of her obligations under Section 2 of this Agreement which are demonstrably willful and deliberate on the Executive's part and which resulted in material injury to Mattel; (iii) conduct of a criminal nature which has or which is more likely than not to have a material adverse effect on Mattel's reputation or standing in the community or on its continuing relationships with its customers or those who purchase or use its products; or (iv) fraudulent conduct in connection with the business or affairs of Mattel, regardless of whether said conduct is designed to defraud Mattel or others; provided that, in each case, the Executive has received written notice of the described activity, has been afforded a reasonable opportunity to cure or correct the activity described in the notice, and has failed to substantially cure, correct or cease the activity, as appropriate.

(c) Good Reason. The Executive may terminate her employment at any time for Good Reason. For purposes of this Agreement, "Good Reason" means the good faith determination by

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the Executive that any one or more of the following have occurred:

(i) without the express written consent of the Executive, any change(s) in any of the duties, authority, or responsibilities of the Executive which is (are) inconsistent in any substantial respect with the Executive's position, authority, duties, or responsibilities as

contemplated by Section 2 of this Agreement;

(ii) any failure by Mattel to comply with any of the provisions of Section 3 of this Agreement, other than an insubstantial and inadvertent failure remedied by Mattel promptly after receipt of notice thereof given by the Executive;

(iii) without the Executive's consent, any requirement by Mattel that Executive be based at any office or location other than an office or location in Los Angeles, California, except for travel reasonably required in the performance of the Executive's responsibilities;

(iv) any proposed termination by Mattel of the Executive's employment otherwise than as permitted by this Agreement; or

(v) any failure by Mattel to obtain the assumption and agreement to perform this Agreement by a successor as contemplated by Section 12(b).

(d) Change of Control. A "Change of Control" shall be deemed to have occurred if:

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(i) any "Person," which shall mean a "person" as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), (other than Mattel, any trustee or other fiduciary holding securities under an employee benefit plan of Mattel) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of Mattel representing 20% or more of the combined voting power of Mattel's then outstanding voting securities;

(ii) during any period of 24 consecutive months, individuals, who at the beginning of such period constitute the Board of Directors of Mattel, and any new director whose election by the Board of Directors, or whose nomination for election by Mattel's stockholders, was approved by a vote of at least one-half (1/2) of the directors then in office (other than in connection with a contested election), cease for any reason to constitute at least a majority of the Board of Directors;

(iii) the stockholders of Mattel approve (I) a plan of complete liquidation of Mattel or (II) the sale or other disposition by Mattel of all or substantially all of Mattel's assets unless the acquirer of the assets or its board of directors shall meet the conditions for a merger or consolidation in subparagraphs (iv)(I) or (iv)(II) below; or

(iv) the consummation of a merger or consolidation of Mattel with any other entity other than:

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(I) a merger or consolidation which results in the voting securities of Mattel outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the surviving entity's outstanding voting securities immediately after such merger or consolidation; or

(II) a merger or consolidation which would result in the directors of Mattel (who were directors immediately prior thereto) continuing to constitute at least 50% of all directors of the surviving entity immediately after such merger or consolidation.

In this paragraph (iv), "surviving entity" shall mean only an entity in which all of Mattel's stockholders immediately before such merger or consolidation (determined without taking into account any stockholders properly exercising appraisal or similar rights) become stockholders by the terms of such merger or consolidation, and the phrase "directors of Mattel (who were directors immediately prior thereto)" shall include only individuals who were directors of Mattel at the beginning of the 24 consecutive month period preceding the date of such merger or consolidation.

(e) Notice of Termination. Any termination of the Executive's employment by Mattel for Cause or following a Change of Control or by the Executive for Good Reason shall be

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communicated by Notice of Termination to the other party hereto given in accordance with Section 14(b). Any termination by Mattel due to Disability shall be given in accordance with Section 4(a). For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates

the specific termination provision in this Agreement relied upon; (ii) except in the event of a termination following a Change of Control, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated; and (iii) specifies the Date of Termination (defined below).

(f) Date of Termination. "Date of Termination" means the date of actual receipt of the Notice of Termination or any later date specified therein (but not more than fifteen (15) days after the giving of the Notice of Termination), as the case may be; provided that (i) if the Executive's employment is terminated by Mattel for any reason other than Cause or Disability, the Date of Termination is the date on which Mattel notifies the Executive of such termination; (ii) if the Executive's employment is terminated due to Disability, the Date of Termination is the Disability Effective Date; and (iii) if the Executive's employment is terminated due to the Executive's death, the Date of Termination shall be the date of death.

5. Obligations of Mattel upon Termination. Other than as specifically set forth or referenced in this Agreement, the

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Executive shall not be entitled to any benefits on or after the Date of Termination.

(a) Death. If the Executive's employment is terminated by reason of the Executive's death, this Agreement shall terminate without further obligations by Mattel to the Executive's legal representatives under this Agreement other than those obligations accrued hereunder or under the terms of the applicable Mattel plan or program which takes effect at the date of her death or as otherwise provided in Section 4(a) or this Section 5(a). As of the Date of Termination, the Executive's family shall be entitled to (i) the Executive's benefits on the terms described in Section 5(d)(vi)(I), except that healthcare insurance coverage and financial and legal counseling services shall terminate on the third anniversary of the Date of Termination and (ii) retirement benefits payable to Executive's surviving spouse or other named beneficiaries under the provisions of the "SERP" in accordance with Executive's eligibility for "SERP" as provided for under Section 5(d)(vii). The Executive's country club membership must be converted or sold, as the case may be, by the Executive's successor-in-interest within one year after the Date of Termination on the terms described in Section 5(d)(vi)(III); provided that no such conversion or sale shall be required and Mattel shall cause the membership to be transferred to the Executive's spouse at no cost to the spouse if the Executive has had the membership for at least three years.

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(b) Disability. If the Executive's employment is terminated by reason of the Executive's Disability, the Executive shall be entitled to receive after the Disability Effective Date (i) disability benefits, if any, at least equal to those then provided by Mattel to disabled executives and/or their families and (ii) those other benefits on the terms described in Section 5(d)(vi).

(c) Cause. If the Executive's employment is terminated for Cause or if the Executive terminates her employment without Good Reason, Mattel shall pay the Executive her full Base Salary through the Date of Termination at the rate in effect at the time Notice of Termination is given, and Mattel shall have no further obligations to the Executive under this Agreement.

(d) Good Reason; Other Than for Cause or Disability. If Mattel terminates the Executive's employment other than for Cause or Disability or the Executive terminates her employment for Good Reason (in each case, other than within 18 months following a Change of Control as provided in Section 5(e)):

(i) Mattel shall pay to the Executive in a lump sum in cash within 30 days after the Date of Termination the aggregate of the following amounts:

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(A) if not theretofore paid, the Executive's Base Salary through the Date of Termination at the rate in effect at the time of Notice of Termination was given;

(B) a current year MIP bonus equal to the average of the greatest two out of the three most recent annual MIP bonuses received by the Executive (which two greatest MIP bonuses need not represent consecutive years) (the "Average Annual Bonus") and prorated to reflect the total number of full months the Executive is employed in the year in which

termination occurs;

(C) an LTIP payment reflective of the Executive's participation in the three-year plan, so that at the time that final performance under the LTIP is determinable and individual payouts calculated, the Executive shall promptly receive an amount equivalent to what she would have received if she had remained employed through the date of such payouts, less any interim payments already made pursuant to the Executive's continuing eligibility for full participation in the LTIP; and

(D) five times the sum of (x) the Executive's annual Base Salary at the rate in effect at the time the Notice of Termination is given and (y) the Average Annual Bonus defined in Section 5(d)(i)(B), but without proration (and, in each such case, without regard to any contributions by Mattel for the Executive's benefit to the Mattel Personal Investment Plan ("PIP")).

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(ii) Options granted to the Executive under Mattel's stock option plans (the "Stock Option Plans") which options have been granted for more than six months shall become immediately exercisable and the Executive shall have a period of 90 days following the Date of Termination (but in no event past the expiration of the term of the option grant) to exercise all options granted under the Stock Option Plans then exercisable or which become exercisable pursuant to this clause (ii). In the event the Executive is age 52 or older on the Date of Termination, she will be treated as a retiree under the Stock Option Plans, which will enable the Executive to vest in and exercise stock options theretofore granted thereunder, at the election of the Executive, (x) in the manner described in the immediately preceding sentence, or (y) for a period of up to five years after the Date of Termination (but in no event past the expiration of the term of the option grant).

(iii) Awards of restricted stock granted to the Executive shall become distributable as of the Date of Termination in the same manner as they would have been distributable had the Executive remained an executive of Mattel to the date the restrictions lapse under the grants, except that if termination occurs prior to full vesting on January 1, 1997, the measurement period for determining whether the performance goals have been satisfied shall be the period commencing on January 1, 1994 and ending on the last day of Mattel's most recent fiscal quarter ending immediately prior to the Date of Termination.

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(iv) Mattel shall, promptly upon submission by the Executive of supporting documentation, pay or reimburse to the Executive any costs and expenses paid or incurred by the Executive which would have been payable under Section 3(e) if her employment had not terminated.

(v) The Executive shall be entitled to purchase her office furnishings from Mattel for \$1.00.

(vi) Until the earlier of (x) the third anniversary of the Date of Termination or (y) the date the Executive accepts other employment, Mattel shall provide to the Executive at Mattel's expense:

(I) medical, dental, prescription drug and vision care group insurance in accordance with the coverage in effect immediately prior to the Date of Termination (the last 18 months of the Executive's coverage under such insurance shall be deemed to be participation under an election to continue such benefits under the Consolidated Omnibus Budget Reconciliation Act at Mattel's expense);

(II) outplacement services at the expense of Mattel commensurate with those provided to terminated executives of comparable level and made available through and at the facilities of a reputable and experienced vendor; and

(III) continuation of country-club membership "signatory/representative" status as in effect immediately prior to the Date of Termination; and within ninety (90) days following the Date of Termination, Mattel shall cause the membership to be

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transferred to the Executive at no cost to the Executive (but subject to tax reporting as imputed income applicable to the year in which the membership is transferred).

For the three-year period after the Date of Termination, the Executive shall remain eligible for use of personal financial and legal counseling services through the vendor engaged and paid for by Mattel. The Executive

may continue to use the car leased by Mattel that is in the Executive's possession on the Date of Termination until the earlier of (x) the end of the lease term or (y) the third anniversary of the Date of Termination, at which time the Executive may purchase the car for \$1.00 (if at the end of the lease term) or Mattel's book value (if on the third anniversary of the Date of Termination). As of the Date of Termination, all expenses related to such leased car, including but not limited to repairs, maintenance, gasoline, and car phone and associated expenses, shall be the sole responsibility of the Executive.

(vii) Credit shall be given for three years of service (in addition to actual service) and for three years of attained age to be added to the Executive's actual age for purposes of computing any service and age-related benefits for which the Executive is eligible under the plans and programs of Mattel, including but not limited to the 1994 Supplemental Executive Retirement Plan (including any successor plan thereto in which the Executive is a participant, the "SERP"), the Mattel Deferred Compensation Plan, the PIP, the Mattel Retiree Medical

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Plan, and the Stock Option Plans. In the event of an applicable termination under the provisions of Sections 5 (d) or (e), and pursuant to the terms of Section 3.(c) which includes a waiver and renunciation of rights under the 1990 Supplemental Executive Retirement Plan which therein provided for benefits eligibility at age 50, the Executive shall be accorded eligibility under the SERP as early as age 47, based on the three additional years of age-related credit under this paragraph; however, such premature eligibility shall be limited in application to the extent that it shall qualify the Executive to receive benefits under the SERP as early as age 52 upon having attained at least age 47 on the Date of Termination. For purposes of benefits calculation in the event of an applicable termination after attaining age 47, Executive shall be treated as if she had actually attained age 52 on the Date of Termination. Further, with regard to computing the Executive's benefit under the SERP, the formula described in Section 5(d)(i)(B) shall be utilized in calculating the maximum benefit, namely: the formula shall be 25% of the average of the final three years of annual Base Salary (including the calendar year in which the Date of Termination occurs), plus the average of the greatest two of the three most recent annual MIP bonuses received by the Executive.

(e) Change of Control. If, within 18 months following a Change of Control, the Executive terminates her employment for Good Reason or Mattel or the surviving entity terminates the Executive's employment other than for Cause or Disability:

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(i) Mattel shall pay to the Executive in a lump sum in cash within 30 days after the Date of Termination the aggregate of the following amounts:

(A) if not theretofore paid, the Executive's Base Salary through the Date of Termination at the rate in effect at the time of Notice of Termination was given;

(B) an amount equal to the MIP bonus that would have been payable to executives of Mattel in the same bonus category as the Executive pursuant to the Bonus Programs provided in Section 3(b) assuming, for purposes of calculating the amount of the bonus pool under the plan, that the "maximum" amount, as that term is used in the plan, was achieved for the current plan year (the "Maximum Annual Bonus"), with such amount prorated to reflect the number of full months the Executive is employed in the year in which termination occurs;

(C) an LTIP payment for the current year, assuming achievement of the three-year maximum award, prorated to reflect the total number of full months the Executive is employed in the year in which termination occurs;

(D) five times the sum of (x) the Executive's annual Base Salary at the rate in effect at the time the Notice of Termination is given and (y) the Maximum Annual Bonus defined in Section 5(e)(i)(B), but without proration (and, in each such case, without regard to any contributions by Mattel for the Executive's benefit to the PIP); and

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(E) two times the full term payout for the three-year period of the LTIP, assuming for purposes of calculating the amount earned under the LTIP, achievement of the three-year maximum award (including the full amount of the premium), less any interim payments previously received by the Executive.

(ii) If it is determined that any payment or distribution by Mattel to the Executive pursuant to Section 5(e) (determined without regard to any additional payments required pursuant to this sentence) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive with respect to each Payment an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

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(iii) In addition, the Executive shall receive the amounts and be entitled to the benefits provided in clauses (ii), (iii), (iv), (v), (vi) and (vii) of Section 5(d).

(f) Bonus During Cancellation Period. If Mattel notifies the Executive that the Employment Period provided in Section 1 hereof will not be automatically extended as provided therein, the compensation of the Executive shall continue as provided in this Agreement for the period provided therein, except that the amount of MIP compensation payable under the Bonus Programs with respect to each fiscal year during such period (including the year in which the notice was given) shall be the Average Annual Bonus as determined in Section 5(d)(i)(B). Amounts payable with respect to the year in which the term specified in Section 1 expires shall be prorated based on a fraction the numerator of which is the number of full months from the beginning of such year until the date of the expiration of this Agreement and denominator of which is 12.

6. Election of Executive.

(a) Time and Capacity. Mattel and Executive expect that Executive will continue to report to John W. Amerman, Chairman of the Board and that on or before December 31, 1996, Mattel, through its Board of Directors, shall cause Executive to be elected President and Chief Executive Officer of Mattel with responsibilities for all functional areas of Mattel including, but not limited to, the USA and International Divisions,

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Operations, Fisher-Price or any after acquired company, Administration and the Corporate Staff.

(b) Termination. In the event that (w) on or before January 31, 1997, Executive is not elected President and Chief Executive Officer with responsibilities for all functions of Mattel as outlined in Section 6(a), or (x) if at any time on, before or after January 31, 1997, a person other than John W. Amerman is elected Chairman of the Board, Executive may terminate her employment at any time (y) during the 180-day period beginning on February 1, 1997 if Executive is not elected to one of the offices described in clause (w) of this Section 6(b), or (z) during the 180-day period beginning on the date a person other than John W. Amerman is elected Chairman of the Board. Any termination by Executive shall be given by Notice of Termination in accordance with the provisions of Section 4(e) and the Date of Termination shall be the date determined in accordance with Section 4(f).

(c) Obligation of Mattel Upon Termination. If Executive shall terminate her employment as provided in this Section 6, it shall be deemed a termination for Good Reason within the meaning of Section 4(c) and Mattel shall pay to Executive the amount specified in Section 5(d) hereof.

(d) Payments Exclusive. The amounts payable pursuant to this Section 6 are in lieu of and not in addition to amounts

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payable under Section 5. In the event it is determined that payments are due under this Section 6 and Section 5, payments shall be determined pursuant to this Section 6.

7. Non-exclusivity of Rights. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any benefit, bonus, incentive or other plan or program provided by Mattel and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any stock option or other agreement with Mattel or any of its affiliated companies.

Except as otherwise provided herein, amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan or program of Mattel at or subsequent to the Date of Termination shall be payable in accordance with such plan or program.

8. No Set Off, Payment of Fees. Except as provided herein, Mattel's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any circumstances, including without limitation any set-off, counterclaim, recoupment, defense or other right which Mattel may have against the Executive or others. Mattel agrees to pay, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by Mattel or others of the validity or

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enforceability of, or liability under, any provision of this Agreement other than expenses relating to a claim by the Executive that she terminated for Good Reason or that the termination for Cause was improper, in which case such fees and expenses shall be paid only if the Executive prevails in whole or in part. All amounts provided herein shall include, in each case, interest, compounded quarterly, on the total unpaid amount determined to be payable under this Agreement, such interest to be calculated on the basis of the prime commercial lending rate announced by Bank of America National Trust and Savings Association in effect from time to time during the period of such nonpayment. In the event that the Executive shall in good faith give a Notice of Termination for Good Reason and it shall thereafter be determined that Good Reason did not exist, the employment of the Executive shall, unless Mattel and the Executive shall otherwise mutually agree, be deemed to have terminated at the Date of Termination specified in such purported Notice of Termination by mutual consent of Mattel and the Executive and thereupon, the Executive shall be entitled to receive only those payments and benefits which she would have been entitled to receive at such date.

9. Arbitration of Disputes.

(a) The parties agree that any disputes, controversies or claims which arise out of or relate to this Agreement, the Executive's employment or the termination of her employment, including, but not limited to, any claim relating to the

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purported validity, interpretation, enforceability or breach of this Agreement, and/or any other claim or controversy arising out of the relationship between the Executive and Mattel (or the nature of the relationship) or the continuation or termination of that relationship, including, but not limited to, claims that a termination was for Cause, including the determination of Mattel's Board of Directors in accordance with Section 4(b), or for Good Reason, claims for breach of covenant, breach of an implied covenant of good faith and fair dealing, wrongful termination, breach of contract, or intentional infliction of emotional distress, defamation, breach of right of privacy, interference with advantageous or contractual relations, fraud, conspiracy or other tort or property claims of any kind, which are not settled by agreement between the parties, shall be settled by arbitration under the labor arbitration rules of the American Arbitration Association before a board of three arbitrators, as selected thereunder.

One arbitrator shall be selected by the Executive, one by Mattel and the third by the two persons so selected, all in accordance with the labor arbitration rules of the American Arbitration Association then in effect. In the event that the arbitrator selected by the Executive and the arbitrator selected by Mattel are unable to agree upon a third arbitrator, then the third arbitrator shall be selected from a list of seven provided by the office of the American Arbitration Association nearest to the Executive's residence with the parties striking names in

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order and the party striking first to be determined by the flip of a coin. The arbitration shall be held in a location to be mutually agreed upon by the parties. In the absence of agreement, the Chairman of the Board of Mattel shall determine the location.

(b) In consideration of the parties' agreement to submit to arbitration all disputes with regard to this Agreement and/or with regard to any alleged contract, or any other claim arising out of their conduct, the relationship existing hereunder or the continuation or termination of that relationship, and in further consideration of the anticipated expedition and the minimizing of expense resulting from this arbitration remedy, the arbitration provisions of this Agreement shall provide the

exclusive remedy, and each party expressly waives any right she or it may have to seek redress in any other forum.

(c) Any claim which either party has against the other party which could be submitted for resolution pursuant to this Section 9 must be presented in writing by the claiming party to the other within one year of the date the claiming party knew or should have known of the facts giving rise to the claim, except that claims arising out of or related to the termination of the Executive's employment must be presented by her within one year after the Date of Termination. Unless the party against whom any claim is asserted waives the time limits set forth above, any

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claim not brought within the time periods specified shall be waived and forever barred.

(d) Mattel will pay all costs and expenses of the arbitration to the extent provided in this Section 9. In the event expenses are not paid by Mattel, and without diminishing the Executive's right to reimbursement as provided in this Section, costs and expenses shall be paid as follows: (x) the expenses of the neutral arbitrator and of a transcript of any arbitration proceeding shall be divided equally between the Executive and Mattel; and (y) each party shall bear the expenses of the arbitrator selected by it and of the witnesses it calls.

(e) Any decision and award or order of a majority of the arbitrators shall be binding upon the parties hereto and judgment thereon may be entered in the Superior Court of the State of California or any other court having jurisdiction.

(f) Each of the above terms and conditions of this Section 9 shall have separate validity and the invalidity of any part thereof shall not affect the remaining parts.

(g) Any decision and award or order of a majority of the arbitrators shall be final and binding between the parties as to all claims which were raised in connection with the dispute to the full extent permitted by law. In all other cases, the parties agree that a decision of a majority of arbitrators shall be a

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condition precedent to the institution or maintenance of any legal, equitable, administrative, or other formal proceeding by the Executive in connection with the dispute, and that the decision and opinion of the board of arbitrators may be presented in any other forum on the merits of the dispute.

10. General Release. The Executive acknowledges and agrees that this Agreement includes the entire agreement and understanding between the parties with regard to the Executive's employment, the termination thereof during the Employment Period, and all amounts to which the Executive shall be entitled whether during the term of employment or upon termination thereof. Accordingly, upon Mattel's fulfilling its obligations to the Executive hereunder, the Executive, on behalf of herself and her successors, assigns, heirs and any and all other persons claiming through the Executive, if any, and each of them, shall and does hereby forever relieve, release, and discharge Mattel and its respective predecessors, successors, assigns, owners, attorneys, representatives, affiliates, parent corporations, subsidiaries (whether or not wholly-owned), divisions, partners and their officers, directors, agents, employees, servants, executors, administrators, accountants, investigators, insurers, and any and all other related individuals and entities, if any, and each of them, in any and all capacities, from any and all claims, debts, liabilities, demands, obligations, liens, promises, acts, agreements, costs and expenses (including, but not limited to, attorneys' fees), damages, actions and causes of action, of

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whatever kind or nature, including, without limitation, any statutory, civil or administrative claim, or any claim, arising out of acts or omissions occurring before the execution of this Agreement, whether known or unknown, suspected or unsuspected, fixed or contingent, apparent or concealed (collectively referred to as "claims"), including, but not limited to, any claims based on, arising out of, related to or connected with the subject matter of this Agreement, the Executive's employment or the termination thereof, and any and all facts in any manner arising out of, related to or connected with the Executive's employment with, or termination of employment from, Mattel or any of its related entities, including, but not limited to, any claims arising from rights under federal, state, and local laws prohibiting discrimination on the basis of race, national origin, sex, religion, age, marital status,

pregnancy, handicap, ancestry, sexual orientation, or any other form of discrimination, and any common law claims of any kind, including, but not limited to, contract, tort, and property rights including, but not limited to, breach of contract, breach of the implied covenant of good faith and fair dealing, tortious interference with contract or current or prospective economic advantage, fraud, deceit, misrepresentation, defamation, wrongful termination, infliction of emotional distress, breach of fiduciary duty, and any other common law claim of any kind whatever.

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Upon Mattel's fulfilling its obligations to the Executive hereunder, the Executive expressly waives any and all rights under Section 1542 of the Civil Code of the State of California, and all other federal or state statutory rights, rules, and principles of common law or equity, including without limitation those of any jurisdiction, government, or political subdivision thereof, similar to Section 1542 ("similar provision"). Thus the Executive may not invoke the benefits of Section 1542 or any similar provision in order to prosecute or assert in any manner any claims released hereunder. Section 1542 provides as follows:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HER MUST HAVE MATERIALLY AFFECTED HER SETTLEMENT WITH THE DEBTOR."

11. Confidential Information. The Executive shall hold in a fiduciary capacity for the benefit of Mattel all secret or confidential information, knowledge or data relating to Mattel or any of its affiliated companies, and their respective businesses, which shall have been obtained by the Executive during her employment by Mattel or any of its affiliated companies and which shall not be public knowledge and will continue to be bound by the provisions of the Patent and Confidence Agreement previously executed by the Executive. After termination of the Executive's employment with Mattel, she shall not, without the prior written consent of Mattel, communicate or divulge any such information,

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knowledge or data to anyone other than Mattel and those designated by it.

12. Successors.

(a) This Agreement is personal to the Executive and without the prior written consent of Mattel shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon Mattel and its successors. Mattel shall require any successor to all or substantially all of the business and/or assets of Mattel, whether direct or indirect, by purchase, merger, consolidation, acquisition of stock, or otherwise, by an agreement in form and substance satisfactory to the Executive, expressly to assume and agree to perform this Agreement in the same manner and to the same extent as Mattel would be required to perform if no such succession had taken place.

13. Amendment; Waiver. This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and may be amended, modified or changed only by a written instrument executed by the Executive and Mattel. No provision of this Agreement may be waived except by a writing executed and

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delivered by the party sought to be charged. Any such written waiver will be effective only with respect to the event or circumstance described therein and not with respect to any other event or circumstance, unless such waiver expressly provides to the contrary.

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14. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of California, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect.

(b) All notices and other communications hereunder shall be in writing; shall be delivered by hand delivery to the other party or mailed by registered or certified mail, return receipt requested, postage prepaid;

shall be deemed delivered upon actual receipt; and shall be addressed as follows:

if to the Executive:

Jill E. Barad

*

*

if to Mattel:

MATTEL, INC.
333 Continental Blvd.
El Segundo, CA 90245
ATTENTION: General Counsel

or to such other address as either party shall have furnished to the other in writing in accordance herewith.

(c) Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction will, as to such jurisdiction, be ineffective to the extent of such prohibition or

* CONFIDENTIAL

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unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction will not invalidate or render unenforceable such provision in any other jurisdiction.

(d) Mattel may withhold from any amounts payable under this Agreement such Federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

IN WITNESS WHEREOF, each of the parties hereto has duly executed this Agreement as of the date first set forth above.

EXECUTIVE:

/s/ Jill E. Barad

Jill E. Barad

MATTEL:

MATTEL, INC.,
a Delaware corporation

By:/s/ Ned Mansour

Ned Mansour

ATTEST:

/s/ Stephen Hartley

Assistant Secretary

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EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, dated as of September 23, 1996 (the "Agreement"), is between Mattel, Inc., a Delaware corporation ("Mattel"), and John W. Amerman ("Amerman").

In consideration of services to be performed by Amerman under this Agreement, the termination of the Existing Employment Agreement between Mattel and Amerman dated as of November 11, 1993 and which was made subject to an Interpretive Rider dated January 2, 1996 (collectively, the "Existing Employment Agreement"), and for other good and valuable consideration, the receipt of which is hereby acknowledged, Mattel and Amerman desire to enter into this Agreement which shall become effective on January 1, 1997, the first day following the termination of the Existing Employment Agreement.

1. Termination of the Existing Employment Agreement.

Notwithstanding anything to the contrary contained therein, the Existing Employment Agreement shall terminate on December 31, 1996 and except as expressly stated in this Agreement, neither Amerman nor Mattel shall have any further rights or obligations thereunder after such date.

2. Employment Period and Duties. Mattel hereby agrees to employ Amerman and continue him in its employ, and Amerman hereby accepts such employment and agrees to remain in the employ of

Mattel, as a Senior Advisor to the Chief Executive Officer for the period commencing on January 1, 1997 and ending on December 31, 1998 (the "Employment Period").

Throughout the Employment Period, Amerman's duties, responsibilities, and authority shall be such advisory services as determined by the Chief Executive Officer or by the Board of Directors, shall be consistent with his level of experience and stature within the business community and shall be performed in Los Angeles, California, unless Amerman consents to a transfer outside the area. Amerman will not be an officer of Mattel or any of its subsidiaries nor shall his employment include any policy making functions. It is further provided that unless Amerman elects otherwise, he shall continue in the role of Mattel's Chairman of the Board of Directors, until the earlier of (i) when Jill E. Barad, in the role of Chief Executive Officer and with the concurrence of the Board of Directors, elects to assume the additional role of Chairman of the Board, or (ii) a majority of the Board appoints a new Chairman, or (iii) until December 31, 1997 when his tenure as Chairman of the Board will expire, and thereupon, Amerman will immediately relinquish his title and position as Chairman of the Board.

This Agreement shall further serve to memorialize certain rights and benefits owed to Amerman by Mattel during the period of his retirement from Mattel, commencing no later than January

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1, 1999, notwithstanding the fact that the Employment Period, as described herein, shall not extend beyond December 31, 1998.

3. Performance of Duties. As Senior Advisor, Amerman agrees to perform necessary duties and services on behalf of Mattel, as reasonably requested in good faith by the Chief Executive Officer during the Employment Period; however, Amerman shall not be precluded from engaging in any outside business activity unrelated to Mattel, so long as Amerman does not engage in the business of developing, producing, marketing or selling products or services of the kind or type being developed, produced, marketed or sold by Mattel or its affiliates while Amerman is employed by Mattel. Amerman's duties shall also include cooperating with Mattel in connection with any future or currently pending litigation, investigation or other matter, including without limitation, making himself available to testify in any action as reasonably requested by Mattel.

4. Compensation.

(a) Base Salary. Throughout the Employment Period, Amerman shall receive a base salary ("Base Salary") at the bi-weekly rate of \$42,308.00, and the said Base Salary rate shall be maintained through the final pay period ending on or before December 31, 1998.

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(b) Bonus Programs. In addition to the Base Salary, Amerman shall participate throughout the Employment Period in Mattel's Management

Incentive Plan ("MIP") and its Long-Term Incentive Plan ("LTIP"), collectively described as "Bonus Programs". Amerman's participation in the MIP and the LTIP shall be provided for as follows:

(i) For the 1996 MIP, payable in 1997, Amerman's award shall be made by the Compensation/Options Committee of the Board of Directors of Mattel, in accordance with the terms and provisions of the 1996 MIP;

(ii) For the 1997 MIP, payable in 1998, Amerman shall participate in accordance with the terms and provisions of the 1997 MIP, except that Amerman's award shall be made by the Compensation/Options Committee of the Board of Directors of Mattel, and the amount of such award shall be based exclusively on Mattel's overall corporate financial performance in 1997 pursuant to its level of achievement with respect to pre-established goals approved by the Compensation/Options Committee, so long as such performance is at or above "Cut-In" as defined in the provisions of the 1997 MIP;

(iii) For the 1998 MIP, payable in 1999, Amerman shall participate in accordance with the terms and provisions of the 1998 MIP, except that Amerman's award shall be made by the Compensation/Options Committee of the Board of Directors of Mattel, and the amount of such award shall be based exclusively

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on Mattel's overall corporate financial performance in 1998 pursuant to its level of achievement with respect to pre-established goals approved by the Compensation/Options Committee, so long as such performance is at or above "Cut In" as defined in the provisions of the 1998 MIP; and,

(iv) Amerman's eligibility and participation in the 1996-1998 LTIP shall continue on the same basis as provided for under the Existing Employment Agreement dated as of November 11, 1993.

(c) Retirement Plans. In addition to the Base Salary and participation in the Bonus Programs, during the Employment Period, Amerman shall be entitled to participate in all retirement plans, specifically, but not limited to, Mattel's 401(k) Plan and Mattel's Supplemental Executive Retirement Plan ("SERP"), as such plans may be in effect from time to time at Mattel. It is agreed that in the calculation of Amerman's SERP benefit, the provision in the Plan which defines the short-term bonus ("MIP") component of his "Final Average Compensation" shall be the average of the highest two out of the last five year's awards. In the event of Amerman's death prior to the conclusion of the Employment Period, Amerman's spouse shall receive a retirement benefit, as provided for pursuant to Amerman's election and if no such election is made, then the "100% Joint and Survivor Option" shall apply in accordance with the

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applicable provisions of the SERP, and payment shall begin as soon as practicable after Amerman's death.

(d) Benefit Plans. During the Employment Period, Amerman and/or his family, as the case may be, shall be entitled to receive all amounts which he or his family is or would have been entitled to receive as benefits under all medical, dental, disability, group life, accidental death and travel accident insurance plans and programs of Mattel in which Amerman is a participant as in effect from time to time at Mattel. Further, following the completion of the Employment Period, Amerman and his family shall continue to be eligible for benefits under the medical, dental, and group life insurance plans in effect as of December 31, 1998, with Amerman and his family's eligibility for coverages to continue up through and until Amerman's death, whereupon the applicable spouse-related coverages pertaining to the medical and dental insurance plans shall continue to apply to Amerman's spouse, if living, for a period of six months following Amerman's death.

(e) Expenses and Office Space. During the Employment Period, Amerman shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by him in accordance with the policies and practices of Mattel as in effect from time to time at Mattel. In the event that Amerman's offices during the Employment Period are located at a site other than at Mattel's

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headquarters' building in El Segundo, California, Mattel shall provide Amerman with Company-paid office accommodations reasonably comparable to those which he last occupied in the Mattel headquarters' building and appropriate administrative support as requested by Amerman.

(f) Fringe Benefits. During the Employment Period, Amerman shall be entitled to fringe benefits on the same basis as received by him under the terms of his Existing Employment Agreement dated as of November 11, 1993, including the automobile currently in his possession, along with associated auto-related expenses as well as the use of a company-issued gasoline credit card, country club memberships and related expenses, and financial counseling in accordance with the policies of Mattel as in effect from time to time at Mattel. Further, following the completion of the Employment Period, Amerman shall be entitled to: (i) continued use of the same automobile up to December 31, 2001 whereupon Amerman may purchase said automobile for \$1.00 with such purchase to be consummated not later than January 31, 2002; (ii) continued use of gasoline credit cards issued by Mattel up to December 31, 2001; (iii) financial counseling paid for by Mattel until Amerman's death; and (iv) continued payment by Mattel of annual country club dues and associated expenses up to December 31, 2001, when said membership shall be wholly transferred to Amerman at no cost to him (but subject to tax

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reporting as imputed income applicable to the year in which the membership is transferred).

(g) Stock Option Grants. During the Employment Period, the Board of Directors, in its sole discretion, may award stock option grants to Amerman in accordance with the terms and conditions of the 1996 Mattel Stock Option Plan.

(h) Certain Amendments. Nothing herein shall be construed to prevent Mattel from amending, altering, eliminating or reducing any plans, benefits or programs so long as Amerman continues to have the opportunity to receive compensation and benefits consistent with Sections 4(a) through (g).

5. Termination.

(a) Death. This Agreement shall terminate automatically upon Amerman's death; provided that Base Salary, all bonuses and earned benefits will be continued and paid for a period of six (6) months thereafter, unless a longer period is otherwise specified.

(b) Cause. Mattel may terminate Amerman's employment for "Cause" if a majority, consisting of at least 2/3 of the non-management members of the Board of Directors of Mattel, determines that "Cause" exists. For purposes of this Agreement, "Cause" means (i) an act or acts of dishonesty on Amerman's part

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which are intended to result in his substantial personal enrichment at the expense of Mattel; (ii) repeated violations by Amerman of his obligations under Section 2 of this Agreement which are demonstrably willful and deliberate on Amerman's part and which resulted in material injury to Mattel; (iii) conduct of a criminal nature which has or which is more likely than not to have a material adverse effect on Mattel's reputation or standing in the community or on its continuing relationships with its customers or those who purchase or use its products; or (iv) fraudulent conduct in connection with the business or affairs of Mattel, regardless of whether said conduct is designed to defraud Mattel or others; provided that, in each case, Amerman has received written notice of the described activity, has been afforded a reasonable opportunity to cure or correct the activity described in the notice, and has failed to substantially cure, correct or cease the activity, as appropriate.

(c) Good Reason. Amerman may terminate his employment at any time for Good Reason. For purposes of this Agreement, "Good Reason" means the good faith determination by Amerman that any one or more of the following have occurred:

(i) without the express written consent of Amerman, any change(s) in any of the duties, authority, or responsibilities of Amerman which is (are) inconsistent in any substantial respect with Amerman's position, authority, duties,

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or responsibilities as contemplated by Sections 2 and 3 of this Agreement;

(ii) any failure by Mattel to comply with any of the provisions of Section 4 of this Agreement, other than an insubstantial and inadvertent failure remedied by Mattel promptly after receipt of notice thereof given by Amerman;

(iii) without Amerman's consent, any requirement by Mattel that Amerman be based at any office or location other than an office or location in Los Angeles, California, except for travel reasonably required in the performance of Amerman's responsibilities;

(iv) any proposed termination by Mattel of Amerman's employment otherwise than as permitted by this Agreement; or

(v) any failure by Mattel to obtain the assumption and agreement to perform this Agreement by a successor as contemplated by Section 15(b).

(d) Notice of Termination. Any termination of Amerman's employment by Mattel for Cause or by Amerman for Good Reason shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 16(b). For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon; and (ii) specifies the Date of Termination (defined below).

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(e) Date of Termination. "Date of Termination" means the date of actual receipt of the Notice of Termination or any later date specified therein (but not more than fifteen (15) days after the giving of the Notice of Termination), as the case may be; provided that (i) if Amerman's employment is terminated by Mattel for any reason other than Cause, the Date of Termination is the date on which Mattel notifies Amerman of such termination; and (ii) if Amerman's employment is terminated due to Amerman's death, the Date of Termination shall be the date of death.

6. Obligations of Mattel upon Termination. Other than as specifically set forth or referenced in this Agreement, Amerman shall not be entitled to any benefits on or after the Date of Termination.

(a) Death. If Amerman's employment is terminated by reason of his death, this Agreement shall terminate without further obligations by Mattel to Amerman's legal representatives under this Agreement other than those obligations accrued hereunder or under the terms of the applicable Mattel plan or program which takes effect at the date of his death or as otherwise provided in Section 5(a) or this Section 6(a). As of the Date of Termination, Amerman's family shall be entitled to Amerman's benefits on the terms described in Section 6(c)(vi) (other than leased car benefits, which are excluded), except that healthcare insurance coverage and financial counseling services

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shall terminate on the later of: (a) December 31, 2001, or (b) three years from the date of Amerman's death. Amerman's country club membership shall be transferred to Amerman's spouse at no cost to the spouse within six (6) months of Amerman's death.

(b) Cause. If Amerman's employment is terminated for Cause or if Amerman terminates his employment without Good Reason, Mattel shall pay Amerman his full Base Salary through the Date of Termination at the rate in effect at the time Notice of Termination is given, and Mattel shall have no further obligations to Amerman under this Agreement.

(c) Good Reason; Other Than for Cause. If Mattel terminates Amerman's employment other than for Cause or Amerman terminates his employment for Good Reason:

(i) Mattel shall pay to Amerman in a lump sum in cash within 30 days after the Date of Termination the balance of the bi-weekly salary payments which would have been paid to Amerman through December 31, 1998 if he had continued in the employ of Mattel;

(ii) Mattel shall pay to Amerman any unpaid MIP bonus awards due to Amerman based on Mattel's corporate performance for the 1997 and 1998 MIP years, with such payments to be made not later than March 31 of the succeeding years

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immediately following the completion of the applicable MIP calendar year(s);

(iii) Mattel shall pay to Amerman an LTIP payment reflective of Amerman's participation in the three-year plan, so that at the time that final performance under the LTIP is determinable and individual payouts calculated, Amerman shall promptly receive an amount equivalent to what he would have received if he had remained employed through the date of such payouts, less any interim payments already made

pursuant to Amerman's continuing eligibility for full participation in the LTIP; and

(iv) Options granted to Amerman under Mattel's stock option plans (the "Stock Option Plans") which options have been granted for more than six months shall become immediately exercisable and Amerman shall have a period of 90 days following the Date of Termination (but in no event past the expiration of the term of the option grant) to exercise all options granted under the Stock Option Plans then exercisable or which become exercisable pursuant to this clause (iv). On the Date of Termination, Amerman will be treated as a retiree under the Stock Option Plans, which will enable Amerman to vest in and exercise stock options theretofore granted thereunder, at the election of Amerman, (x) in the manner described in the immediately preceding sentence, or (y) for a period of up to five years after the Date of Termination (but in no event past the expiration of the term of the option grant).

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(v) Mattel shall, promptly upon submission by Amerman of supporting documentation, pay or reimburse to Amerman any costs and expenses paid or incurred by Amerman which would have been payable under Section 4(e) if his employment had not terminated.

(vi) Mattel shall provide to Amerman at Mattel's expense:

(I) life-long medical, dental, prescription drug and vision care group insurance in accordance with the coverage in effect immediately prior to the Date of Termination, as well as life-long personal financial counseling services through the vendor engaged and paid for by the Company;

(II) continuation of country-club membership "signatory/representative" status as in effect immediately prior to the Date of Termination until December 31, 2001, and thereafter, Mattel shall cause the membership to be transferred to Amerman at no cost to Amerman (but subject to tax reporting as imputed income applicable to the year in which the membership is transferred).

Amerman may continue to use the car leased by Mattel that is in his possession on the Date of Termination until December 31, 2001, at which time Amerman may purchase the car for \$1.00. Up to December 31, 2001, all reasonably-incurred expenses related to such leased car, including but not limited to repairs,

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maintenance, gasoline, and car phone and other associated expenses, shall be borne by Mattel.

7. Non-exclusivity of Rights. Nothing in this Agreement shall prevent or limit Amerman's continuing or future participation in any benefit, bonus, incentive or other plan or program provided by Mattel and for which Amerman may qualify, nor shall anything herein limit or otherwise affect such rights as Amerman may have under any stock option or other agreement with Mattel or any of its affiliated companies. Except as otherwise provided herein, amounts which are vested benefits or which Amerman is otherwise entitled to receive under any plan or program of Mattel at or subsequent to the Date of Termination shall be payable in accordance with such plan or program.

8. No Set Off, Payment of Fees. Except as provided herein, Mattel's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any circumstances, including without limitation any set-off, counterclaim, recoupment, defense or other right which Mattel may have against Amerman or others. Mattel agrees to pay, to the full extent permitted by law, all legal fees and expenses which Amerman may reasonably incur as a result of any contest (regardless of the outcome thereof) by Mattel or others of the validity or enforceability of, or liability under, any provision of this Agreement other than

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expenses relating to a claim by Amerman that he terminated for Good Reason or that the termination for Cause was improper, in which case such fees and expenses shall be paid only if Amerman prevails in whole or in part. All amounts provided herein shall include, in each case, interest, compounded quarterly, on the total unpaid amount determined to be payable under this Agreement, such interest to be calculated on the basis of the prime commercial lending rate published in the Wall Street Journal in effect from time to time during the period of such nonpayment. In the event that Amerman shall in good faith give a Notice of Termination for Good Reason and it shall thereafter be determined that Good Reason did not exist, the employment of Amerman shall, unless Mattel and Amerman shall otherwise mutually agree, be deemed to have terminated at the Date of

Termination specified in such purported Notice of Termination by mutual consent of Mattel and Amerman and thereupon, Amerman shall be entitled to receive only those payments and benefits which he would have been entitled to receive at such date.

9. Arbitration of Disputes.

(a) The parties agree that any disputes, controversies or claims which arise out of or relate to this Agreement, Amerman's employment or the termination of his employment, including, but not limited to, any claim relating to the purported validity, interpretation, enforceability or breach of this Agreement, and/or any other claim or controversy arising out

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of the relationship between Amerman and Mattel (or the nature of the relationship) or the continuation or termination of that relationship, including, but not limited to, claims that a termination was for Cause, including the determination of Mattel's Board of Directors in accordance with Section 5(b), or for Good Reason, claims for breach of covenant, breach of an implied covenant of good faith and fair dealing, wrongful termination, breach of contract, or intentional infliction of emotional distress, defamation, breach of right of privacy, interference with advantageous or contractual relations, fraud, conspiracy, statutory or constitutional claims or other tort or property claims of any kind, which are not settled by agreement between the parties, shall be settled by arbitration under the labor arbitration rules of the American Arbitration Association before a board of three arbitrators, as selected thereunder.

One arbitrator shall be selected by Amerman, one by Mattel and the third by the two persons so selected, all in accordance with the labor arbitration rules of the American Arbitration Association then in effect. In the event that the arbitrator selected by Amerman and the arbitrator selected by Mattel are unable to agree upon a third arbitrator, then the third arbitrator shall be selected from a list of seven provided by the office of the American Arbitration Association nearest to Amerman's residence with the parties striking names in order and the party striking first to be determined by the flip of a coin.

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The arbitration shall be held in a location to be mutually agreed upon by the parties. In the absence of agreement, the Chairman of the Compensation/Options Committee of the Board of Mattel shall determine the location.

(b) In consideration of the parties' agreement to submit to arbitration all disputes with regard to this Agreement and/or with regard to any alleged contract, or any other claim arising out of their conduct, the relationship existing hereunder or the continuation or termination of that relationship, and in further consideration of the anticipated expedition and the minimizing of expense resulting from this arbitration remedy, the arbitration provisions of this Agreement shall provide the exclusive remedy, and each party expressly waives any right he or it may have to seek redress in any other forum.

(c) Any claim which either party has against the other party which could be submitted for resolution pursuant to this Section 9 must be presented in writing by the claiming party to the other within one year of the date the claiming party knew or should have known of the facts giving rise to the claim, except that claims arising out of or related to the termination of Amerman's employment must be presented by him within one year after the Date of Termination. Unless the party against whom any claim is asserted waives the time limits set forth above, any

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claim not brought within the time periods specified shall be waived and forever barred.

(d) Mattel will pay all costs and expenses of the arbitration. In the event expenses are not paid by Mattel, and without diminishing Amerman's right to reimbursement as provided in this Section, costs and expenses shall be paid as follows: (x) the expenses of the neutral arbitrator and of a transcript of any arbitration proceeding shall be divided equally between Amerman and Mattel; and (y) each party shall bear the expenses of the arbitrator selected by it and of the witnesses it calls.

(e) Any decision and award or order of a majority of the arbitrators shall be binding upon the parties hereto and judgment thereon may be entered in the Superior Court of the State of California or any other court having jurisdiction.

(f) Each of the above terms and conditions of this Section 9

shall have separate validity and the invalidity of any part thereof shall not affect the remaining parts.

(g) Any decision and award or order of a majority of the arbitrators shall be final and binding between the parties as to all claims which were or could have been raised in connection with the dispute to the full extent permitted by law. In all other cases, the parties agree that a decision of a majority of

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arbitrators shall be a condition precedent to the institution or maintenance of any legal, equitable, administrative, or other formal proceeding by Amerman in connection with the dispute, and that the decision and opinion of the board of arbitrators may be presented in any other forum on the merits of the dispute.

10. General Release. Amerman acknowledges and agrees that this Agreement includes the entire agreement and understanding between the parties with regard to the termination of the Existing Employment Agreement, Amerman's employment under this Agreement, the termination thereof during the Employment Period, and all amounts to which Amerman shall be entitled whether prior to the commencement of the terms of this Agreement, during the term of employment or upon termination thereof. Accordingly, Amerman, on behalf of himself and his successors, assigns, heirs and any and all other persons claiming through Amerman, if any, and each of them, shall and does hereby forever relieve, release, and discharge Mattel and its respective predecessors, successors, assigns, owners, attorneys, representatives, affiliates, parent corporations, subsidiaries (whether or not wholly-owned), divisions, partners and their officers, directors, agents, employees, servants, executors, administrators, accountants, investigators, insurers, and any and all other related individuals and entities, if any, and each of them, in any and all capacities, from any and all claims, debts, liabilities, demands, obligations, liens, promises, acts, agreements, costs

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and expenses (including, but not limited to, attorneys' fees), damages, actions and causes of action, of whatever kind or nature, including, without limitation, any statutory, civil or administrative claim, or any claim, arising out of acts or omissions occurring before the execution of this Agreement, whether known or unknown, suspected or unsuspected, fixed or contingent, apparent or concealed (collectively referred to as "claims"), including, but not limited to, any claims based on, arising out of, related to or connected with the subject matter of this Agreement or the Existing Employment Agreement dated as of November 11, 1993, Amerman's employment or the termination thereof, and any and all facts in any manner arising out of, related to or connected with Amerman's employment with, or termination of employment from, Mattel or any of its related entities, including, but not limited to, any claims arising from rights under federal, state, and local laws prohibiting discrimination on the basis of race, national origin, sex, religion, age, marital status, pregnancy, handicap, ancestry, sexual orientation, or any other form of discrimination, and any common law claims of any kind, including, but not limited to, contract, tort, and property rights including, but not limited to, breach of contract, breach of the implied covenant of good faith and fair dealing, tortious interference with contract or current or prospective economic advantage, fraud, deceit, misrepresentation, defamation, wrongful termination, infliction

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of emotional distress, breach of fiduciary duty, and any other common law claim of any kind whatever.

Upon Mattel's fulfilling its obligations to Amerman hereunder, Amerman expressly waives any and all rights under Section 1542 of the Civil Code of the State of California, and all other federal or state statutory rights, rules, and principles of common law or equity, including without limitation those of any jurisdiction, government, or political subdivision thereof, similar to Section 1542 ("similar provision"). Thus Amerman may not invoke the benefits of Section 1542 or any similar provision in order to prosecute or assert in any manner any claims released hereunder. Section 1542 provides as follows:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR."

11. Age Discrimination in Employment Act Waiver. The waiver given below is given only in exchange for consideration in addition to anything

of value to which Amerman is already entitled. The waiver set forth below does not waive rights or claims which may arise after the date of execution of this Agreement. Amerman acknowledges that (i) this entire Agreement

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is written in a manner calculated to be understood by Amerman, (ii) that he has been advised in writing to consult with an attorney before executing this Agreement, and (iii) he was given a period of 21 days within which to consider the Agreement, and (iv) to the extent he executes this Agreement before the expiration of the 21 day period, he does so knowingly and voluntarily and only after consulting with an attorney. Amerman shall have the right to cancel and revoke this Agreement during a period of 7 days following his execution of the Agreement and this Agreement shall not become effective, and no money shall be paid hereunder until the expiration of such 7-day period. The 7-day period of revocation shall commence upon the date of execution of this Agreement. In order to revoke this Agreement, Amerman shall deliver to the Company, prior to the expiration of said 7-day period, a written notice of cancellation.

In addition to the release set forth at Section 10 hereof, hereby voluntarily and knowingly waives all rights or claims arising under the Federal Age Discrimination in Employment Act.

12. Post Employment Restraints. Amerman shall hold in a fiduciary capacity for the benefit of Mattel all secret or confidential information, knowledge or data relating to Mattel or any of its affiliated companies, and their respective businesses, which shall have been obtained by Amerman during his employment by Mattel or any of its affiliated companies and which shall not

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be public knowledge and will continue to be bound by the provisions of the Patent and Confidence Agreement previously executed by Amerman. Amerman acknowledges that the toy business is highly innovative and competitive, and that the trade secret information and Proprietary Information (as defined in the Patent and Confidential Information Agreement Amerman has entered into with Mattel) which he now possesses and which he will come to possess during the term of this Agreement involve valuable and proprietary information, including information with regard to products, product design and strategy. Amerman further acknowledges that (particularly in light of Amerman's having been employed by Mattel in its highest positions) this trade secret and Proprietary Information would necessarily be compromised were he to use this information for himself after his employment, or were he to become an employee or consultant or otherwise become associated with any competitor of Mattel during the life-cycle of the development of products and the strategy associated with the marketing of such products. Although the lengths of such cycles vary depending upon the product, Mattel and Amerman agree that a three-year period of protection is a reasonable and necessary period in order to protect Mattel's trade secret and Proprietary Information. Accordingly, Amerman and Mattel agree for a three-year period following the termination of Amman's employment with Mattel, that Amerman will not himself use any Mattel trade secret or Proprietary Information and that he will not directly or indirectly become an employee of, consult with, render services

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for, own, manage, control, participate in, or in any manner engage in any business which engages in the creation, design, development or manufacturing of toys or other products competitive with products in release or under development by Mattel at the time of the termination of his employment. Because of the international scope of Mattel's markets, Amerman and Mattel agree that such limitations shall apply throughout the world.

Amerman further agrees that for the three-year period following the termination of his employment, he will not induce or attempt to induce any employee of Mattel to leave the employ of Mattel or hire directly or through another person or entity, any person who is an employee of Mattel at any time during the last year of his employment at Mattel. Amerman further agrees that he will not induce or attempt to induce any customer, supplier, licensee or other person or entity with a business relationship with Mattel to cease doing business with Mattel, or in any way interfere with the relationships between such customer, supplier, licensee or business relation and Mattel.

Nothing in this paragraph shall prohibit Amerman from being a passive owner of not more than two percent (2%) of the outstanding shares of any class of stock of a corporation which is publicly traded, so long as Amerman does not serve such company in any capacity whether as a board member or otherwise, and

Amerman has no active participation in the business of such corporation or any of its subsidiaries or affiliates.

If, at the time of enforcement of this paragraph, an arbitrator should hold that the duration or scope of the restrictions stated herein are unreasonable under the circumstances then existing, the parties agree that the maximum duration or scope which is reasonable under such circumstances shall be substituted for the stated duration or scope. Similarly, if, at the time of enforcement, an arbitrator should hold that the area of the restriction stated herein is unreasonable under the circumstances then existing, the parties agree that the maximum area which is reasonable under such circumstances shall be substituted for the stated area.

13. Indemnification; Cooperation. Following the termination of Amerman's employment, Mattel shall nevertheless indemnify, defend and hold harmless Amerman, to the extent Mattel was obligated to do so as of the date of this Agreement, against all losses, claims, damages, costs, expenses, liabilities, judgments or amounts of or in connection with any claim, action, suit, proceeding or investigation based in whole or in part on or arising in whole or part out of Amerman's actions as a director, officer or employee of Mattel, whether pertaining to any matter existing at the date of Amerman's termination or occurring at or after such date, and whether asserted prior to, at, or after the

termination of his employment. Amerman further agrees following the termination of his employment to fully cooperate with Mattel in connection with any future or currently pending obligation, investigation, or other matters including without limitation, by making himself available to testify any action as reasonably requested by Mattel. Mattel shall reimburse Amerman's reasonable expenses to the extent Amerman's cooperation under this paragraph should require such expenditures.

14. Successors.

(a) This Agreement is personal to Amerman and without the prior written consent of Mattel shall not be assignable by Amerman otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by Amerman's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon Mattel and its successors. Mattel shall require any successor to all or substantially all of the business and/or assets of Mattel, whether direct or indirect, by purchase, merger, consolidation, acquisition of stock, or otherwise, by an agreement in form and substance satisfactory to Amerman, expressly to assume and agree to perform this Agreement in the same manner and to the same extent as Mattel would be required to perform if no such succession had taken place.

15. Amendment; Waiver. This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and may be amended, modified or changed only by a written instrument executed by Amerman and Mattel. No provision of this Agreement may be waived except by a writing executed and delivered by the party sought to be charged. Any such written waiver will be effective only with respect to the event or circumstance described therein and not with respect to any other event or circumstance, unless such waiver expressly provides to the contrary.

16. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of California, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect.

(b) All notices and other communications hereunder shall be in writing; shall be delivered by hand delivery to the other party or mailed by registered or certified mail, return receipt requested, postage prepaid; shall be deemed delivered upon actual receipt; and shall be addressed as follows:

if to Amerman:
John W. Amerman
*
*

if to Mattel:

MATTEL, INC.
333 Continental Blvd.
El Segundo, CA 90245
ATTENTION: General Counsel

or to such other address as either party shall have furnished to the other in writing in accordance herewith.

(c) Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction will, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction will not invalidate or render unenforceable such provision in any other jurisdiction.

(d) Mattel may withhold from any amounts payable under this Agreement such Federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

* CONFIDENTIAL

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IN WITNESS WHEREOF, each of the parties hereto has duly executed this Agreement as of the date first set forth above.

/s/ John W. Amerman

John W. Amerman

MATTEL, INC.,
a Delaware corporation

By: /s/ Ned Mansour

Ned Mansour
President, Corporate Operations

ATTEST:

/s/ Barnett Rosenberg

Secretary

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AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT, dated as of September 9, 1996 (the "Agreement"), is between Mattel, Inc., a Delaware corporation ("Mattel"), and Joseph C. Gandolfo (the "Executive").

The Executive and Mattel are parties to an Amended and Restated Employment Agreement dated as of November 11, 1993, which was made subject to an Interpretive Rider dated as of September 20, 1995 (collectively, the "Existing Employment Agreement"), providing for the employment of the Executive.

The Executive and Mattel desire to clarify certain provisions of the Existing Employment Agreement that govern the respective rights and obligations of the Executive and Mattel, as the case may be, upon a termination of the Executive's employment and therefore deem it appropriate to amend and restate the Existing Employment Agreement in its entirety.

In consideration of the premises and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Executive and Mattel agree to amend and restate the Existing Employment Agreement in its entirety as follows:

1. Employment Period. Mattel hereby agrees to employ and continue in its employ the Executive, and the Executive hereby accepts such employment and agrees to remain in the employ of

Mattel, for the period commencing on the date of this Agreement and ending on the third anniversary of such date (the "Employment Period"); provided that commencing on the first day of the month next following the effective date hereof, and on the first day of each month thereafter (the most recent of such dates is hereinafter referred to as the "Renewal Date"), the Employment Period shall be automatically extended so as to terminate three years from such Renewal Date, unless at least 60 days prior to any Renewal Date Mattel or the Executive shall give notice to the other that the Employment Period shall not be so extended.

2. Duties.

(a) Executive's Position and Duties. During the Employment Period, the Executive's position (including titles), authority and responsibilities shall be similar to those held by the Executive on the date hereof with such additions and modifications, and consistent with responsibilities generally assigned to executive officers of Mattel as the Chief Executive Officer of Mattel may in his discretion and acting in good faith from time to time assign to the Executive. The Executive's services shall be performed in the general area in which the Executive was employed on the date of this Agreement and the Executive will not be transferred outside the area without the Executive's consent, other than for normal business travel and temporary assignments.

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(b) Full Time. The Executive agrees to devote his full business time to the business and affairs of Mattel and to use his best efforts to perform faithfully and efficiently the responsibilities assigned to him hereunder to the extent necessary to discharge such responsibilities, except for (i) services on corporate, civic or charitable boards or committees not significantly interfering with the performance of such responsibilities; (ii) periods of vacation and sick leave to which he is entitled; and (iii) the management of personal investments and affairs. The Executive will not engage in any outside business activity (as distinguished from personal investment activity and affairs), including, but not limited to, activity as a consultant, agent, partner or officer, or provide business services of any nature directly or indirectly to a corporation or other business enterprise.

3. Compensation.

(a) Base Salary. During the Employment Period, the Executive shall receive a base salary ("Base Salary") at a bi-weekly rate at least equal to the bi-weekly salary paid to the Executive by Mattel on the date of this Agreement. The Base Salary shall be reviewed at least every two years and may be increased at any time and from time to time by action of the Board of Directors of Mattel or the Compensation/Options

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Committee thereof or any individual having authority to take such action in accordance with Mattel's regular practices. Any increase in the Base Salary shall not serve to limit or reduce any other obligation of Mattel hereunder and, after any such increase, the Base Salary shall not be reduced.

(b) Bonus Programs. In addition to the Base Salary, the Executive shall participate throughout the Employment Period in Mattel's cash, deferred bonus, incentive plans and programs ("Bonus Programs") as may be in effect from time to time with respect to executives employed by Mattel at a participation level reflecting the Executive's responsibilities, including, but not limited to, the Management Incentive Plan ("MIP") and the Long-Term Incentive Plan ("LTIP") as they may be modified from time to time and any plans or programs substituted therefor; provided that, except as provided in Section 5(f) hereof, the determination of the amounts to be paid pursuant to such plans or programs shall be made by the Board of Directors of Mattel or a committee thereof authorized to take such action and shall be made in accordance with Mattel's compensation practice and the terms and provisions of such plans or programs; provided further that the Executive's eligibility for and participation in each of the Bonus Programs shall be at a level and on terms and conditions no less favorable than those available to any other comparably situated executive or consultant.

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(c) Incentive and Savings Plans. In addition to the Base Salary and participation in the Bonus Programs, during the Employment Period the Executive shall be entitled to participate in all incentive and savings plans and programs, including, but not limited to, stock option plans and retirement plans, as may be in effect from time to time with respect to executives employed by Mattel at the Executive's level so as to reflect the Executive's responsibilities.

(d) Benefit Plans. The Executive and/or his family, as the case may be, shall be entitled to receive all amounts which he or his family is or would have been entitled to receive as benefits under all medical, dental, disability, group life, accidental death and travel accident insurance plans and programs of Mattel in which the Executive is a participant as in effect from time to time with respect to executives employed by Mattel.

(e) Expenses. During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the policies and practices of Mattel as in effect from time to time with respect to executives employed by Mattel.

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(f) Fringe Benefits. The Executive shall be entitled to fringe benefits, commensurate with those available to comparable level executives, including an automobile and related expenses as well as the use of a company-issued gasoline credit card, club memberships and related expenses, and financial and legal counseling in accordance with the policies of Mattel as in effect from time to time with respect to executives employed by Mattel.

(g) Vacation. During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the policies of Mattel as in effect from time to time with respect to executives employed by Mattel.

(h) Certain Amendments. Nothing herein shall be construed to prevent Mattel from amending, altering, eliminating or reducing any plans, benefits or programs so long as the Executive continues to have the opportunity to receive compensation and benefits consistent with Sections 3(a) through (g).

4. Termination.

(a) Death or Disability. This Agreement shall terminate automatically upon the Executive's death; provided that Base Salary, all bonuses and earned benefits will be continued

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and paid for a period of six (6) months thereafter, unless a longer period is otherwise specified. Mattel may terminate this Agreement, after having established the Executive's Disability, by giving to the Executive written notice of its intention to terminate his employment, and his employment with Mattel shall terminate effective on the 90th day after receipt of such notice (the "Disability Effective Date"). For purposes of this Agreement, the Executive's Disability shall occur and shall be deemed to have occurred only when the Executive becomes entitled to receive disability benefits under the Mattel Long-Term Disability Plan for exempt employees.

(b) Cause. Mattel may terminate the Executive's employment for "Cause" if a majority, consisting of at least 2/3 of the non-management members of the Board of Directors of Mattel, determines that "Cause" exists. For purposes of this Agreement, "Cause" means (i) an act or acts of dishonesty on the Executive's part which are intended to result in his substantial personal enrichment at the expense of Mattel; (ii) repeated violations by the Executive of his obligations under Section 2 of this Agreement which are demonstrably willful and deliberate on the Executive's part and which resulted in material injury to Mattel; (iii) conduct of a criminal nature which has or which is more likely than not to have a material adverse effect on Mattel's reputation or standing in the community or on its

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continuing relationships with its customers or those who purchase or use its products; or (iv) fraudulent conduct in connection with the business or affairs of Mattel, regardless of whether said conduct is designed to defraud Mattel or others; provided that, in each case, the Executive has received written notice of the described activity, has been afforded a reasonable opportunity to cure or correct the activity described in the notice, and has failed to substantially cure, correct or cease the activity, as appropriate.

(c) Good Reason. The Executive may terminate his employment at any time for Good Reason. For purposes of this Agreement, "Good Reason" means the good faith determination by the Executive that any one or more of the following have occurred:

(i) without the express written consent of the Executive, any change(s) in any of the duties, authority, or responsibilities of the Executive which is (are) inconsistent in any substantial respect with the Executive's position, authority, duties, or responsibilities as contemplated by Section 2 of this Agreement;

(ii) any failure by Mattel to comply with any of the provisions of Section 3 of this Agreement, other than an

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insubstantial and inadvertent failure remedied by Mattel promptly after receipt of notice thereof given by the Executive;

(iii) without the Executive's consent, any requirement by Mattel that Executive be based at any office or location other than an office or location in Los Angeles, California, except for travel reasonably required in the performance of the Executive's responsibilities;

(iv) any proposed termination by Mattel of the Executive's employment otherwise than as permitted by this Agreement; or

(v) any failure by Mattel to obtain the assumption and agreement to perform this Agreement by a successor as contemplated by Section 11(b).

(d) Change of Control. A "Change of Control" shall be deemed to have occurred if:

(i) any "Person," which shall mean a "person" as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), (other than Mattel, any trustee or other fiduciary holding securities under an employee benefit plan of Mattel) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of Mattel

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representing 20% or more of the combined voting power of Mattel's then outstanding voting securities;

(ii) during any period of 24 consecutive months, individuals, who at the beginning of such period constitute the Board of Directors of Mattel, and any new director whose election by the Board of Directors, or whose nomination for election by Mattel's stockholders, was approved by a vote of at least one-half (1/2) of the directors then in office (other than in connection with a contested election), cease for any reason to constitute at least a majority of the Board of Directors;

(iii) the stockholders of Mattel approve (I) a plan of complete liquidation of Mattel or (II) the sale or other disposition by Mattel of all or substantially all of Mattel's assets unless the acquirer

of the assets or its board of directors shall meet the conditions for a merger or consolidation in subparagraphs (iv)(I) or (iv)(II) below; or

(iv) the consummation of a merger or consolidation of Mattel with any other entity other than:

(I) a merger or consolidation which results in the voting securities of Mattel outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the

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surviving entity's outstanding voting securities immediately after such merger or consolidation; or

(II) a merger or consolidation which would result in the directors of Mattel (who were directors immediately prior thereto) continuing to constitute at least 50% of all directors of the surviving entity immediately after such merger or consolidation.

In this paragraph (iv), "surviving entity" shall mean only an entity in which all of Mattel's stockholders immediately before such merger or consolidation (determined without taking into account any stockholders properly exercising appraisal or similar rights) become stockholders by the terms of such merger or consolidation, and the phrase "directors of Mattel (who were directors immediately prior thereto)" shall include only individuals who were directors of Mattel at the beginning of the 24 consecutive month period preceding the date of such merger or consolidation.

(e) Notice of Termination. Any termination of the Executive's employment by Mattel for Cause following a Change of Control or by the Executive for Good Reason shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 13(b). Any termination by Mattel due to Disability shall be given in accordance with Section 4(a). For

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purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon; (ii) except in the event of a termination following a Change of Control, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated; and (iii) specifies the Date of Termination (defined below).

(f) Date of Termination. "Date of Termination" means the date of actual receipt of the Notice of Termination or any later date specified therein (but not more than fifteen (15) days after the giving of the Notice of Termination), as the case may be; provided that (i) if the Executive's employment is terminated by Mattel for any reason other than Cause or Disability, the Date of Termination is the date on which Mattel notifies the Executive of such termination; (ii) if the Executive's employment is terminated due to Disability, the Date of Termination is the Disability Effective Date; and (iii) if the Executive's employment is terminated due to the Executive's death, the Date of Termination shall be the date of death.

5. Obligations of Mattel upon Termination. Other than as specifically set forth or referenced in this Agreement, the

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Executive shall not be entitled to any benefits on or after the Date of Termination.

(a) Death. If the Executive's employment is terminated by reason of the Executive's death, this Agreement shall terminate without further obligations by Mattel to the Executive's legal representatives under this Agreement other than those obligations accrued hereunder or under the terms of the applicable Mattel plan or program which takes effect at the date of his death or as otherwise provided in Section 4(a) or this Section 5(a). As of the Date of Termination, the Executive's family shall be entitled to the Executive's benefits on the terms described in Section 5(d)(iv) (other than outplacement services and leased car benefits, which are excluded), except that healthcare insurance coverage and financial and legal counseling services shall terminate on the third anniversary of the Date of Termination. The Executive's country club membership must be converted or sold, as the case may be, by the Executive's successor-in-interest within one year after the Date of Termination on the terms

described in Section 5(d)(iv)(III); provided that no such conversion or sale shall be required and Mattel shall cause the membership to be transferred to the Executive's spouse at no cost to the spouse if the Executive has had the membership for at least three years.

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(b) Disability. If the Executive's employment is terminated by reason of the Executive's Disability, the Executive shall be entitled to receive after the Disability Effective Date (i) disability benefits, if any, at least equal to those then provided by Mattel to disabled executives and/or their families and (ii) those other benefits on the terms described in Section 5(d)(iv).

(c) Cause. If the Executive's employment is terminated for Cause or if the Executive terminates his employment without Good Reason, Mattel shall pay the Executive his full Base Salary through the Date of Termination at the rate in effect at the time Notice of Termination is given, and Mattel shall have no further obligations to the Executive under this Agreement.

(d) Good Reason; Other Than for Cause or Disability. If Mattel terminates the Executive's employment other than for Cause or Disability or the Executive terminates his employment for Good Reason (in each case, other than within 18 months following a Change of Control as provided in Section 5(e)):

(i) Mattel shall pay to the Executive in a lump sum in cash within 30 days after the Date of Termination the aggregate of the following amounts:

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(A) if not theretofore paid, the Executive's Base Salary through the Date of Termination at the rate in effect at the time of Notice of Termination was given;

(B) a current year MIP bonus equal to the average of the greatest two out of the three most recent annual MIP bonuses received by the Executive (which two greatest MIP bonuses need not represent consecutive years) (the "Average Annual Bonus") and prorated to reflect the total number of full months the Executive is employed in the year in which termination occurs;

(C) an LTIP payment reflective of the Executive's participation in the three-year plan, so that at the time that final performance under the LTIP is determinable and individual payouts calculated, the Executive shall promptly receive an amount equivalent to what he would have received if he had remained employed through the date of such payouts, less any interim payments already made pursuant to the Executive's continuing eligibility for full participation in the LTIP; and

(D) three times the sum of (x) the Executive's annual Base Salary at the rate in effect at the time the Notice of Termination is given and (y) the Average Annual Bonus defined in Section 5(d)(i)(B), but without proration (and, in each such case, without regard to any contributions by Mattel

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for the Executive's benefit to the Mattel Personal Investment Plan ("PIP")).

(ii) Options granted to the Executive under Mattel's stock option plans (the "Stock Option Plans") which options have been granted for more than six months shall become immediately exercisable and the Executive shall have a period of 90 days following the Date of Termination (but in no event past the expiration of the term of the option grant) to exercise all options granted under the Stock Option Plans then exercisable or which become exercisable pursuant to this clause (ii). In the event the Executive is age 52 or older on the Date of Termination, he will be treated as a retiree under the Stock Option Plans, which will enable the Executive to vest in and exercise stock options theretofore granted thereunder, at the election of the Executive, (x) in the manner described in the immediately preceding sentence, or (y) for a period of up to five years after the Date of Termination (but in no event past the expiration of the term of the option grant).

(iii) Mattel shall, promptly upon submission by the Executive of supporting documentation, pay or reimburse to the Executive any costs and expenses paid or incurred by the Executive which would have been payable under Section 3(e) if his employment had not terminated.

(iv) Until the earlier of (x) the third anniversary of the Date of Termination or (y) the date the Executive accepts other employment, Mattel shall provide to the Executive at Mattel's expense:

(I) medical, dental, prescription drug and vision care group insurance in accordance with the coverage in effect immediately prior to the Date of Termination (the last 18 months of the Executive's coverage under such insurance shall be deemed to be participation under an election to continue such benefits under the Consolidated Omnibus Budget Reconciliation Act at Mattel's expense);

(II) outplacement services at the expense of Mattel commensurate with those provided to terminated executives of comparable level and made available through and at the facilities of a reputable and experienced vendor; and

(III) continuation of country-club membership "signatory/representative" status as in effect immediately prior to the Date of Termination; provided that within one year after Mattel ceases to provide such benefit, the Executive shall (a) convert the country-club membership from "signatory/representative" status under the membership provided and paid for by Mattel to sole and personal ownership status by paying to Mattel the fair market value of that membership as of the date Mattel ceases to provide such benefit, less any transfer/reconveyance fees that

may be required by and paid directly to the country club by the Executive, or (b) comply with club rules in consummating a fair, reasonable and expeditious sale of the membership and any proceeds derived therefrom which are payable to the Executive shall belong to and must be promptly delivered to Mattel; provided further that no such conversion or sale shall be required and Mattel shall cause the membership to be transferred to the Executive at no cost to the Executive (but subject to tax reporting as imputed income applicable to the year in which the membership is transferred), if the Executive has had the membership for at least three years.

For the three-year period after the Date of Termination, the Executive shall remain eligible for use of personal financial and legal counseling services through the vendor engaged and paid for by Mattel. The Executive may continue to use the car leased by Mattel that is in the Executive's possession on the Date of Termination until the earlier of (x) the end of the lease term or (y) the third anniversary of the Date of Termination, at which time the Executive may purchase the car for \$1.00 (if at the end of the lease term) or Mattel's book value (if on the third anniversary of the Date of Termination). As of the Date of Termination, all expenses related to such leased car, including but not limited to repairs, maintenance, gasoline, and car phone

and associated expenses, shall be the sole responsibility of the Executive.

(v) Credit shall be given for three years of service (in addition to actual service) and for three years of attained age to be added to the Executive's actual age for purposes of computing any service and age-related benefits for which the Executive is eligible under the plans and programs of Mattel, including but not limited to the 1994 Supplemental Executive Retirement Plan (including any successor plan thereto in which the Executive is a participant, the "SERP"), the Mattel Deferred Compensation Plan, the PIP, the Mattel Retiree Medical Plan, and the Stock Option Plans. Further, with regard to computing the Executive's benefit under the SERP, the formula described in Section 5(d)(i)(B) shall be utilized in calculating the maximum benefit, namely: the formula shall be 25% of the average of the final two years of annual Base Salary (including the calendar year in which the Date of Termination occurs), plus the average of the greatest two out of the three most recent annual MIP bonuses received by the Executive.

(e) Change of Control. If, within 18 months following a Change of Control, the Executive terminates his employment for Good Reason or Mattel or the surviving entity terminates the Executive's employment other than for Cause or Disability:

(i) Mattel shall pay to the Executive in a lump sum in cash within 30 days after the Date of Termination the aggregate of the following amounts:

(A) if not theretofore paid, the Executive's Base Salary through the Date of Termination at the rate in effect at the time of Notice of Termination was given;

(B) an amount equal to the MIP bonus that would have been payable to executives of Mattel in the same bonus category as the Executive pursuant to the Bonus Programs provided in Section 3(b) assuming, for purposes of calculating the amount of the bonus pool under the plan, that the "maximum" amount, as that term is used in the plan, was achieved for the current plan year (the "Maximum Annual Bonus"), with such amount prorated to reflect the number of full months the Executive is employed in the year in which termination occurs;

(C) an LTIP payment for the current year, assuming achievement of the three-year maximum award, prorated to reflect the total number of full months the Executive is employed in the year in which termination occurs;

(D) three times the sum of (x) the Executive's annual Base Salary at the rate in effect at the time the Notice of Termination is given and (y) the Maximum Annual Bonus defined in Section 5(e)(i)(B), but without proration (and,

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in each such case, without regard to any contributions by Mattel for the Executive's benefit to the PIP); and

(E) the full term payout for the three-year period of the LTIP, assuming for purposes of calculating the amount earned under the LTIP, achievement of the three-year maximum award (including the full amount of the premium), less any interim payments previously received by the Executive.

(ii) If it is determined that any payment or distribution by Mattel to the Executive pursuant to Section 5(e) (determined without regard to any additional payments required pursuant to this sentence) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive with respect to each Payment an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an

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amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments

(iii) In addition, the Executive shall receive the amounts and be entitled to the benefits provided in clauses (ii), (iii), (iv) and (v) of Section 5(d).

(f) Bonus During Cancellation Period. If Mattel notifies the Executive that the Employment Period provided in Section 1 hereof will not be automatically extended as provided therein, the compensation of the Executive shall continue as provided in this Agreement for the period provided therein, except that the amount of MIP compensation payable under the Bonus Programs with respect to each fiscal year during such period (including the year in which the notice was given) shall be the Average Annual Bonus as determined in Section 5(d)(i)(B). Amounts payable with respect to the year in which the term specified in Section 1 expires shall be prorated based on a fraction the numerator of which is the number of full months from the beginning of such year until the date of the expiration of this Agreement and denominator of which is 12.

6. Non-exclusivity of Rights. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any benefit, bonus, incentive or other plan or program provided by Mattel and for which the Executive may

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qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any stock option or other agreement with Mattel or any of its affiliated companies. Except as otherwise provided herein, amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan or program of Mattel at or subsequent to

the Date of Termination shall be payable in accordance with such plan or program.

7. No Set Off, Payment of Fees. Except as provided here-in, Mattel's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any circumstances, including without limitation any set-off, counterclaim, recoupment, defense or other right which Mattel may have against the Executive or others. Mattel agrees to pay, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by Mattel or others of the validity or enforceability of, or liability under, any provision of this Agreement other than expenses relating to a claim by the Executive that he terminated for Good Reason or that the termination for Cause was improper, in which case such fees and expenses shall be paid only if the Executive prevails in whole or in part. All amounts provided herein shall include, in each

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case, interest, compounded quarterly, on the total unpaid amount determined to be payable under this Agreement, such interest to be calculated on the basis of the prime commercial lending rate announced by Bank of America National Trust and Savings Association in effect from time to time during the period of such nonpayment. In the event that the Executive shall in good faith give a Notice of Termination for Good Reason and it shall thereafter be determined that Good Reason did not exist, the employment of the Executive shall, unless Mattel and the Executive shall otherwise mutually agree, be deemed to have terminated at the Date of Termination specified in such purported Notice of Termination by mutual consent of Mattel and the Executive and thereupon, the Executive shall be entitled to receive only those payments and benefits which he would have been entitled to receive at such date.

8. Arbitration of Disputes.

(a) The parties agree that any disputes, controversies or claims which arise out of or relate to this Agreement, the Executive's employment or the termination of his employment, including, but not limited to, any claim relating to the purported validity, interpretation, enforceability or breach of this Agreement, and/or any other claim or controversy arising out of the relationship between the Executive and Mattel (or the nature of the relationship) or the continuation or termination of

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that relationship, including, but not limited to, claims that a termination was for Cause, including the determination of Mattel's Board of Directors in accordance with Section 4(b), or for Good Reason, claims for breach of covenant, breach of an implied covenant of good faith and fair dealing, wrongful termination, breach of contract, or intentional infliction of emotional distress, defamation, breach of right of privacy, interference with advantageous or contractual relations, fraud, conspiracy or other tort or property claims of any kind, which are not settled by agreement between the parties, shall be settled by arbitration under the labor arbitration rules of the American Arbitration Association before a board of three arbitrators, as selected thereunder.

One arbitrator shall be selected by the Executive, one by Mattel and the third by the two persons so selected, all in accordance with the labor arbitration rules of the American Arbitration Association then in effect. In the event that the arbitrator selected by the Executive and the arbitrator selected by Mattel are unable to agree upon a third arbitrator, then the third arbitrator shall be selected from a list of seven provided by the office of the American Arbitration Association nearest to the Executive's residence with the parties striking names in order and the party striking first to be determined by the flip of a coin. The arbitration shall be held in a location to be

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mutually agreed upon by the parties. In the absence of agreement, the Chairman of the Board of Mattel shall determine the location.

(b) In consideration of the parties' agreement to submit to arbitration all disputes with regard to this Agreement and/or with regard to any alleged contract, or any other claim arising out of their conduct, the relationship existing hereunder or the continuation or termination of that relationship, and in further consideration of the anticipated expedition and the minimizing of expense resulting from this arbitration remedy, the arbitration provisions of this Agreement shall provide the exclusive remedy, and each party expressly waives any right he or it may have to seek redress in any other forum.

(c) Any claim which either party has against the other party which could be submitted for resolution pursuant to this Section 8 must be presented in writing by the claiming party to the other within one year of the date the claiming party knew or should have known of the facts giving rise to the claim, except that claims arising out of or related to the termination of the Executive's employment must be presented by him within one year after the Date of Termination. Unless the party against whom any claim is asserted waives the time limits set forth above, any

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claim not brought within the time periods specified shall be waived and forever barred.

(d) Mattel will pay all costs and expenses of the arbitration to the extent provided in this Section 8. In the event expenses are not paid by Mattel, and without diminishing the Executive's right to reimbursement as provided in this Section, costs and expenses shall be paid as follows:

(x) the expenses of the neutral arbitrator and of a transcript of any arbitration proceeding shall be divided equally between the Executive and Mattel; and (y) each party shall bear the expenses of the arbitrator selected by it and of the witnesses it calls.

(e) Any decision and award or order of a majority of the arbitrators shall be binding upon the parties hereto and judgment thereon may be entered in the Superior Court of the State of California or any other court having jurisdiction.

(f) Each of the above terms and conditions of this Section 8 shall have separate validity and the invalidity of any part thereof shall not affect the remaining parts.

(g) Any decision and award or order of a majority of the arbitrators shall be final and binding between the parties as to all claims which were raised in connection with the dispute to

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the full extent permitted by law. In all other cases, the parties agree that a decision of a majority of arbitrators shall be a condition precedent to the institution or maintenance of any legal, equitable, administrative, or other formal proceeding by the Executive in connection with the dispute, and that the decision and opinion of the board of arbitrators may be presented in any other forum on the merits of the dispute.

9. General Release. The Executive acknowledges and agrees that this Agreement includes the entire agreement and understanding between the parties with regard to the Executive's employment, the termination thereof during the Employment Period, and all amounts to which the Executive shall be entitled whether during the term of employment or upon termination thereof. Accordingly, upon Mattel's fulfilling its obligations to the Executive hereunder, the Executive, on behalf of himself and his successors, assigns, heirs and any and all other persons claiming through the Executive, if any, and each of them, shall and does hereby forever relieve, release, and discharge Mattel and its respective predecessors, successors, assigns, owners, attorneys, representatives, affiliates, parent corporations, subsidiaries (whether or not wholly-owned), divisions, partners and their officers, directors, agents, employees, servants, executors, administrators, accountants, investigators, insurers, and any and all other related individuals and entities, if any, and each of

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them, in any and all capacities, from any and all claims, debts, liabilities, demands, obligations, liens, promises, acts, agreements, costs and expenses (including, but not limited to, attorneys' fees), damages, actions and causes of action, of whatever kind or nature, including, without limitation, any statutory, civil or administrative claim, or any claim, arising out of acts or omissions occurring before the execution of this Agreement, whether known or unknown, suspected or unsuspected, fixed or contingent, apparent or concealed (collectively referred to as "claims"), including, but not limited to, any claims based on, arising out of, related to or connected with the subject matter of this Agreement, the Executive's employment or the termination thereof, and any and all facts in any manner arising out of, related to or connected with the Executive's employment with, or termination of employment from, Mattel or any of its related entities, including, but not limited to, any claims arising from rights under federal, state, and local laws prohibiting discrimination on the basis of race, national origin, sex, religion, age, marital status, pregnancy, handicap, ancestry, sexual orientation, or any other form of discrimination, and any common law claims of any kind, including, but not limited to, contract, tort, and property rights including, but not limited to, breach of contract, breach of the implied covenant of good faith and

fair dealing, tortious interference with contract or current or prospective economic

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advantage, fraud, deceit, misrepresentation, defamation, wrongful termination, infliction of emotional distress, breach of fiduciary duty, and any other common law claim of any kind whatever.

Upon Mattel's fulfilling its obligations to the Executive here-under, the Executive expressly waives any and all rights under Section 1542 of the Civil Code of the State of California, and all other federal or state statutory rights, rules, and principles of common law or equity, including without limitation those of any jurisdiction, government, or political subdivision thereof, similar to Section 1542 ("similar provision"). Thus the Executive may not invoke the benefits of Section 1542 or any similar provision in order to prosecute or assert in any manner any claims released hereunder. Section 1542 provides as follows:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR."

10. Confidential Information. The Executive shall hold in a fiduciary capacity for the benefit of Mattel all secret or confidential information, knowledge or data relating to Mattel or any of its affiliated companies, and their respective businesses,

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which shall have been obtained by the Executive during his employment by Mattel or any of its affiliated companies and which shall not be public knowledge and will continue to be bound by the provisions of the Patent and Confidence Agreement previously executed by the Executive. After termination of the Executive's employment with Mattel, he shall not, without the prior written consent of Mattel, communicate or divulge any such information, knowledge or data to anyone other than Mattel and those designated by it.

11. Successors.

(a) This Agreement is personal to the Executive and without the prior written consent of Mattel shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon Mattel and its successors. Mattel shall require any successor to all or substantially all of the business and/or assets of Mattel, whether direct or indirect, by purchase, merger, consolidation, acquisition of stock, or otherwise, by an agreement in form and substance satisfactory to the Executive, expressly to assume and agree to perform this Agreement in the

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same manner and to the same extent as Mattel would be required to perform if no such succession had taken place.

12. Amendment; Waiver. This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and may be amended, modified or changed only by a written instrument executed by the Executive and Mattel. No provision of this Agreement may be waived except by a writing executed and delivered by the party sought to be charged. Any such written waiver will be effective only with respect to the event or circumstance described therein and not with respect to any other event or circumstance, unless such waiver expressly provides to the contrary.

13. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of California, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect.

(b) All notices and other communications hereunder shall be in writing; shall be delivered by hand delivery to the other party or mailed by registered or certified mail, return

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receipt requested, postage prepaid; shall be deemed delivered upon actual receipt; and shall be addressed as follows:

if to the Executive:

Joseph C. Gandolfo
*
*

if to Mattel:

MATTEL, INC.
333 Continental Blvd.
El Segundo, CA 90245
ATTENTION: General Counsel

or to such other address as either party shall have furnished to the other in writing in accordance herewith.

(c) Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction will, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction will not invalidate or render unenforceable such provision in any other jurisdiction.

* CONFIDENTIAL

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(d) Mattel may withhold from any amounts payable under this Agreement such Federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

IN WITNESS WHEREOF, each of the parties hereto has duly executed this Agreement as of the date first set forth above.

EXECUTIVE:

/s/ Joseph C. Gandolfo

Joseph C. Gandolfo

MATTEL: MATTEL, INC.,
a Delaware corporation

By: /s/ Jill E. Barad

Jill E. Barad
President and Chief Operating
Officer

ATTEST:

/s/ Mary L. Waller

Assistant Secretary

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AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT, dated as of July 29, 1996, (the "Agreement"), is between Mattel, Inc., a Delaware corporation ("Mattel"), and Ned Mansour (the "Executive").

The Executive and Mattel are parties to an Amended and Restated Employment Agreement dated as of November 11, 1993, as amended September 1, 1995, and made subject to an Interpretive Rider dated September 20, 1995 (collectively, the "Existing Employment Agreement"), providing for the employment of the Executive.

The Executive and Mattel desire to clarify certain provisions of the Existing Employment Agreement that govern the respective rights and obligations of the Executive and Mattel, as the case may be, upon a termination of the Executive's employment and therefore deem it appropriate to amend and restate the Existing Employment Agreement in its entirety.

In consideration of the premises and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Executive and Mattel agree to amend and restate the Existing Employment Agreement in its entirety as follows:

1. Employment Period. Mattel hereby agrees to employ and continue in its employ the Executive, and the Executive hereby

accepts such employment and agrees to remain in the employ of Mattel, for the period commencing on the date of this Agreement and ending on the third anniversary of such date (the "Employment Period"); provided that commencing on the first day of the month next following the effective date hereof, and on the first day of each month thereafter (the most recent of such dates is hereinafter referred to as the "Renewal Date"), the Employment Period shall be automatically extended so as to terminate three years from such Renewal Date, unless at least 60 days prior to any Renewal Date Mattel or the Executive shall give notice to the other that the Employment Period shall not be so extended.

2. Duties.

(a) Executive's Position and Duties. During the Employment Period, the Executive's position (including titles), authority and responsibilities shall be similar to those held by the Executive on the date hereof with such additions and modifications, and consistent with responsibilities generally assigned to executive officers of Mattel as the Chief Executive Officer of Mattel may in his discretion and acting in good faith from time to time assign to the Executive. The Executive's services shall be performed in the general area in which the Executive was employed on the date of this Agreement and the Executive will not be transferred outside the area without the Executive's consent, other than for normal business travel and

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temporary assignments. Mattel agrees to cause Executive to be elected a member of its Board of Directors commencing on August 22, 1996 and to be elected a member upon the expiration of each term of his as a director during the Employment Period.

(b) Full Time. The Executive agrees to devote his full business time to the business and affairs of Mattel and to use his best efforts to perform faithfully and efficiently the responsibilities assigned to him hereunder to the extent necessary to discharge such responsibilities, except for (i) services on corporate, civic or charitable boards or committees not significantly interfering with the performance of such responsibilities; (ii) periods of vacation and sick leave to which he is entitled; and (iii) the management of personal investments and affairs. The Executive will not engage in any outside business activity (as distinguished from personal investment activity and affairs), including, but not limited to, activity as a consultant, agent, partner or officer, or provide business services of any nature directly or indirectly to a corporation or other business enterprise.

3. Compensation.

(a) Base Salary. During the Employment Period, the Executive shall receive a base salary ("Base Salary") at a bi-weekly rate at least equal to the bi-weekly salary paid to the

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Executive by Mattel on the date of this Agreement. The Base Salary shall be reviewed at least every two years and may be increased at any time and from time to time by action of the Board of Directors of Mattel or the Compensation/Options Committee thereof or any individual having authority to take such action in accordance with Mattel's regular practices. Any increase in the Base Salary shall not serve to limit or reduce any other obligation of Mattel hereunder and, after any such increase, the Base Salary shall not be reduced.

(b) Bonus Programs. In addition to the Base Salary, the Executive shall participate throughout the Employment Period in Mattel's cash, deferred bonus, incentive plans and programs ("Bonus Programs") as may be in effect from time to time with respect to executives employed by Mattel at a participation level reflecting the Executive's responsibilities, including, but not limited to, the Management Incentive Plan ("MIP") and the Long-Term Incentive Plan ("LTIP") as they may be modified from time to time and any plans or programs substituted therefor; provided that, except as provided in Section 5(f) hereof, the determination of the amounts to be paid pursuant to such plans or programs shall be made by the Board of Directors of Mattel or a committee thereof authorized to take such action and shall be made in accordance with Mattel's compensation practice and the terms and provisions of such plans or programs; provided further

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that the Executive's eligibility for and participation in each of the Bonus Programs shall be at a level and on terms and conditions no less favorable than those available to any other comparably situated executive or consultant.

(c) Incentive and Savings Plans. In addition to the Base Salary and participation in the Bonus Programs, during the Employment Period the Executive shall be entitled to participate in all incentive and savings plans and programs, including, but not limited to, stock option plans and retirement plans, as may be in effect from time to time with respect to executives employed by Mattel at the Executive's level so as to reflect the Executive's responsibilities.

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(d) Benefit Plans. The Executive and/or his family, as the case may be, shall be entitled to receive all amounts which he or his family is or would have been entitled to receive as benefits under all medical, dental, disability, group life, accidental death and travel accident insurance plans and programs of Mattel in which the Executive is a participant as in effect from time to time with respect to executives employed by Mattel.

(e) Expenses. During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the policies and practices of Mattel as in effect from time to time with respect to executives employed by Mattel.

(f) Fringe Benefits. The Executive shall be entitled to fringe benefits, commensurate with those available to comparable level executives, including an automobile and related expenses as well as the use of a company-issued gasoline credit card, club memberships and related expenses, and financial and legal counseling in accordance with the policies of Mattel as in effect from time to time with respect to executives employed by Mattel.

(g) Vacation. During the Employment Period, the Executive shall be entitled to paid vacation in accordance with

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the policies of Mattel as in effect from time to time with respect to executives employed by Mattel.

(h) Stock Options. Mattel shall, upon date of this Agreement, grant 150,000 stock options to Executive under the terms and conditions of the 1990 Non-Qualified Stock Option Plan; in January of 1997, grant 150,000 stock options under the operative non-qualified stock option plan in effect at that time; and in January of 1998 grant 150,000 stock options under the operative non-qualified stock option plan in effect at that time. Thereafter, Executive will be eligible for additional annual grants of options commensurate with the timing and amount normally made available to executives at a comparable level.

(i) Certain Amendments. Nothing herein shall be construed to prevent Mattel from amending, altering, eliminating or reducing any plans, benefits or programs so long as the Executive continues to have the opportunity to receive compensation and benefits consistent with Sections 3(a) through (h).

4. Termination.

(a) Death or Disability. This Agreement shall terminate automatically upon the Executive's death; provided that Base Salary, all bonuses and earned benefits will be continued

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and paid for a period of six (6) months thereafter, unless a longer period is otherwise specified. Mattel may terminate this Agreement, after having established the Executive's Disability, by giving to the Executive written notice of its intention to terminate his employment, and his employment with Mattel shall terminate effective on the 90th day after receipt of such notice (the "Disability Effective Date"). For purposes of this Agreement, the Executive's Disability shall occur and shall be deemed to have occurred only when the Executive becomes entitled to receive disability benefits under the Mattel Long-Term Disability Plan for exempt employees.

(b) Cause. Mattel may terminate the Executive's employment for "Cause" if a majority, consisting of at least 2/3 of the non-management members of the Board of Directors of Mattel, determines that "Cause" exists. For purposes of this Agreement, "Cause" means (i) an act or acts of dishonesty on the Executive's part which are intended to result in his substantial personal enrichment at the expense of Mattel; (ii) repeated violations by the Executive of his obligations under Section 2 of this Agreement which are demonstrably willful and deliberate on the Executive's part and which resulted in material injury to Mattel; (iii) conduct of a criminal nature which has or which is more likely than not to have a material adverse effect on Mattel's reputation or standing in the community or on its

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continuing relationships with its customers or those who purchase or use its products; or (iv) fraudulent conduct in connection with the business or affairs of Mattel, regardless of whether said conduct is designed to defraud Mattel or others; provided that, in each case, the Executive has received written notice of the described activity, has been afforded a reasonable opportunity to cure or correct the activity described in the notice, and has failed to substantially cure, correct or cease the activity, as appropriate.

(c) Good Reason. The Executive may terminate his employment at any time for Good Reason. For purposes of this Agreement, "Good Reason" means the good faith determination by the Executive that any one or more of the following have occurred:

(i) without the express written consent of the Executive, any change(s) in any of the duties, authority, or responsibilities of the Executive which is (are) inconsistent in any substantial respect with the Executive's position, authority, duties, or responsibilities as contemplated by Section 2 of this Agreement;

(ii) any failure by Mattel to comply with any of the provisions of Section 3 of this Agreement, other than an

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insubstantial and inadvertent failure remedied by Mattel promptly after receipt of notice thereof given by the Executive;

(iii) without the Executive's consent, any requirement by Mattel that Executive be based at any office or location other than an office or location in Los Angeles, California, except for travel reasonably required in the performance of the Executive's responsibilities;

(iv) any proposed termination by Mattel of the Executive's employment otherwise than as permitted by this Agreement; or

(v) any failure by Mattel to obtain the assumption and agreement to perform this Agreement by a successor as contemplated by Section 11(b).

(d) Change of Control. A "Change of Control" shall be deemed to have occurred if:

(i) any "Person," which shall mean a "person" as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934,

as amended (the "Exchange Act"), (other than Mattel, any trustee or other fiduciary holding securities under an employee benefit plan of Mattel) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of Mattel

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representing 20% or more of the combined voting power of Mattel's then outstanding voting securities;

(ii) during any period of 24 consecutive months, individuals, who at the beginning of such period constitute the Board of Directors of Mattel, and any new director whose election by the Board of Directors, or whose nomination for election by Mattel's stockholders, was approved by a vote of at least one-half (1/2) of the directors then in office (other than in connection with a contested election), cease for any reason to constitute at least a majority of the Board of Directors;

(iii) the stockholders of Mattel approve (I) a plan of complete liquidation of Mattel or (II) the sale or other disposition by Mattel of all or substantially all of Mattel's assets unless the acquirer of the assets or its board of directors shall meet the conditions for a merger or consolidation in subparagraphs (iv)(I) or (iv)(II) below; or

(iv) the consummation of a merger or consolidation of Mattel with any other entity other than:

(I) a merger or consolidation which results in the voting securities of Mattel outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the

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surviving entity's outstanding voting securities immediately after such merger or consolidation; or

(II) a merger or consolidation which would result in the directors of Mattel (who were directors immediately prior thereto) continuing to constitute at least 50% of all directors of the surviving entity immediately after such merger or consolidation.

In this paragraph (iv), "surviving entity" shall mean only an entity in which all of Mattel's stockholders immediately before such merger or consolidation (determined without taking into account any stockholders properly exercising appraisal or similar rights) become stockholders by the terms of such merger or consolidation, and the phrase "directors of Mattel (who were directors immediately prior thereto)" shall include only individuals who were directors of Mattel at the beginning of the 24 consecutive month period preceding the date of such merger or consolidation.

(e) Notice of Termination. Any termination of the Executive's employment by Mattel for Cause following a Change of Control or by the Executive for Good Reason shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 13(b). Any termination by Mattel due to Disability shall be given in accordance with Section 4(a). For

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purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon; (ii) except in the event of a termination following a Change of Control, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated; and (iii) specifies the Date of Termination (defined below).

(f) Date of Termination. "Date of Termination" means the date of actual receipt of the Notice of Termination or any later date specified therein (but not more than fifteen (15) days after the giving of the Notice of Termination), as the case may be; provided that (i) if the Executive's employment is terminated by Mattel for any reason other than Cause or Disability, the Date of Termination is the date on which Mattel notifies the Executive of such termination; (ii) if the Executive's employment is terminated due to Disability, the Date of Termination is the Disability Effective Date; and (iii) if the Executive's employment is terminated due to the Executive's death, the Date of Termination shall be the date of death.

5. Obligations of Mattel upon Termination. Other than as

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Executive shall not be entitled to any benefits on or after the Date of Termination.

(a) Death. If the Executive's employment is terminated by reason of the Executive's death, this Agreement shall terminate without further obligations by Mattel to the Executive's legal representatives under this Agreement other than those obligations accrued hereunder or under the terms of the applicable Mattel plan or program which takes effect at the date of his death or as otherwise provided in Section 4(a) or this Section 5(a). As of the Date of Termination, the Executive's family shall be entitled to the Executive's benefits on the terms described in Section 5(d)(iv) (other than outplacement services and leased car benefits, which are excluded), except that healthcare insurance coverage and financial and legal counseling services shall terminate on the third anniversary of the Date of Termination. The Executive's country club membership must be converted or sold, as the case may be, by the Executive's successor-in-interest within one year after the Date of Termination on the terms described in Section 5(d)(iv)(III); provided that no such conversion or sale shall be required and Mattel shall cause the membership to be transferred to the Executive's spouse at no cost to the spouse if the Executive has had the membership for at least three years.

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(b) Disability. If the Executive's employment is terminated by reason of the Executive's Disability, the Executive shall be entitled to receive after the Disability Effective Date (i) disability benefits, if any, at least equal to those then provided by Mattel to disabled executives and/or their families and (ii) those other benefits on the terms described in Section 5(d)(iv).

(c) Cause. If the Executive's employment is terminated for Cause or if the Executive terminates his employment without Good Reason, Mattel shall pay the Executive his full Base Salary through the Date of Termination at the rate in effect at the time Notice of Termination is given, and Mattel shall have no further obligations to the Executive under this Agreement.

(d) Good Reason; Other Than for Cause or Disability. If Mattel terminates the Executive's employment other than for Cause or Disability or the Executive terminates his employment for Good Reason (in each case, other than within 18 months following a Change of Control as provided in Section 5(e)):

(i) Mattel shall pay to the Executive in a lump sum in cash within 30 days after the Date of Termination the aggregate of the following amounts:

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(A) if not theretofore paid, the Executive's Base Salary through the Date of Termination at the rate in effect at the time of Notice of Termination was given;

(B) a current year MIP bonus equal to the average of the greatest two out of the three most recent annual MIP bonuses received by the Executive (which two greatest MIP bonuses need not represent consecutive years) (the "Average Annual Bonus") and prorated to reflect the total number of full months the Executive is employed in the year in which termination occurs;

(C) an LTIP payment reflective of the Executive's participation in the three-year plan, so that at the time that final performance under the LTIP is determinable and individual payouts calculated, the Executive shall promptly receive an amount equivalent to what he would have received if he had remained employed through the date of such payouts, less any interim payments already made pursuant to the Executive's continuing eligibility for full participation in the LTIP; and

(D) three times the sum of (x) the Executive's annual Base Salary at the rate in effect at the time the Notice of Termination is given and (y) the Average Annual Bonus defined in Section 5(d)(i)(B), but without proration (and, in each such case, without regard to any contributions by Mattel

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for the Executive's benefit to the Mattel Personal Investment Plan ("PIP").

(ii) Options granted to the Executive under Mattel's stock option plans (the "Stock Option Plans") which options have been granted for more than six months shall become immediately exercisable and the Executive shall have a period of 90 days following the Date of Termination (but in no event past the expiration of the term of the option grant) to exercise all options granted under the Stock Option Plans then exercisable or which become exercisable pursuant to this clause (ii). In the event the Executive is age 52 or older on the Date of Termination, he will be treated as a retiree under the Stock Option Plans, which will enable the Executive to vest in and exercise stock options theretofore granted thereunder, at the election of the Executive, (x) in the manner described in the immediately preceding sentence, or (y) for a period of up to five years after the Date of Termination (but in no event past the expiration of the term of the option grant).

(iii) Mattel shall, promptly upon submission by the Executive of supporting documentation, pay or reimburse to the Executive any costs and expenses paid or incurred by the Executive which would have been payable under Section 3(e) if his employment had not terminated.

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(iv) Until the earlier of (x) the third anniversary of the Date of Termination or (y) the date the Executive accepts other employment, Mattel shall provide to the Executive at Mattel's expense:

(I) medical, dental, prescription drug and vision care group insurance in accordance with the coverage in effect immediately prior to the Date of Termination (the last 18 months of the Executive's coverage under such insurance shall be deemed to be participation under an election to continue such benefits under the Consolidated Omnibus Budget Reconciliation Act at Mattel's expense);

(II) outplacement services at the expense of Mattel commensurate with those provided to terminated executives of comparable level and made available through and at the facilities of a reputable and experienced vendor; and

(III) continuation of country-club membership "signatory/representative" status as in effect immediately prior to the Date of Termination; provided that within one year after Mattel ceases to provide such benefit, the Executive shall (a) convert the country-club membership from "signatory/representative" status under the membership provided and paid for by Mattel to sole and personal ownership status by paying to Mattel the fair market value of that membership as of the date Mattel ceases to provide such benefit, less any transfer/reconveyance fees that

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may be required by and paid directly to the country club by the Executive, or (b) comply with club rules in consummating a fair, reasonable and expeditious sale of the membership and any proceeds derived therefrom which are payable to the Executive shall belong to and must be promptly delivered to Mattel; provided further that no such conversion or sale shall be required and Mattel shall cause the membership to be transferred to the Executive at no cost to the Executive (but subject to tax reporting as imputed income applicable to the year in which the membership is transferred), if the Executive has had the membership for at least three years.

For the three-year period after the Date of Termination, the Executive shall remain eligible for use of personal financial and legal counseling services through the vendor engaged and paid for by Mattel. The Executive may continue to use the car leased by Mattel that is in the Executive's possession on the Date of Termination until the earlier of (x) the end of the lease term or (y) the third anniversary of the Date of Termination, at which time the Executive may purchase the car for \$1.00 (if at the end of the lease term) or Mattel's book value (if on the third anniversary of the Date of Termination). As of the Date of Termination, all expenses related to such leased car, including but not limited to repairs, maintenance, gasoline, and car phone

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and associated expenses, shall be the sole responsibility of the Executive.

(v) Credit shall be given for three years of service (in addition to actual service) and for three years of attained age to be added to the Executive's actual age for purposes of computing any service and age-related benefits for which the Executive is eligible under the

plans and programs of Mattel, including but not limited to the 1994 Supplemental Executive Retirement Plan (including any successor plan thereto in which the Executive is a participant, the "SERP"), the Mattel Deferred Compensation Plan, the PIP, the Mattel Retiree Medical Plan, and the Stock Option Plans. In the event of an applicable termination under the provisions of Sections 5 (d) or (e), the Executive hereby waives and renounces any carry-over rights under the 1990 Supplemental Executive Retirement Plan which provides for benefits eligibility at age 50, and, in lieu thereof, the Executive shall be accorded eligibility under the SERP as early as age 47, based on the three additional years of age-related credit under this paragraph; however, such premature eligibility shall be limited in application to the extent that it shall qualify the Executive to receive benefits under the SERP as early as age 52 upon having attained at least age 47 on the Date of Termination. For purposes of benefits calculation in the event of an applicable termination after attaining age 47, Executive shall be treated as if he had actually attained age 52

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on the Date of Termination. Further, with regard to computing the Executive's benefit under the SERP, the formula described in Section 5(d)(i)(B) shall be utilized in calculating the maximum benefit, namely: the formula shall be 25% of the average of the final three years of annual Base Salary (including the calendar year in which the Date of Termination occurs), plus the average of the greatest two of the three most recent annual MIP bonuses received by the Executive. Notwithstanding the foregoing, if Executive, upon attaining age 50, terminates his employment voluntarily for other than Good Reason, then Executive shall retain any and all rights and benefits due to him under the provisions of the 1990 Supplemental Executive Retirement Plan.

(e) Change of Control. If, within 18 months following a Change of Control, the Executive terminates his employment for Good Reason or Mattel or the surviving entity terminates the Executive's employment other than for Cause or Disability:

(i) Mattel shall pay to the Executive in a lump sum in cash within 30 days after the Date of Termination the aggregate of the following amounts:

(A) if not theretofore paid, the Executive's Base Salary through the Date of Termination at the rate in effect at the time of Notice of Termination was given;

(B) an amount equal to the MIP bonus that would have been payable to executives of Mattel in the same bonus category as the Executive pursuant to the Bonus Programs provided in Section 3(b) assuming, for purposes of calculating the amount

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of the bonus pool under the plan, that the "maximum" amount, as that term is used in the plan, was achieved for the current plan year (the "Maximum Annual Bonus"), with such amount prorated to reflect the number of full months the Executive is employed in the year in which termination occurs;

(C) an LTIP payment for the current year, assuming achievement of the three-year maximum award, prorated to reflect the total number of full months the Executive is employed in the year in which termination occurs;

(D) three times the sum of (x) the Executive's annual Base Salary at the rate in effect at the time the Notice of Termination is given and (y) the Maximum Annual Bonus defined in Section 5(e)(i)(B), but without proration (and, in each such case, without regard to any contributions by Mattel for the Executive's benefit to the PIP); and

(E) the full term payout for the three-year period of the LTIP, assuming for purposes of calculating the amount earned under the LTIP, achievement of the three-year maximum award (including the full amount of the premium), less any interim payments previously received by the Executive.

(ii) If it is determined that any payment or distribution by Mattel to the Executive pursuant to Section 5(e) (determined without regard to any additional payments required pursuant to this sentence) (a "Payment") would be subject to the

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excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with

any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive with respect to each Payment an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments

(iii) In addition, the Executive shall receive the amounts and be entitled to the benefits provided in clauses (ii), (iii), (iv) and (v) of Section 5(d).

(f) Bonus During Cancellation Period. If Mattel notifies the Executive that the Employment Period provided in Section 1 hereof will not be automatically extended as provided therein, the compensation of the Executive shall continue as provided in this Agreement for the period provided therein, except that the amount of MIP compensation payable under the Bonus Programs with respect to each fiscal year during such

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period (including the year in which the notice was given) shall be the Average Annual Bonus as determined in Section 5(d)(i)(B). Amounts payable with respect to the year in which the term specified in Section 1 expires shall be prorated based on a fraction the numerator of which is the number of full months from the beginning of such year until the date of the expiration of this Agreement and denominator of which is 12.

6. Non-exclusivity of Rights. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any benefit, bonus, incentive or other plan or program provided by Mattel and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any stock option or other agreement with Mattel or any of its affiliated companies. Except as otherwise provided herein, amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan or program of Mattel at or subsequent to the Date of Termination shall be payable in accordance with such plan or program.

7. No Set Off, Payment of Fees. Except as provided here-in, Mattel's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any circumstances, including without

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limitation any set-off, counterclaim, recoupment, defense or other right which Mattel may have against the Executive or others. Mattel agrees to pay, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by Mattel or others of the validity or enforceability of, or liability under, any provision of this Agreement other than expenses relating to a claim by the Executive that he terminated for Good Reason or that the termination for Cause was improper, in which case such fees and expenses shall be paid only if the Executive prevails in whole or in part. All amounts provided herein shall include, in each case, interest, compounded quarterly, on the total unpaid amount determined to be payable under this Agreement, such interest to be calculated on the basis of the prime commercial lending rate announced by Bank of America National Trust and Savings Association in effect from time to time during the period of such nonpayment. In the event that the Executive shall in good faith give a Notice of Termination for Good Reason and it shall thereafter be determined that Good Reason did not exist, the employment of the Executive shall, unless Mattel and the Executive shall otherwise mutually agree, be deemed to have terminated at the Date of Termination specified in such purported Notice of Termination by mutual consent of Mattel and the Executive and thereupon, the Executive shall be entitled to

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receive only those payments and benefits which he would have been entitled to receive at such date.

8. Arbitration of Disputes.

(a) The parties agree that any disputes, controversies or claims which arise out of or relate to this Agreement, the Executive's employment or the termination of his employment, including, but not limited to, any claim relating to the purported validity, interpretation, enforceability or breach of this Agreement, and/or any other claim or controversy arising out of the relationship between the Executive and Mattel (or the nature of the

relationship) or the continuation or termination of that relationship, including, but not limited to, claims that a termination was for Cause, including the determination of Mattel's Board of Directors in accordance with Section 4(b), or for Good Reason, claims for breach of covenant, breach of an implied covenant of good faith and fair dealing, wrongful termination, breach of contract, or intentional infliction of emotional distress, defamation, breach of right of privacy, interference with advantageous or contractual relations, fraud, conspiracy or other tort or property claims of any kind, which are not settled by agreement between the parties, shall be settled by arbitration under the labor arbitration rules of the American Arbitration Association before a board of three arbitrators, as selected thereunder.

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One arbitrator shall be selected by the Executive, one by Mattel and the third by the two persons so selected, all in accordance with the labor arbitration rules of the American Arbitration Association then in effect. In the event that the arbitrator selected by the Executive and the arbitrator selected by Mattel are unable to agree upon a third arbitrator, then the third arbitrator shall be selected from a list of seven provided by the office of the American Arbitration Association nearest to the Executive's residence with the parties striking names in order and the party striking first to be determined by the flip of a coin. The arbitration shall be held in a location to be mutually agreed upon by the parties. In the absence of agreement, the Chairman of the Board of Mattel shall determine the location.

(b) In consideration of the parties' agreement to submit to arbitration all disputes with regard to this Agreement and/or with regard to any alleged contract, or any other claim arising out of their conduct, the relationship existing hereunder or the continuation or termination of that relationship, and in further consideration of the anticipated expedition and the minimizing of expense resulting from this arbitration remedy, the arbitration provisions of this Agreement shall provide the

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exclusive remedy, and each party expressly waives any right he or it may have to seek redress in any other forum.

(c) Any claim which either party has against the other party which could be submitted for resolution pursuant to this Section 8 must be presented in writing by the claiming party to the other within one year of the date the claiming party knew or should have known of the facts giving rise to the claim, except that claims arising out of or related to the termination of the Executive's employment must be presented by him within one year after the Date of Termination. Unless the party against whom any claim is asserted waives the time limits set forth above, any claim not brought within the time periods specified shall be waived and forever barred.

(d) Mattel will pay all costs and expenses of the arbitration to the extent provided in this Section 8. In the event expenses are not paid by Mattel, and without diminishing the Executive's right to reimbursement as provided in this Section, costs and expenses shall be paid as follows: (x) the expenses of the neutral arbitrator and of a transcript of any arbitration proceeding shall be divided equally between the Executive and Mattel; and (y) each party shall bear the expenses of the arbitrator selected by it and of the witnesses it calls.

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(e) Any decision and award or order of a majority of the arbitrators shall be binding upon the parties hereto and judgment thereon may be entered in the Superior Court of the State of California or any other court having jurisdiction.

(f) Each of the above terms and conditions of this Section 8 shall have separate validity and the invalidity of any part thereof shall not affect the remaining parts.

(g) Any decision and award or order of a majority of the arbitrators shall be final and binding between the parties as to all claims which were raised in connection with the dispute to the full extent permitted by law. In all other cases, the parties agree that a decision of a majority of arbitrators shall be a condition precedent to the institution or maintenance of any legal, equitable, administrative, or other formal proceeding by the Executive in connection with the dispute, and that the decision and opinion of the board of arbitrators may be presented in any other forum on the merits of the dispute.

9. General Release. The Executive acknowledges and agrees that this

Agreement includes the entire agreement and understanding between the parties with regard to the Executive's employment, the termination thereof during the Employment Period, and all amounts to which the Executive shall be entitled whether

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during the term of employment or upon termination thereof. Accordingly, upon Mattel's fulfilling its obligations to the Executive hereunder, the Executive, on behalf of himself and his successors, assigns, heirs and any and all other persons claiming through the Executive, if any, and each of them, shall and does hereby forever relieve, release, and discharge Mattel and its respective predecessors, successors, assigns, owners, attorneys, representatives, affiliates, parent corporations, subsidiaries (whether or not wholly-owned), divisions, partners and their officers, directors, agents, employees, servants, executors, administrators, accountants, investigators, insurers, and any and all other related individuals and entities, if any, and each of them, in any and all capacities, from any and all claims, debts, liabilities, demands, obligations, liens, promises, acts, agreements, costs and expenses (including, but not limited to, attorneys' fees), damages, actions and causes of action, of whatever kind or nature, including, without limitation, any statutory, civil or administrative claim, or any claim, arising out of acts or omissions occurring before the execution of this Agreement, whether known or unknown, suspected or unsuspected, fixed or contingent, apparent or concealed (collectively referred to as "claims"), including, but not limited to, any claims based on, arising out of, related to or connected with the subject matter of this Agreement, the Executive's employment or the termination thereof, and any and all facts in any manner arising

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out of, related to or connected with the Executive's employment with, or termination of employment from, Mattel or any of its related entities, including, but not limited to, any claims arising from rights under federal, state, and local laws prohibiting discrimination on the basis of race, national origin, sex, religion, age, marital status, pregnancy, handicap, ancestry, sexual orientation, or any other form of discrimination, and any common law claims of any kind, including, but not limited to, contract, tort, and property rights including, but not limited to, breach of contract, breach of the implied covenant of good faith and fair dealing, tortious interference with contract or current or prospective economic advantage, fraud, deceit, misrepresentation, defamation, wrongful termination, infliction of emotional distress, breach of fiduciary duty, and any other common law claim of any kind whatever.

Upon Mattel's fulfilling its obligations to the Executive here-under, the Executive expressly waives any and all rights under Section 1542 of the Civil Code of the State of California, and all other federal or state statutory rights, rules, and principles of common law or equity, including without limitation those of any jurisdiction, government, or political subdivision thereof, similar to Section 1542 ("similar provision"). Thus the Executive may not invoke the benefits of Section 1542 or any

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similar provision in order to prosecute or assert in any manner any claims released hereunder. Section 1542 provides as follows:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR."

10. Confidential Information. The Executive shall hold in a fiduciary capacity for the benefit of Mattel all secret or confidential information, knowledge or data relating to Mattel or any of its affiliated companies, and their respective businesses, which shall have been obtained by the Executive during his employment by Mattel or any of its affiliated companies and which shall not be public knowledge and will continue to be bound by the provisions of the Patent and Confidence Agreement previously executed by the Executive. After termination of the Executive's employment with Mattel, he shall not, without the prior written consent of Mattel, communicate or divulge any such information, knowledge or data to anyone other than Mattel and those designated by it.

11. Successors.

(a) This Agreement is personal to the Executive and without the prior written consent of Mattel shall not be

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assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon Mattel and its successors. Mattel shall require any successor to all or substantially all of the business and/or assets of Mattel, whether direct or indirect, by purchase, merger, consolidation, acquisition of stock, or otherwise, by an agreement in form and substance satisfactory to the Executive, expressly to assume and agree to perform this Agreement in the same manner and to the same extent as Mattel would be required to perform if no such succession had taken place.

12. Amendment; Waiver. This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and may be amended, modified or changed only by a written instrument executed by the Executive and Mattel. No provision of this Agreement may be waived except by a writing executed and delivered by the party sought to be charged. Any such written waiver will be effective only with respect to the event or circumstance described therein and not with respect to any other event or circumstance, unless such waiver expressly provides to the contrary.

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13. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of California, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect.

(b) All notices and other communications hereunder shall be in writing; shall be delivered by hand delivery to the other party or mailed by registered or certified mail, return receipt requested, postage prepaid; shall be deemed delivered upon actual receipt; and shall be addressed as follows:

if to the Executive:

Ned Mansour
*
*

if to Mattel:

MATTEL, INC.
333 Continental Blvd.
El Segundo, CA 90245
ATTENTION: Jill E. Barad

or to such other address as either party shall have furnished to the other in writing in accordance herewith.

(c) Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction will, as to such

* CONFIDENTIAL

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jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction will not invalidate or render unenforceable such provision in any other jurisdiction.

(d) Mattel may withhold from any amounts payable under this Agreement such Federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

IN WITNESS WHEREOF, each of the parties hereto has duly executed this Agreement as of the date first set forth above.

EXECUTIVE:

/s/ Ned Mansour

Ned Mansour

MATTEL:

MATTEL, INC.,

a Delaware corporation

By: /s/ Jill E. Barad

Jill E. Barad
President and Chief Operating
Officer

ATTEST:

/s/ Stephen Hartley

Assistant Secretary

EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT dated as of December 20, 1996 (the "Agreement") is between Mattel, Inc., a Delaware corporation ("Mattel"), and BRUCE L. STEIN (the "Executive").

The Executive and Mattel are parties to an Employment Agreement dated as of August 8, 1996 (the "Existing Employment Agreement"), providing for the employment of the Executive.

The Executive and Mattel desire to clarify certain provisions of the Existing Employment Agreement that govern the respective rights and obligations of the Executive and Mattel, and therefore deem it appropriate to amend and restate the Existing Employment Agreement in its entirety.

In consideration of the premises and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Executive and Mattel agree to amend and restate the Existing Employment Agreement in its entirety as follows:

1. Employment Period. Mattel hereby agrees to employ and continue in its employ the Executive, and the Executive hereby accepts such employment and agrees to remain in the employ of Mattel, for the period commencing on the date of this Agreement

and ending on the third anniversary of such date (the "Employment Period"); provided that commencing on the first day of the month next following the effective date hereof, and on the first day of each month thereafter (the most recent of such dates is hereinafter referred to as the "Renewal Date"), the Employment Period shall be automatically extended so as to terminate three years from such Renewal Date, unless at least 60 days prior to any Renewal Date Mattel or the Executive shall give notice to the other that the Employment Period shall not be so extended.

2. Duties.

(a) Executive's Position and Duties. During the Employment Period, the Executive's position (including titles), authority and responsibilities shall be similar to those held by the Executive on the date hereof with such additions and modifications, and consistent with responsibilities generally assigned to executive officers of Mattel as the Chief Executive Officer of Mattel may in her discretion and acting in good faith from time to time assign to the Executive. The Executive's services shall be performed in the general area in which the Executive was employed on the date of this Agreement and the Executive will not be transferred outside the area without the Executive's consent, other than for normal business travel and temporary assignments. Executive's election as a member of

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Mattel's Board of Directors shall reoccur upon the expiration of each term of his as a director during the Employment Period.

(b) Full Time. The Executive agrees to devote his full business time to the business and affairs of Mattel and to use his best efforts to perform faithfully and efficiently the responsibilities assigned to him hereunder to the extent necessary to discharge such responsibilities, except for (i) services on corporate, civic or charitable boards or committees not significantly interfering with the performance of such responsibilities; (ii) periods of vacation and sick leave to which he is entitled; and (iii) the management of personal investments and affairs. The Executive will not engage in any outside business activity (as distinguished from personal investment activity and affairs), including, but not limited to, activity as a consultant, agent, partner or officer, or provide business services of any nature directly or indirectly to a corporation or other business enterprise.

3. Compensation.

(a) Base Salary. During the Employment Period, the Executive shall receive a base salary ("Base Salary") at a current bi-weekly rate of \$23,847.00, and such rate shall be increased to \$27,308.00 on February 3, 1997, subject to approval

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by the Compensation/Options Committee of the Board of Directors of Mattel

and thereafter shall be at least equal to the bi-weekly salary paid to Executive by Mattel as of February 3, 1997. The Base Salary shall be reviewed at least every eighteen months following the February 3, 1997 date, and may be increased at any time and from time to time by action of the Board of Directors of Mattel or the Compensation/Options Committee thereof or any individual having authority to take such action in accordance with Mattel's regular practices. Any increase in the Base Salary shall not serve to limit or reduce any other obligation of Mattel hereunder and, after any such increase, the Base Salary shall not be reduced.

(b) Bonus Programs. In addition to the Base Salary, the Executive shall participate throughout the Employment Period in Mattel's cash, deferred bonus, incentive plans and programs ("Bonus Programs") as may be in effect from time to time with respect to executives employed by Mattel at a participation level reflecting the Executive's responsibilities, including, but not limited to, the Management Incentive Plan ("MIP") and the Long-Term Incentive Plan ("LTIP") as they may be modified from time to time and any plans or programs substituted therefor; provided that, except as provided in Section 5(f) hereof, the determination of the amounts to be paid pursuant to such plans or programs shall be made by the Board of Directors of Mattel or a

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committee thereof authorized to take such action and shall be made in accordance with Mattel's compensation practice and the terms and provisions of such plans or programs; provided further that the Executive's eligibility for and participation in each of the Bonus Programs shall be at a level and on terms and conditions no less favorable than those available to any other comparably situated executive or consultant.

(c) Incentive and Savings Plans. In addition to the Base Salary and participation in the Bonus Programs, during the Employment Period the Executive shall be entitled to participate in all incentive and savings plans and programs, including, but not limited to, stock option plans and retirement plans, as may be in effect from time to time with respect to executives employed by Mattel at the Executive's level so as to reflect the Executive's responsibilities.

(d) Benefit Plans. The Executive and/or his family, as the case may be, shall be entitled to receive all amounts which he or his family is or would have been entitled to receive as benefits under all medical, dental, disability, group life, accidental death and travel accident insurance plans and programs of Mattel in which the Executive is a participant as in effect from time to time with respect to executives employed by Mattel.

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(e) Expenses. During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the policies and practices of Mattel as in effect from time to time with respect to executives employed by Mattel.

(f) Fringe Benefits. The Executive shall be entitled to fringe benefits, commensurate with those available to comparable level executives, including an automobile and related expenses as well as the use of a company-issued gasoline credit card, club memberships and related expenses, and financial and legal counseling in accordance with the policies of Mattel as in effect from time to time with respect to executives employed by Mattel.

(g) Vacation. During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the policies of Mattel as in effect from time to time with respect to executives employed by Mattel.

(h) Company Loan. Mattel will provide to Executive a loan in the principal amount of \$1,000,000, which loan shall be due and payable three years from the date said loan is made, with interest to accrue annually at Libor plus 25 basis points (.25%) and payable upon maturity; provided that, if Executive's

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employment is terminated for "Cause" (as defined in Section 4(b)) by Mattel, the loan shall become due and payable, including interest accrued, ninety (90) days after such termination date; provided further that, if Executive's employment is terminated for reasons other than "Cause" by Mattel, for "Good Reason" by the Executive, or in connection with a "Change of Control" (as such terms are hereinafter defined), the principal amount of the loan and all accrued unpaid interest shall be forgiven and forever canceled. Further, the Company reserves the right to extend the term of the loan for an additional

period of time, on or before the scheduled date of maturity, and in conjunction with the advent of such an extension, the Company may, in its sole discretion, modify the particulars of the loan to preserve the intent and purpose of its interest therein.

(i) Stock Options. Mattel shall grant 150,000 stock options to Executive under the terms and conditions of the 1996 Non-Qualified Stock Option Plan in January of 1997, and grant not less than 150,000 stock options to Executive in January of 1998, under the operative non-qualified stock option plan in effect at that time. Thereafter, Executive will be eligible for additional annual grants of options commensurate with the timing and amount normally made available to executives at a comparable level.

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(j) Certain Amendments. Nothing herein shall be construed to prevent Mattel from amending, altering, eliminating or reducing any plans, benefits or programs so long as the Executive continues to have the opportunity to receive compensation and benefits consistent with Sections 3(a) through (i).

4. Termination.

(a) Death or Disability. This Agreement shall terminate automatically upon the Executive's death; provided that Base Salary, all bonuses and earned benefits will be continued and paid for a period of six (6) months thereafter, unless a longer period is otherwise specified. Mattel may terminate this Agreement, after having established the Executive's Disability, by giving to the Executive written notice of its intention to terminate his employment, and his employment with Mattel shall terminate effective on the 90th day after receipt of such notice (the "Disability Effective Date"). For purposes of this Agreement, the Executive's Disability shall occur and shall be deemed to have occurred only when the Executive becomes entitled to receive disability benefits under the Mattel Long-Term Disability Plan for exempt employees.

(b) Cause. Mattel may terminate the Executive's employment for "Cause" if a majority, consisting of at least 2/3

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of the non-management members of the Board of Directors of Mattel, determines that "Cause" exists. For purposes of this Agreement, "Cause" means (i) an act or acts of dishonesty on the Executive's part which are intended to result in his substantial personal enrichment at the expense of Mattel; (ii) repeated violations by the Executive of his obligations under Section 2 of this Agreement which are demonstrably willful and deliberate on the Executive's part and which resulted in material injury to Mattel; (iii) conduct of a criminal nature which has or which is more likely than not to have a material adverse effect on Mattel's reputation or standing in the community or on its continuing relationships with its customers or those who purchase or use its products; or (iv) fraudulent conduct in connection with the business or affairs of Mattel, regardless of whether said conduct is designed to defraud Mattel or others; provided that, in each case, the Executive has received written notice of the described activity, has been afforded a reasonable opportunity to cure or correct the activity described in the notice, and has failed to substantially cure, correct or cease the activity, as appropriate.

(c) Good Reason. The Executive may terminate his employment at any time for Good Reason. For purposes of this Agreement, "Good Reason" means the good faith determination by

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the Executive that any one or more of the following have occurred:

(i) without the express written consent of the Executive, any change(s) in any of the duties, authority, or responsibilities of the Executive which is (are) inconsistent in any substantial respect with the Executive's position, authority, duties, or responsibilities as contemplated by Section 2 of this Agreement;

(ii) any failure by Mattel to comply with any of the provisions of Section 3 of this Agreement, other than an insubstantial and inadvertent failure remedied by Mattel promptly after receipt of notice thereof given by the Executive;

(iii) without the Executive's consent, any requirement by Mattel that Executive be based at any office or location other than an office or location in Los Angeles, California, except for travel reasonably required in the performance of the Executive's responsibilities;

(iv) any proposed termination by Mattel of the Executive's employment otherwise than as permitted by this Agreement; or

(v) any failure by Mattel to obtain the assumption and agreement to perform this Agreement by a successor as contemplated by Section 11(b).

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(d) Change of Control. A "Change of Control" shall be deemed to have occurred if:

(i) any "Person," which shall mean a "person" as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), (other than Mattel, any trustee or other fiduciary holding securities under an employee benefit plan of Mattel) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of Mattel representing 20% or more of the combined voting power of Mattel's then outstanding voting securities;

(ii) during any period of 24 consecutive months, individuals, who at the beginning of such period constitute the Board of Directors of Mattel, and any new director whose election by the Board of Directors, or whose nomination for election by Mattel's stockholders, was approved by a vote of at least one-half (1/2) of the directors then in office (other than in connection with a contested election), cease for any reason to constitute at least a majority of the Board of Directors;

(iii) the stockholders of Mattel approve (I) a plan of complete liquidation of Mattel or (II) the sale or other disposition by Mattel of all or substantially all of Mattel's assets unless the acquirer of the assets or its board of

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directors shall meet the conditions for a merger or consolidation in subparagraphs (iv)(I) or (iv)(II) below; or

(iv) the consummation of a merger or consolidation of Mattel with any other entity other than:

(I) a merger or consolidation which results in the voting securities of Mattel outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the surviving entity's outstanding voting securities immediately after such merger or consolidation; or

(II) a merger or consolidation which would result in the directors of Mattel (who were directors immediately prior thereto) continuing to constitute at least 50% of all directors of the surviving entity immediately after such merger or consolidation.

In this paragraph (iv), "surviving entity" shall mean only an entity in which all of Mattel's stockholders immediately before such merger or consolidation (determined without taking into account any stockholders properly exercising appraisal or similar rights) become stockholders by the terms of such merger or consolidation, and the phrase "directors of Mattel (who were directors immediately prior thereto)" shall include only

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individuals who were directors of Mattel at the beginning of the 24 consecutive month period preceding the date of such merger or consolidation.

(e) Notice of Termination. Any termination of the Executive's employment by Mattel for Cause or following a Change of Control or by the Executive for Good Reason shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 13(b). Any termination by Mattel due to Disability shall be given in accordance with Section 4(a). For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon; (ii) except in the event of a termination following a Change of Control, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated; and (iii) specifies the Date of Termination (defined below).

(f) Date of Termination. "Date of Termination" means the date of actual receipt of the Notice of Termination or any later date specified therein (but not more than fifteen (15) days after the giving of the Notice

of Termination), as the case may be; provided that (i) if the Executive's employment is terminated by Mattel for any reason other than Cause or Disability, the Date

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of Termination is the date on which Mattel notifies the Executive of such termination; (ii) if the Executive's employment is terminated due to Disability, the Date of Termination is the Disability Effective Date; and (iii) if the Executive's employment is terminated due to the Executive's death, the Date of Termination shall be the date of death.

5. Obligations of Mattel upon Termination. Other than as specifically set forth or referenced in this Agreement, the Executive shall not be entitled to any benefits on or after the Date of Termination.

(a) Death. If the Executive's employment is terminated by reason of the Executive's death, this Agreement shall terminate without further obligations by Mattel to the Executive's legal representatives under this Agreement other than those obligations accrued hereunder or under the terms of the applicable Mattel plan or program which takes effect at the date of his death or as otherwise provided in Section 4(a) or this Section 5(a). As of the Date of Termination, the Executive's family shall be entitled to the Executive's benefits on the terms described in Section 5(d)(iv) (other than outplacement services and leased car benefits, which are excluded), except that healthcare insurance coverage and financial and legal counseling services shall terminate on the third anniversary of the Date of

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Termination. The Executive's country club membership must be converted or sold, as the case may be, by the Executive's successor-in-interest within one year after the Date of Termination on the terms described in Section 5(d)(iv)(III); provided that no such conversion or sale shall be required and Mattel shall cause the membership to be transferred to the Executive's spouse at no cost to the spouse if the Executive has had the membership for at least three years.

(b) Disability. If the Executive's employment is terminated by reason of the Executive's Disability, the Executive shall be entitled to receive after the Disability Effective Date (i) disability benefits, if any, at least equal to those then provided by Mattel to disabled executives and/or their families and (ii) those other benefits on the terms described in Section 5(d)(iv).

(c) Cause. If the Executive's employment is terminated for Cause or if the Executive terminates his employment without Good Reason, Mattel shall pay the Executive his full Base Salary through the Date of Termination at the rate in effect at the time Notice of Termination is given, and Mattel shall have no further obligations to the Executive under this Agreement.

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(d) Good Reason; Other Than for Cause or Disability. If Mattel terminates the Executive's employment other than for Cause or Disability or the Executive terminates his employment for Good Reason (in each case, other than within 18 months following a Change of Control as provided in Section 5(e)):

(i) Mattel shall pay to the Executive in a lump sum in cash within 30 days after the Date of Termination the aggregate of the following amounts:

(A) if not theretofore paid, the Executive's Base Salary through the Date of Termination at the rate in effect at the time of Notice of Termination was given;

(B) a current year MIP bonus equal to the average of the greatest two out of the three most recent annual MIP bonuses received by the Executive (which two greatest MIP bonuses need not represent consecutive years) (the "Average Annual Bonus") and prorated to reflect the total number of full months the Executive is employed in the year in which termination occurs;

(C) an LTIP payment reflective of the Executive's participation in the three-year plan, so that at the time that final performance under the LTIP is determinable and individual payouts calculated, the Executive shall promptly receive an amount equivalent to what he would have received if he

had remained employed through the date of such payouts, less any interim payments already made pursuant to the Executive's continuing eligibility for full participation in the LTIP; and

(D) three times the sum of (x) the Executive's annual Base Salary at the rate in effect at the time the Notice of Termination is given and (y) the Average Annual Bonus defined in Section 5(d)(i)(B), but without proration (and, in each such case, without regard to any contributions by Mattel for the Executive's benefit to the Mattel Personal Investment Plan ("PIP")).

(ii) Options granted to the Executive under Mattel's stock option plans (the "Stock Option Plans") which options have been granted for more than six months shall become immediately exercisable and the Executive shall have a period of 90 days following the Date of Termination (but in no event past the expiration of the term of the option grant) to exercise all options granted under the Stock Option Plans then exercisable or which become exercisable pursuant to this clause (ii). In the event the Executive is age 52 or older on the Date of Termination, he will be treated as a retiree under the Stock Option Plans, which will enable the Executive to vest in and exercise stock options theretofore granted thereunder, at the election of the Executive, (x) in the manner described in the

immediately preceding sentence, or (y) for a period of up to five years after the Date of Termination (but in no event past the expiration of the term of the option grant).

(iii) Mattel shall, promptly upon submission by the Executive of supporting documentation, pay or reimburse to the Executive any costs and expenses paid or incurred by the Executive which would have been payable under Section 3(e) if his employment had not terminated.

(iv) Until the earlier of (x) the third anniversary of the Date of Termination or (y) the date the Executive accepts other employment, Mattel shall provide to the Executive at Mattel's expense:

(I) medical, dental, prescription drug and vision care group insurance in accordance with the coverage in effect immediately prior to the Date of Termination (the last 18 months of the Executive's coverage under such insurance shall be deemed to be participation under an election to continue such benefits under the Consolidated Omnibus Budget Reconciliation Act at Mattel's expense);

(II) outplacement services at the expense of Mattel commensurate with those provided to terminated executives

of comparable level and made available through and at the facilities of a reputable and experienced vendor; and

(III) continuation of country-club membership "signatory/representative" status as in effect immediately prior to the Date of Termination; provided that within one year after Mattel ceases to provide such benefit, the Executive shall (a) convert the country-club membership from "signatory/representative" status under the membership provided and paid for by Mattel to sole and personal ownership status by paying to Mattel the fair market value of that membership as of the date Mattel ceases to provide such benefit, less any transfer/reconveyance fees that may be required by and paid directly to the country club by the Executive, or (b) comply with club rules in consummating a fair, reasonable and expeditious sale of the membership and any proceeds derived therefrom which are payable to the Executive shall belong to and must be promptly delivered to Mattel; provided further that no such conversion or sale shall be required and Mattel shall cause the membership to be transferred to the Executive at no cost to the Executive (but subject to tax reporting as imputed income applicable to the year in which the membership is transferred), if the Executive has had the membership for at least three years.

For the three-year period after the Date of Termination, the Executive shall remain eligible for use of personal financial and

legal counseling services through the vendor engaged and paid for by Mattel. The Executive may continue to use the car leased by Mattel that is in the Executive's possession on the Date of Termination until the earlier of

(x) the end of the lease term or (y) the third anniversary of the Date of Termination, at which time the Executive may purchase the car for \$1.00 (if at the end of the lease term) or Mattel's book value (if on the third anniversary of the Date of Termination). As of the Date of Termination, all expenses related to such leased car, including but not limited to repairs, maintenance, gasoline, and car phone and associated expenses, shall be the sole responsibility of the Executive.

(v) Credit shall be given for three years of service (in addition to actual service) and for three years of attained age to be added to the Executive's actual age for purposes of computing any service and age-related benefits for which the Executive is eligible under the plans and programs of Mattel, including but not limited to the 1994 Supplemental Executive Retirement Plan (including any successor plan thereto in which the Executive is a participant, the "SERP"), the Mattel Deferred Compensation Plan, the PIP, the Mattel Retiree Medical Plan, and the Stock Option Plans. Further, with regard to computing the Executive's benefit under the SERP, the formula described in Section 5(d)(i)(B) shall be utilized in calculating

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the maximum benefit, namely: the formula shall be 25% of the average of the final three years of annual Base Salary (including the calendar year in which the Date of Termination occurs), plus the average of the greatest two out of the three most recent annual MIP bonuses received by the Executive.

(e) Change of Control. If, within 18 months following a Change of Control, the Executive terminates his employment for Good Reason or Mattel or the surviving entity terminates the Executive's employment other than for Cause or Disability:

(i) Mattel shall pay to the Executive in a lump sum in cash within 30 days after the Date of Termination the aggregate of the following amounts:

(A) if not theretofore paid, the Executive's Base Salary through the Date of Termination at the rate in effect at the time of Notice of Termination was given;

(B) an amount equal to the MIP bonus that would have been payable to executives of Mattel in the same bonus category as the Executive pursuant to the Bonus Programs provided in Section 3(b) assuming, for purposes of calculating the amount of the bonus pool under the plan, that the "maximum" amount, as that term is used in the plan, was achieved for the current plan year (the "Maximum Annual Bonus"), with such amount prorated to

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reflect the number of full months the Executive is employed in the year in which termination occurs;

(C) an LTIP payment for the current year, assuming achievement of the three-year maximum award, prorated to reflect the total number of full months the Executive is employed in the year in which termination occurs;

(D) three times the sum of (x) the Executive's annual Base Salary at the rate in effect at the time the Notice of Termination is given and (y) the Maximum Annual Bonus defined in Section 5(e)(i)(B), but without proration (and, in each such case, without regard to any contributions by Mattel for the Executive's benefit to the PIP); and

(E) the full term payout for the three-year period of the LTIP, assuming for purposes of calculating the amount earned under the LTIP, achievement of the three-year maximum award (including the full amount of the premium), less any interim payments previously received by the Executive.

(ii) If it is determined that any payment or distribution by Mattel to the Executive pursuant to Section 5(e) (determined without regard to any additional payments required pursuant to this sentence) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), or any interest or penalties are incurred by the Executive with respect to such excise tax

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(such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to receive with respect to each Payment an additional payment (a "Gross-Up Payment") in an amount such that after

payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(iii) In addition, the Executive shall receive the amounts and be entitled to the benefits provided in clauses (ii), (iii), (iv) and (v) of Section 5(d).

(f) Bonus During Cancellation Period. If Mattel notifies the Executive that the Employment Period provided in Section 1 hereof will not be automatically extended as provided therein, the compensation of the Executive shall continue as provided in this Agreement for the period provided therein, except that the amount of MIP compensation payable under the Bonus Programs with respect to each fiscal year during such period (including the year in which the notice was given) shall be the Average Annual Bonus as determined in Section 5(d)(i)(B).

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Amounts payable with respect to the year in which the term specified in Section 1 expires shall be prorated based on a fraction the numerator of which is the number of full months from the beginning of such year until the date of the expiration of this Agreement and denominator of which is 12.

6. Non-exclusivity of Rights. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any benefit, bonus, incentive or other plan or program provided by Mattel and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any stock option or other agreement with Mattel or any of its affiliated companies. Except as otherwise provided herein, amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan or program of Mattel at or subsequent to the Date of Termination shall be payable in accordance with such plan or program.

7. No Set Off, Payment of Fees. Except as provided herein, Mattel's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any circumstances, including without limitation any set-off, counterclaim, recoupment, defense or other right which Mattel may have against the Executive or

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others. Mattel agrees to pay, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by Mattel or others of the validity or enforceability of, or liability under, any provision of this Agreement other than expenses relating to a claim by the Executive that he terminated for Good Reason or that the termination for Cause was improper, in which case such fees and expenses shall be paid only if the Executive prevails in whole or in part. All amounts provided herein shall include, in each case, interest, compounded quarterly, on the total unpaid amount determined to be payable under this Agreement, such interest to be calculated on the basis of the prime commercial lending rate announced by Bank of America National Trust and Savings Association in effect from time to time during the period of such nonpayment. In the event that the Executive shall in good faith give a Notice of Termination for Good Reason and it shall thereafter be determined that Good Reason did not exist, the employment of the Executive shall, unless Mattel and the Executive shall otherwise mutually agree, be deemed to have terminated at the Date of Termination specified in such purported Notice of Termination by mutual consent of Mattel and the Executive and thereupon, the Executive shall be entitled to receive only those payments and benefits which he would have been entitled to receive at such date.

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8. Arbitration of Disputes.

(a) The parties agree that any disputes, controversies or claims which arise out of or relate to this Agreement, the Executive's employment or the termination of his employment, including, but not limited to, any claim relating to the purported validity, interpretation, enforceability or breach of this Agreement, and/or any other claim or controversy arising out of the relationship between the Executive and Mattel (or the nature of the relationship) or the continuation or termination of that relationship, including, but not limited to, claims that a termination was for Cause, including the determination of Mattel's Board of Directors in accordance with Section 4(b), or for Good Reason, claims for breach of covenant, breach of an implied covenant of good faith and fair dealing, wrongful

termination, breach of contract, or intentional infliction of emotional distress, defamation, breach of right of privacy, interference with advantageous or contractual relations, fraud, conspiracy or other tort or property claims of any kind, which are not settled by agreement between the parties, shall be settled by arbitration under the labor arbitration rules of the American Arbitration Association before a board of three arbitrators, as selected thereunder.

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One arbitrator shall be selected by the Executive, one by Mattel and the third by the two persons so selected, all in accordance with the labor arbitration rules of the American Arbitration Association then in effect. In the event that the arbitrator selected by the Executive and the arbitrator selected by Mattel are unable to agree upon a third arbitrator, then the third arbitrator shall be selected from a list of seven provided by the office of the American Arbitration Association nearest to the Executive's residence with the parties striking names in order and the party striking first to be determined by the flip of a coin. The arbitration shall be held in a location to be mutually agreed upon by the parties. In the absence of agreement, the Chairman of the Board of Mattel shall determine the location.

(b) In consideration of the parties' agreement to submit to arbitration all disputes with regard to this Agreement and/or with regard to any alleged contract, or any other claim arising out of their conduct, the relationship existing hereunder or the continuation or termination of that relationship, and in further consideration of the anticipated expedition and the minimizing of expense resulting from this arbitration remedy, the arbitration provisions of this Agreement shall provide the exclusive remedy, and each party expressly waives any right he or it may have to seek redress in any other forum.

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(c) Any claim which either party has against the other party which could be submitted for resolution pursuant to this Section 8 must be presented in writing by the claiming party to the other within one year of the date the claiming party knew or should have known of the facts giving rise to the claim, except that claims arising out of or related to the termination of the Executive's employment must be presented by him within one year after the Date of Termination. Unless the party against whom any claim is asserted waives the time limits set forth above, any claim not brought within the time periods specified shall be waived and forever barred.

(d) Mattel will pay all costs and expenses of the arbitration to the extent provided in this Section 8. In the event expenses are not paid by Mattel, and without diminishing the Executive's right to reimbursement as provided in this Section, costs and expenses shall be paid as follows: (x) the expenses of the neutral arbitrator and of a transcript of any arbitration proceeding shall be divided equally between the Executive and Mattel; and (y) each party shall bear the expenses of the arbitrator selected by it and of the witnesses it calls.

(e) Any decision and award or order of a majority of the arbitrators shall be binding upon the parties hereto and

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judgment thereon may be entered in the Superior Court of the State of California or any other court having jurisdiction.

(f) Each of the above terms and conditions of this Section 8 shall have separate validity and the invalidity of any part thereof shall not affect the remaining parts.

(g) Any decision and award or order of a majority of the arbitrators shall be final and binding between the parties as to all claims which were raised in connection with the dispute to the full extent permitted by law. In all other cases, the parties agree that a decision of a majority of arbitrators shall be a condition precedent to the institution or maintenance of any legal, equitable, administrative, or other formal proceeding by the Executive in connection with the dispute, and that the decision and opinion of the board of arbitrators may be presented in any other forum on the merits of the dispute.

9. General Release. The Executive acknowledges and agrees that this Agreement includes the entire agreement and understanding between the parties with regard to the Executive's employment, the termination thereof during the Employment Period, and all amounts to which the Executive shall be entitled whether during the term of employment or upon termination thereof. Accordingly, upon Mattel's fulfilling its obligations to the

Executive hereunder, the Executive, on behalf of himself and his successors, assigns, heirs and any and all other persons claiming through the Executive, if any, and each of them, shall and does hereby forever relieve, release, and discharge Mattel and its respective predecessors, successors, assigns, owners, attorneys, representatives, affiliates, parent corporations, subsidiaries (whether or not wholly-owned), divisions, partners and their officers, directors, agents, employees, servants, executors, administrators, accountants, investigators, insurers, and any and all other related individuals and entities, if any, and each of them, in any and all capacities, from any and all claims, debts, liabilities, demands, obligations, liens, promises, acts, agreements, costs and expenses (including, but not limited to, attorneys' fees), damages, actions and causes of action, of whatever kind or nature, including, without limitation, any statutory, civil or administrative claim, or any claim, arising out of acts or omissions occurring before the execution of this Agreement, whether known or unknown, suspected or unsuspected, fixed or contingent, apparent or concealed (collectively referred to as "claims"), including, but not limited to, any claims based on, arising out of, related to or connected with the subject matter of this Agreement, the Executive's employment or the termination thereof, and any and all facts in any manner arising out of, related to or connected with the Executive's employment with, or termination of employment from, Mattel or any of its

related entities, including, but not limited to, any claims arising from rights under federal, state, and local laws prohibiting discrimination on the basis of race, national origin, sex, religion, age, marital status, pregnancy, handicap, ancestry, sexual orientation, or any other form of discrimination, and any common law claims of any kind, including, but not limited to, contract, tort, and property rights including, but not limited to, breach of contract, breach of the implied covenant of good faith and fair dealing, tortious interference with contract or current or prospective economic advantage, fraud, deceit, misrepresentation, defamation, wrongful termination, infliction of emotional distress, breach of fiduciary duty, and any other common law claim of any kind whatever.

Upon Mattel's fulfilling its obligations to the Executive hereunder, the Executive expressly waives any and all rights under Section 1542 of the Civil Code of the State of California, and all other federal or state statutory rights, rules, and principles of common law or equity, including without limitation those of any jurisdiction, government, or political subdivision thereof, similar to Section 1542 ("similar provision"). Thus the Executive may not invoke the benefits of Section 1542 or any similar provision in order to prosecute or assert in any manner any claims released hereunder. Section 1542 provides as follows:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR."

10. Confidential Information. The Executive shall hold in a fiduciary capacity for the benefit of Mattel all secret or confidential information, knowledge or data relating to Mattel or any of its affiliated companies, and their respective businesses, which shall have been obtained by the Executive during his employment by Mattel or any of its affiliated companies and which shall not be public knowledge and will continue to be bound by the provisions of the Patent and Confidence Agreement previously executed by the Executive. After termination of the Executive's employment with Mattel, he shall not, without the prior written consent of Mattel, communicate or divulge any such information, knowledge or data to anyone other than Mattel and those designated by it.

11. Successors.

(a) This Agreement is personal to the Executive and without the prior written consent of Mattel shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the

benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon Mattel and its successors. Mattel shall require any successor to all

or substantially all of the business and/or assets of Mattel, whether direct or indirect, by purchase, merger, consolidation, acquisition of stock, or otherwise, by an agreement in form and substance satisfactory to the Executive, expressly to assume and agree to perform this Agreement in the same manner and to the same extent as Mattel would be required to perform if no such succession had taken place.

12. Amendment; Waiver. This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and may be amended, modified or changed only by a written instrument executed by the Executive and Mattel. No provision of this Agreement may be waived except by a writing executed and delivered by the party sought to be charged. Any such written waiver will be effective only with respect to the event or circumstance described therein and not with respect to any other event or circumstance, unless such waiver expressly provides to the contrary.

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13. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of California, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect.

(b) All notices and other communications hereunder shall be in writing; shall be delivered by hand delivery to the other party or mailed by registered or certified mail, return receipt requested, postage prepaid; shall be deemed delivered upon actual receipt; and shall be addressed as follows:

MATTEL, INC.
333 Continental Blvd.
El Segundo, CA 90245

With a copy to:
Buchalter, Nemer, Fields & Younger
Suite 2400
601 South Figueroa Street
Los Angeles, CA 90017
Attn: Stuart D. Buchalter, Esq.

or to such other address as either party shall have furnished to the other in writing in accordance herewith.

(c) Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction will, as to such jurisdiction, be ineffective to the extent of such prohibition or

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unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction will not invalidate or render unenforceable such provision in any other jurisdiction.

(d) Mattel may withhold from any amounts payable under this Agreement such Federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

IN WITNESS WHEREOF, each of the parties hereto has duly executed this Agreement as of the date first set forth above.

EXECUTIVE:

/s/ Bruce L. Stein

Bruce L. Stein

MATTEL:

MATTEL, INC.,
a Delaware corporation

By: /s/ Jill E. Barad

Jill E. Barad
President and Chief Operating
Officer

ATTEST:

/s/ Mary L. Waller

Secretary


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=====
NOTICE OF GRANT OF STOCK          MATTEL, INC.
OPTIONS AND GRANT AGREEMENT      ID: 95-1567322
                                  333 Continental Boulevard
                                  El Segundo, California
                                  90245
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Name of Optionee
-----
Address
-----
City, State  Zip Code
-----
ID:   -   -
-----

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You have been granted an option to buy Mattel, Inc. Common Stock as follows:

NON-QUALIFIED STOCK OPTION GRANT NO.	
DATE OF GRANT	
STOCK OPTION PLAN	1996
OPTION PRICE PER SHARE	\$
TOTAL NUMBER OF SHARES GRANTED	
TOTAL PRICE OF SHARES GRANTED	
\$	

By signing your name below, you and Mattel, Inc. agree that (a) this option is granted under and governed by the terms and conditions of the Grant Agreement referenced above, which is attached hereto and made a part of this document, and (b) both of these documents are subject to the terms of the above referenced Stock Option Plan.

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Full Legal Name (Print)   Social Security Number
-----
Current Address:         _____
                        _____
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For MATTEL, INC.          Date
-----
Optionee                  Date
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GRANT AGREEMENT FOR A
NON-QUALIFIED STOCK OPTION
UNDER THE MATTEL 1996 STOCK OPTION PLAN

This is an Option Agreement between Mattel, Inc. (the "Company") and the individual (the "Option Holder") named in the Notice of Grant of Stock Option (the "Notice") attached hereto as the cover page of this agreement.

RECITALS

- - - - -

The Company has adopted the Mattel 1996 Stock Option Plan (the "Plan") for the granting to selected employees of options to purchase shares of Common Stock of the Company. In accordance with the terms of the Plan, the Compensation/Stock Options Committee of the Board of Directors (the "Committee") has approved the execution of this Grant Agreement (the "Option") between the Company and the Option Holder. Capitalized terms used herein without definition shall have the meanings assigned to such terms in the Plan.

OPTION

- - - - -

1. TERMS. The Company grants to the Option Holder the right and option to purchase, on the terms and conditions hereinafter set forth, all or any part of the aggregate number of shares set forth in the Notice of Common Stock exercisable in accordance with the provisions of this Option during a period expiring ten years from the date of the Notice (the "Expiration Date"), unless terminated prior to that date pursuant to Section 5 or 6 below. This Option is a Non-Qualified Stock Option.

2. EXERCISABILITY. The Option Holder may purchase the following percentages of the shares on Common Stock set forth in the Notice at the times set forth below:

COMMENCING ON THE DATE OF THIS OPTION	PERCENT OF SHARES SUBJECT TO THIS OPTION THAT MAY BE PURCHASED
On or Before First Anniversary	0%
After the First Anniversary	25%
After the Second Anniversary	50%
After the Third Anniversary	75%
After the Fourth Anniversary and Until the Expiration Date	100%

The number of shares that may be purchased upon exercise of this Option shall in each case be calculated to the nearest full share.

3. METHOD OF EXERCISING. Each exercise of this Option shall be by means of a written notice of exercise delivered to the office of the Secretary of the Company, specifying the number of whole shares to be purchased, accompanied by payment of the full purchase price of the shares to be purchased. The payment shall be in the form of cash or such other forms of consideration as the Committee shall deem acceptable, such as the surrender of outstanding shares of Common Stock owned by the Option Holder or by withholding shares that would otherwise be issued upon the exercise of the Option. The Option Holder may exercise this Option by the delivery to the Company or its designated agent of an irrevocable written notice of exercise form together with irrevocable instructions to a broker-dealer to sell or margin a sufficient portion of the shares of Common Stock and to deliver the sale or margin loan proceeds directly to the Company to pay the exercise price of this Option.

4. WITHHOLDING. Upon exercise, the Option Holder shall pay, or make provisions satisfactory to the Company or its Subsidiary for payment of any federal, state and local taxes required to be withheld.

5. CANCELLATION OF GRANTS. Option Holder specifically acknowledges that this Option is subject to the provisions of Section 20 of the Plan, entitled "Cancellation of Grants," which can cause the forfeiture of this Option, or the rescission of Common Stock acquired upon the exercise of this Option. As a condition of the exercise of this Option, the Option Holder shall certify on a form acceptable to the Committee that he or she is in compliance with the terms and conditions of the Plan, including Section 20 thereof, entitled "Cancellation of Grants."

6. TERM. This Option shall terminate sixty (60) days after the Option Holder ceases to be an employee of the Company or one of its

Subsidiaries for any reason other than as described below.

(i) If the Option Holder's employment is terminated by reason of death, the Option Holder will be able to exercise this Option until the earlier of (a) one (1) year following termination of employment or (b) the date on which this Option would otherwise expire.

(ii) If the Option Holder's employment is terminated after the attainment of age fifty-five (55) and the completion of five (5) years of service (as determined in accordance with the terms of the Mattel, Inc. Personal Investment Plan), the Option Holder will be able to exercise this Option until the earlier of (a) five (5) years following termination of employment or (b) the date on which this Option would otherwise expire.

7. COMPLIANCE WITH LAW. No shares issuable upon the exercise of this Option shall be issued and delivered unless and until all applicable registration requirements of the Securities Act of 1933, all applicable listing requirements of any national securities exchange on which Common Stock is then listed, and all other requirements of law or of any regulatory

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bodies having jurisdiction over such issuance and delivery, shall have been complied with. In particular, the Committee may require certain investment (or other) representations and undertakings in connection with the issuance of securities in connection with the Plan in order to comply with applicable law.

8. ASSIGNABILITY. Except as may be effected by will or by the laws of descent and distribution, any attempt to assign this Option shall be of no effect.

9. CERTAIN CORPORATE TRANSACTIONS. In the event of any change in the Common Stock by reason of a stock split, stock dividend, combination or reclassification of shares, recapitalization, merger, or similar event, the Committee may adjust proportionately the number of shares and the stock price of the Common Stock subject to this Option. In the event of any other change affecting the Common Stock or any distribution (other than normal cash dividends) to holders of Common Stock, the Committee may make such adjustments as it may deem equitable (including adjustments to avoid fractional shares) in order to give proper effect to such event. In the event of a corporate merger, consolidation, acquisition of property or stock, spinoff, reorganization or liquidation, the Committee may substitute a new option for this Option or provide for the assumption of this Option by the other corporation that is a party to the transaction.

10. NO ADDITIONAL RIGHTS. Neither the granting of this Option nor its exercise shall (a) confer upon the Option Holder any right to continue in the employ of the Company, (b) interfere in any way with the rights of the Company or a Subsidiary to terminate such employment at any time for any reason, with or without cause, or (c) interfere with the right of the Company or a Subsidiary to undertake any lawful corporate action. Option Holder acknowledges that he or she is an "employee at will." The provisions of this Section 10 are subject to the terms of any employment agreement between the Option Holder and the Company (or a Subsidiary).

11. RIGHTS AS A STOCKHOLDER. Neither the Option Holder nor any other person legally entitled to exercise this Option shall be entitled to any of the rights or privileges of a stockholder of the Company in respect of any shares issuable upon any exercise of this Option unless and until a certificate or certificates representing such shares shall have been actually issued and delivered to the Option Holder.

12. COMPLIANCE WITH PLAN. This Option is subject to, and the Company and Option Holder agree to be bound by all of the terms and conditions of the Plan, as it shall be amended from time-to-time. No amendment to the Plan shall adversely affect this Option without the consent of the Option Holder. In the case of a conflict between the terms of the Plan and this Option, the terms of the Plan shall govern.

13. GOVERNING LAW. This Option has been granted, executed and delivered with effect from the date of Notice, at El Segundo, California, and interpretation, performance and enforcement of this Option shall be governed by the laws of the State of Delaware.

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COMPUTATION OF INCOME PER COMMON AND COMMON EQUIVALENT SHARE

(In thousands, except per share amounts)

PRIMARY	FOR THE YEAR ENDED (a)(b)				
	Dec. 31, 1996	Dec. 31, 1995	Dec. 31, 1994	Dec. 31, 1993	Dec. 31, 1992
Income Before Extraordinary Item and Cumulative Effect of Changes in Accounting Principles	\$377,641	\$357,802	\$255,832	\$135,911	\$184,841
Add: Interest savings, net of tax, applicable to assumed exercise of Fisher-Price warrants	-	-	-	637	1,138
Deduct: Dividends on convertible preference stock	-	(3,342)	(4,689)	(4,894)	(4,826)
Dividends on senior preferred stock	-	-	-	-	(152)
Income Before Extraordinary Item and Cumulative Effect of Changes in Accounting Principles for Computation of Income Per Share	377,641	354,460	251,143	131,654	181,001
Extraordinary item	-	-	-	(14,681)	-
Cumulative effect of changes in accounting principles	-	-	-	(4,022)	-
Net Income Applicable to Common Shares	<u>\$377,641</u>	<u>\$354,460</u>	<u>\$251,143</u>	<u>\$112,951</u>	<u>\$181,001</u>
Applicable Shares					
Weighted average common shares outstanding	273,371	276,309	275,572	262,856	264,066
Weighted average common equivalent shares arising from:					
Stock options	3,484	3,271	3,090	2,935	3,622
Fisher-Price warrants	927	928	1,023	1,681	3,258
Nonvested stock	603	507	238	-	-
Weighted average number of common and common equivalent shares	<u>278,385</u>	<u>281,015</u>	<u>279,923</u>	<u>267,472</u>	<u>270,946</u>
Income Per Share Before Extraordinary Item and Cumulative Effect of Changes in Accounting Principles	\$ 1.36	\$ 1.26	\$ 0.90	\$ 0.49	\$ 0.67
Extraordinary item	-	-	-	(0.05)	-
Cumulative effect of changes in accounting principles	-	-	-	(0.02)	-
Net Income Per Common Share	<u>\$ 1.36</u>	<u>\$ 1.26</u>	<u>\$ 0.90</u>	<u>\$ 0.42</u>	<u>\$ 0.67</u>

(a) Consolidated financial information for 1993 and 1992 has been restated retroactively for the effects of the November 1993 merger, accounted for as a pooling of interests, with Fisher-Price.

(b) Per share data reflect the retroactive effect of stock splits distributed to shareholders in March 1996, January 1995 and 1994, and June 1992 and the mergers with Fisher-Price and IGI in 1993 and 1992, respectively.

COMPUTATION OF INCOME PER COMMON AND COMMON EQUIVALENT SHARE

(In thousands, except per share amounts)

FULLY DILUTED	FOR THE YEAR ENDED (a)(b)				
	Dec. 31, 1996	Dec. 31, 1995	Dec. 31, 1994	Dec. 31, 1993	Dec. 31, 1992
Income Before Extraordinary Item and Cumulative Effect of Changes in Accounting Principles	\$377,641	\$357,802	\$255,832	\$135,911	\$184,841
Add: Interest savings, net of tax, applicable to:					
Assumed conversion of 8% convertible debentures	-	-	628	5,338	5,467
Assumed exercise of Fisher-Price warrants	-	-	-	637	1,138
Deduct: Dividends on senior preferred stock	-	-	-	-	(152)
Impact of required ESOP dividends or contributions upon conversion	-	-	(3,598)	(4,894)	(4,826)
Income Before Extraordinary Item and Cumulative Effect of Changes in Accounting Principles for Computation of Income Per Share	377,641	357,802	252,862	136,992	186,468
Extraordinary item	-	-	-	(14,681)	-
Cumulative effect of changes in accounting principles	-	-	-	(4,022)	-
Net Income Applicable to Common Shares	\$377,641	\$357,802	\$252,862	\$118,289	\$186,468
Applicable Shares					
Weighted average common shares outstanding	273,371	276,309	275,572	263,067	264,223
Weighted average common equivalent shares arising from:					
Stock options	3,605	4,220	3,110	3,475	4,153
Assumed conversion of convertible preference stock	-	739	2,104	2,531	2,531
Assumed conversion of 8% convertible debentures	-	-	1,619	11,823	12,176
Fisher-Price warrants	933	969	1,023	1,681	3,258
Nonvested stock	744	618	330	-	-
Weighted average number of common and common equivalent shares	278,653	282,855	283,758	282,577	286,341
Income Per Share Before Extraordinary Item and Cumulative Effect of Changes in Accounting Principles	\$ 1.36	\$ 1.26	\$ 0.89	\$ 0.48	\$ 0.65
Extraordinary item	-	-	-	(0.05)	-
Cumulative effect of changes in accounting principles	-	-	-	(0.01)	-
Net Income Per Common Share	\$ 1.36	\$ 1.26	\$ 0.89	\$ 0.42	\$ 0.65

(a) Consolidated financial information for 1993 and 1992 1991 has been restated retroactively for the effects of the November 1993 merger, accounted for as a pooling of interests, with Fisher-Price.

(b) Per share data reflect the retroactive effect of stock splits distributed to shareholders in March 1996, January 1995 and 1994, and June 1992 and the mergers with Fisher-Price and IGI in 1993 and 1992, respectively.

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FIVE-YEAR FINANCIAL SUMMARY

Mattel, Inc. and Subsidiaries

For the Year Ended December 31 (a)

(In thousands, except per share and percentage information)	1996	1995	1994	1993	1992
Operating Results:					
Net sales	\$3,785,958	\$3,638,812	\$3,205,025	\$2,704,448	\$2,563,525
Gross profit (b)	1,908,623	1,789,162	1,601,503	1,326,267	1,239,308
% of net sales	50%	49%	50%	49%	48%
Operating profit (c)(d)	621,270	606,491	521,081	414,260	351,661
% of net sales	16%	17%	16%	15%	14%
Restructuring and integration charges (e)	-	-	72,000	115,000	-
Income before income taxes, extraordinary item and cumulative effect of changes in accounting principles	545,741	532,902	393,632	236,646	282,945
Provision for income taxes	168,100	175,100	137,800	100,735	98,104
Income before extraordinary item and cumulative effect of changes in accounting principles	377,641	357,802	255,832	135,911	184,841
Extraordinary item - loss on debt retirement	-	-	-	(14,681)	-
Cumulative effect of changes in accounting principles	-	-	-	(4,022)	-
Net income	377,641	357,802	255,832	117,208	184,841
Income Per Common Share (c)(f):					
Income before extraordinary item and cumulative effect of changes in accounting principles					
Primary	1.36	1.26	0.90	0.49	0.67
Fully diluted	1.36	1.26	0.89	0.48	0.65
Net income					
Primary	1.36	1.26	0.90	0.42	0.67
Fully diluted	1.36	1.26	0.89	0.42	0.65
Dividends Declared Per Common Share (f)	0.24	0.19	0.15	0.12	0.09

As of Year End (a)

(In thousands)	1996	1995	1994	1993	1992
Financial Position:					
Cash and marketable securities	\$ 500,625	\$ 483,457	\$ 259,681	\$ 523,581	\$ 327,807
Accounts receivable, net	732,307	679,283	762,024	580,313	538,444
Inventories	372,686	350,841	339,143	219,993	238,895
Total assets	2,893,522	2,695,509	2,459,026	2,000,077	1,712,675
Short-term borrowings	20,485	15,520	-	-	13,401
Long-term liabilities	485,367	572,659	457,455	398,939	434,930
Shareholders' equity	1,447,787	1,275,169	1,085,690	817,809	748,356

- (a) Consolidated financial information for 1993 and 1992 has been restated retroactively for the effects of the November 1993 merger, accounted for as a pooling of interests, with Fisher-Price.
- (b) The 1996 gross profit includes a \$14.2 million nonrecurring charge related to the accounting for certain royalties in prior periods.
- (c) The 1996 operating profit includes a \$21.8 million (\$15.1 million after-tax or \$0.05 per share) nonrecurring charge related to the accounting for certain royalties and participation fees in prior periods.
- (d) Represents income from operations before restructuring and integration charges, interest expense and provision for income taxes.
- (e) In 1994, amount represents a nonrecurring charge principally related to the consolidation of manufacturing operations and the reduction of headquarters expense and support functions worldwide. In 1993, the nonrecurring charge represents transaction, integration and restructuring costs related to the merger with Fisher-Price.
- (f) Per share data reflect the retroactive effect of stock splits distributed to shareholders in March 1996, January 1995 and 1994 and June 1992 and the mergers with Fisher-Price and IGI in 1993 and 1992, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS

Mattel, Inc. and Subsidiaries

THE FOLLOWING CAUTIONARY STATEMENT IS INCLUDED IN THIS ANNUAL REPORT PURSUANT TO THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995:

FORWARD-LOOKING STATEMENTS WITH RESPECT TO THE FINANCIAL CONDITION, RESULTS OF OPERATIONS AND BUSINESS OF THE COMPANY WHICH ARE INCLUDED HEREIN ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE SET FORTH IN SUCH STATEMENTS. THESE INCLUDE WITHOUT LIMITATION: THE COMPANY'S DEPENDENCE ON THE TIMELY DEVELOPMENT, INTRODUCTION AND CUSTOMER ACCEPTANCE OF NEW PRODUCTS; POSSIBLE WEAKNESSES OF INTERNATIONAL MARKETS; THE IMPACT OF COMPETITION ON REVENUES AND MARGINS; THE EFFECT OF CURRENCY FLUCTUATIONS ON REPORTABLE INCOME; AND OTHER RISKS AND UNCERTAINTIES AS MAY BE DETAILED FROM TIME TO TIME IN THE COMPANY'S PUBLIC ANNOUNCEMENTS AND SEC FILINGS. FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY, SUCH AS "MAY," "WILL," "SHOULD," "EXPECT," "ANTICIPATE," "ESTIMATE," "CONTINUE," "PLANS," "INTENDS," OR OTHER SIMILAR TERMINOLOGY.

This analysis should be read in conjunction with the consolidated financial statements which begin on page 42.

Mattel's financial performance reflects the Company's growth in 1996, demonstrating continued strength in its core brands, as well as increased manufacturing efficiency. The Company's long-term business strategies have resulted in another record year for sales and earnings. Net income was \$401.1 million or \$1.44 per share, before the \$8.4 million after-tax (\$0.03 per share) impact from a Snacktime Kids refund accrual, and a \$15.1 million after-tax (\$0.05 per share) special charge related to the accounting for certain royalties and participation fees in prior periods. The special charge increased cost of sales by \$14.2 million and advertising costs by \$7.6 million for both the quarter and year ended December 31, 1996 (see Note 7 to the consolidated financial statements). Gross profit as a percentage of net sales increased two percentage points to 51% as compared to the prior year, before the special charge.

Core brands have historically provided the Company with relatively stable growth. The Company's four core brands are: i) BARBIE fashion dolls and doll clothing and accessories; ii) FISHER-PRICE toys and juvenile products, including the POWER WHEELS line of battery-powered, ride-on vehicles; iii) the Company's Disney-licensed toys; and iv) HOT WHEELS vehicles and playsets, each of which has broad worldwide appeal. Additional product lines consist of large dolls, including CABBAGE PATCH KIDS; preschool toys, including SEE 'N SAY talking toys; the UNO and SKIP-BO card games; and the SCRABBLE game, which the Company markets outside of the United States and Canada; and other toy products.

For 1997 and beyond, the Company plans to focus on those brands which have fundamental play patterns and worldwide appeal, are sustainable, and will deliver consistent profitability. Rather than only four core brands, emphasis will be placed upon six core categories of expertise. These categories are: Fashion Dolls (BARBIE); Infant and Preschool (FISHER-PRICE, Disney and SEE 'N SAY); Entertainment (Disney and Nickelodeon); Wheels (HOT WHEELS); Large Dolls (CABBAGE PATCH KIDS); and Small Dolls (POLLY POCKET). Consummation of the proposed merger with Tyco Toys, Inc. ("Tyco"), which is discussed in detail below and in Note 7 to the consolidated financial statements, will add, among other brands, SESAME STREET characters, MAGNA DOODLE and VIEW-MASTER to the Infant and Preschool category, and MATCHBOX, Tyco Electric Racing and Tyco Radio Control to the Wheels category.

In response to the difficulties experienced in 1996 at Fisher-Price, the Company plans to increase its focus on preschool toys and introduce new basic FISHER-PRICE toys throughout the year in 1997.

In the first few months of 1997, the US dollar has strengthened significantly against many major foreign currencies. Although the Company hedges a portion of its anticipated currency exposures, the remaining unhedged portion could be adversely impacted by the strengthening US dollar. Additionally, if this strengthening persists, Mattel's results of operations could be adversely impacted by unfavorable translation effects on foreign revenues and earnings. The statements set forth herein and in the preceding two paragraphs are forward-looking, and actual results may differ materially (see the Cautionary Statement above).

The following is a percentage analysis of operating results for the past three years:

	For the Year		
	1996	1995	1994
Net sales	100%	100%	100%
Gross profit	50%	49%	50%
Advertising and promotion expenses	16	16	16
Other selling and administrative expenses	17	16	17
Restructuring and integration charges	-	-	2
Other expense, net	1	-	1
Operating profit	16	17	14
Interest expense	2	2	2
Income before income taxes	14%	15%	12%

1996 COMPARED TO 1995

Net sales increased \$147.1 million or 4% over 1995, reflecting the continuing strong demand for the Company's core products. Worldwide sales of core products represented 87% of the Company's gross sales compared to 83% in 1995. Core brands increased 10%, mainly due to greater demand for BARBIE and BARBIE-related products, which increased 20% primarily due to strength in dolls and fashions, especially in the United States. In addition, the increase in core brands reflects higher sales of HOT WHEELS vehicles and playsets, which increased 19%; and sales of Disney-licensed products, which increased 8%. These increases were partially offset by a 4% decline in FISHER-PRICE products. This decline primarily reflects both late shipments of new FISHER-PRICE products and a reduction in the number of new basic toy introductions during the year. Sales of other products decreased 17%, primarily due to lower sales of POLLY POCKET and Nickelodeon toys, partially offset by an increase in CABBAGE PATCH KIDS sales.

Net sales to customers within the United States grew 7% and accounted for 63% of consolidated net sales for 1996 compared to 61% in the prior year. Net sales to customers outside the United States remained virtually flat compared to 1995, including the \$29.8 million unfavorable effect of the generally stronger US dollar relative to last year. At comparable foreign currency exchange rates, sales internationally grew 2%.

Gross profit as a percentage of net sales increased one percentage point to 50%, principally as a result of lower resin and other commodity prices and improved product mix, partially offset by a \$14.2 million nonrecurring charge related to the accounting for certain royalties in prior periods. Advertising and promotion expenses remained constant as a percentage of net sales; however, spending increased \$29.9 million in support of increased sales volume, new product introductions, further development of international markets and a nonrecurring charge of \$7.6 million related to the accounting for participation fees in prior periods. As a percentage of net sales, other selling and administrative expenses increased one percentage point to 17%. This growth reflects higher design and development expenses related to new products, increased sales and marketing expenditures to support development of the Company's brands, and higher depreciation expense related to increased investment in fixed assets, partially offset by a decrease in incentive compensation. Other expense, net, increased \$30.7 million, principally due to nonrecurring 1995 gains recognized on the sale of the non-toy business and trademark rights related to Corgi, a Mexican insurance claim, and foreign currency transactions.

1995 COMPARED TO 1994

Net sales increased \$433.8 million or 14% over 1994, reflecting the continuing strong demand for the Company's core products such as BARBIE doll products; FISHER-PRICE toys and juvenile products, including the POWER WHEELS line; as well as Disney-licensed toys introduced in connection with the release of the "Pocahontas" motion picture.

Worldwide sales of core products represented 83% of the Company's gross sales compared to 80% in 1994. Core brands increased 17%, mainly due to greater demand for BARBIE and BARBIE-related products, which increased from \$1.1 billion to \$1.4 billion. FISHER-PRICE products contributed \$1.2 billion to gross sales in 1995 compared to \$1.0 billion in 1994. Sales of Disney-licensed products increased 2% to \$451.5 million.

Net sales to customers within the United States grew 16% and accounted for 61% of consolidated net sales for 1995 compared to 60% in the prior year. Net sales to customers outside the United States increased 10%

compared to 1994, including the \$28.5 million favorable effect of the generally weaker US dollar relative to last year. At comparable foreign currency exchange rates, sales internationally grew 9%.

Gross profit as a percentage of net sales decreased one percentage point to 49%, due primarily to the impact of increased raw material prices and other product costs, partially offset by reduced duties as a result of changes in the General Agreement on Tariffs and Trade.

Advertising and promotion expenses remained constant as a percentage of net sales; however, spending increased \$68.0 million in support of increased sales volume, new product introductions, and further development of international markets. Other selling and administrative expenses increased \$66.6 million primarily due to higher design and development expenses in support of both core products and new product lines. Other income, net, increased \$32.4 million principally due to the impact of the Mexican peso devaluation in the fourth quarter of 1994, and the 1995 gains recognized on the sale of the non-toy business and trademark rights related to Corgi, a Mexican insurance claim, and foreign currency transactions.

Interest expense increased \$18.1 million or 33% from 1994, which reflects higher average levels of domestic borrowings at higher interest rates.

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In the 1994 fourth quarter, the Company recognized a \$72.0 million pre-tax charge against continuing operations in connection with the consolidation of manufacturing operations and the reduction of headquarters expense and support functions worldwide. At December 31, 1995, the remaining \$13.0 million accrual related primarily to committed severance plans and obligations under certain long-term leases. The cost savings realized by the Company as a result of the staff reductions and various distribution and lease terminations were comparable to the anticipated \$25 million, and the type and amount of charges incurred to date approximated the amounts included in the provision.

INCOME TAXES

The effective income tax rates for 1996 and 1995 were approximately 31% and 33%, respectively. The decrease in the effective rate for 1996 resulted from increased taxable income earned in locations with relatively lower rates.

FINANCIAL POSITION

The Company's financial position remained strong in 1996 primarily due to its profitable operating results. At December 31, 1996, the Company's cash position, including marketable securities, was \$500.6 million, compared to \$483.5 million as of the prior year.

Sundry assets increased \$53.0 million, as compared to the prior year, primarily due to an investment in group life insurance contracts to assist in funding the Company's deferred compensation and excess benefit plans, and issuance of a stock warrant in connection with a licensing agreement with Disney Enterprises, Inc.

The Company's capitalization is as follows:

(In millions)	As of Year End			
	1996		1995	
Medium-Term Notes	\$ 220.0	11%	\$ 220.0	12%
6-3/4% Senior Notes	100.0	5	100.0	6
6-7/8% Senior Notes	-	-	99.8	5
Other long-term debt obligations	54.9	3	61.1	3
Total long-term debt	374.9	19	480.9	26
Other long-term liabilities	110.5	6	91.7	5
Shareholders' equity	1,447.8	75	1,275.2	69
	\$1,933.2	100%	\$1,847.8	100%

Total long-term debt decreased \$106.0 million mainly due to the reclassification of 6-7/8% Senior Notes from long-term debt to the current portion of long-term liabilities. Future long-term capital needs are expected to be satisfied through the retention of corporate earnings and the issuance of long-term debt instruments. In February 1996, the Company filed a universal shelf registration statement which will allow for the issuance of up to \$350.0 million of debt and equity securities, which could include Medium-Term Notes. Shareholders' equity increased \$172.6 million

over 1995, reflecting profitable operating results for the current year, activity related to employee stock compensation plans and issuance of a stock warrant in connection with a licensing agreement with Disney Enterprises, Inc. These increases were partially offset by treasury stock purchases and dividend declarations on common stock.

LIQUIDITY

The primary sources of liquidity for the Company over the last three years have been cash on hand at the beginning of the year, cash flows generated from operations, long-term debt issuances and short-term seasonal borrowings. Operating activities generated cash flows of \$515.2 million during 1996, compared to \$405.5 million and \$346.6 million in 1995 and 1994, respectively.

Principal investing activities during the last three years included additions of tooling, property and equipment, construction of new manufacturing and office facilities and expenditures for acquired businesses.

Financing activities provided intermediate- and long-term funds through the issuance of Medium-Term Notes in both 1995 and 1994, which were utilized by the Company to retire higher-cost debt and for general corporate purposes. In 1996, the Company repaid \$30.0 million of Medium-Term Notes. In 1995, all shares of Series F Preference Stock and common stock were repurchased from the IGI Employee Stock Ownership Plan ("ESOP"). In 1994, the Company retired Fisher-Price's 10.69% term loan. Cash outlays for treasury stock were made over the three-year period and provide shares for issuance under the Company's employee stock option plans and for conversions of convertible securities. The Company has consistently increased cash payments for common dividends over the three-year period as a result of stock splits distributed to common shareholders.

SHORT-TERM FINANCING

The Company's seasonal working capital requirements for the coming year are expected to be financed through existing and internally generated cash, issuance of commercial paper, sale of certain trade receivables and use of the Company's various short-term bank lines of credit. Under the Company's domestic credit line, unsecured facilities provide a total of \$1.0 billion in seasonal financing from a commercial bank group. The facilities provide for up to \$600.0 million in advances and backup for commercial paper issuances (a five-year facility), and up to an additional \$400.0 million (a five-year facility) for nonrecourse purchases of certain trade accounts receivable by the bank group. In connection with the domestic credit line, the Company is to comply with certain financial covenants for consolidated debt-to-capital and interest coverage.

In addition, the Company expects to have available approximately \$325 million of individual short-term international credit lines with a number of banks, which customarily are extended as needed to finance seasonal working capital requirements of certain international affiliates.

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ACQUISITIONS

In May 1994, the Company acquired substantially all of the business assets and assumed the associated debts and liabilities of Kransco, a San Francisco-based designer, manufacturer and marketer of brand name recreational and sporting products for \$274.6 million in cash, including costs directly related to the acquisition and the repayment of \$20.0 million of Kransco's short-term borrowings. The asset purchase agreement also provided for future contingent consideration in the event that net sales of the POWER WHEELS product line reached or exceeded certain levels in each of calendar years 1994, 1995 and 1996. Under the agreement, the contingent consideration payable with respect to any year shall not exceed \$8.6 million. During 1996 and 1995, \$17.2 million was paid related to the 1995 and 1994 sales, and an additional \$8.6 million was accrued in 1996, resulting in an increase to the initial goodwill.

In July 1994, the Company acquired a majority of the shares of J.W. Spear & Sons PLC ("Spear"), a company organized in the United Kingdom, that holds the rights to SCRABBLE in markets outside of the United States and Canada, and certain other games worldwide. The aggregate purchase price, including related acquisition costs, denominated in pounds sterling, was approximately \$100 million.

PENDING MERGER

Pursuant to an Agreement and Plan of Merger dated November 17, 1996, as amended by an Amendment to Agreement and Plan of Merger dated November 22, 1996, the Company and Tyco have agreed to the merger of Tyco into the Company. The stock-for-stock transaction, which is expected to be accounted for as a pooling of interests, is subject to the approval of Tyco shareholders and certain regulatory approvals. It is estimated that the combined entity will incur transaction costs of approximately \$60 million

to \$70 million, including investment banking, legal and accounting fees, and contractual termination and incentive benefits. In addition, the Company expects to restructure the combined operations resulting in additional nonrecurring charges. It is anticipated that the merger will be completed in the first half of 1997. Under certain circumstances, if the merger is not ultimately consummated, the Company will be required to pay Tyco a \$15.0 million break-up fee.

LITIGATION

The Company is involved in various litigation and other legal matters, including claims related to intellectual property, product liability, labor and environmental cleanup, which are being addressed or defended in the ordinary course of business. Management believes that any liability which may potentially result upon resolution of such matters will not have a material adverse effect on the Company's consolidated financial position or results of operations.

COMMITMENTS

In the normal course of business, the Company enters into contractual arrangements for future purchases of goods and services to ensure availability and timely delivery, and to obtain and protect the Company's right to create and market certain toys. Such arrangements include commitments for future inventory purchases and royalty payments pursuant to licensing agreements. Certain of these commitments routinely contain provisions for guaranteed or minimum expenditures during the terms of the contracts.

As of December 31, 1996, the Company had outstanding commitments for 1997 purchases of inventory of approximately \$79 million. Licensing and similar agreements with terms extending through the year 2002 contain provisions for future guaranteed minimum payments aggregating approximately \$280 million. In addition, under a certain licensing agreement, the Company may have additional commitments as high as \$37.8 million in 1998 and 1999 payable over three years.

FOREIGN CURRENCY CONTRACTS

The Company enters into foreign currency forward exchange contracts and swap agreements primarily as hedges of inventory purchases, sales and other intercompany transactions denominated in foreign currencies to limit the effect of exchange rate fluctuations on the results of operations and cash flows. As of December 31, 1996 and 1995, the Company and its international affiliates had outstanding forward exchange contracts totaling \$405.7 million and \$689.2 million, respectively, and swap agreements totaling \$192.9 million and \$195.4 million, respectively.

Market risk exposures exist with respect to the settlement of foreign currency transactions during the year because currency fluctuations cannot be predicted with certainty. The Company seeks to mitigate its exposure to market risk by monitoring its currency exchange exposure for the year and partially or fully hedging such exposure. In addition, the Company manages its exposure by retaining flexibility with respect to currencies used for international borrowings and intercompany invoicing. By policy, the Company maintains hedge coverages between minimum and maximum percentages of its anticipated foreign currency exposures for any given year.

In order to minimize the risk of counterparty non-performance, the Company executes its foreign currency forward exchange contracts and swap agreements with financial institutions believed to be credit-worthy, generally those that provide the Company with its working capital lines of credit. The Company does not trade in financial instruments nor does it enter into contracts for speculative purposes.

EFFECTS OF INFLATION

Inflation rates in the United States and in major foreign countries in which the Company operates have not had a significant impact on the Company's operating results for the three years ended December 31, 1996. The US Consumer Price Index increased 3.3% in 1996, 2.5% in 1995, and 2.7% in 1994.

CONSOLIDATED BALANCE SHEETS

Mattel, Inc. and Subsidiaries

(In thousands)	December 31, 1996	December 31, 1995

ASSETS		
Current Assets		
Cash	\$ 500,625	\$ 466,082
Marketable securities	-	17,375
Accounts receivable, less allowances of \$14,354 at December 31, 1996 and \$10,788 at December 31, 1995	732,307	679,283
Inventories	372,686	350,841
Prepaid expenses and other current assets	165,223	177,238
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Total current assets	1,770,841	1,690,819
	-----	-----
Property, Plant and Equipment		
Land	30,864	25,724
Buildings	207,382	192,323
Machinery and equipment	409,675	354,469
Capitalized leases	24,271	24,271
Leasehold improvements	59,908	51,629
	-----	-----
	732,100	648,416
Less: accumulated depreciation	293,160	265,885
	-----	-----
	438,940	382,531
Tools, dies and molds, net	140,673	116,783
	-----	-----
Property, plant and equipment, net	579,613	499,314
	-----	-----
Other Noncurrent Assets		
Intangible assets, net	407,444	422,796
Sundry assets	135,624	82,580
	-----	-----
	\$2,893,522	\$2,695,509
	=====	=====

The accompanying notes are an integral part of these statements.

(In thousands, except share data)	December 31, 1996	December 31, 1995
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LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term borrowings	\$ 20,485	\$ 15,520
Current portion of long-term liabilities	106,069	33,215
Accounts payable	259,721	250,401
Accrued liabilities	406,344	410,362
Income taxes payable	167,749	138,183
	-----	-----
Total current liabilities	960,368	847,681
	-----	-----
Long-Term Liabilities		
6-7/8% Senior Notes	-	99,752
6-3/4% Senior Notes	100,000	100,000
Medium-Term Notes	220,000	220,000
Mortgage note	44,086	44,585
Other	121,281	108,322
	-----	-----
Total long-term liabilities	485,367	572,659
	-----	-----
Shareholders' Equity		
Common stock \$1.00 par value, 600.0 million and 300.0 million shares authorized in 1996 and 1995, respectively; 279.1 million shares issued (a)	279,058	279,058
Additional paid-in capital	95,965	103,512
Treasury stock at cost; 8.1 million shares for 1996 and 3.6 million shares for 1995 (a)	(215,999)	(75,574)
Retained earnings (b)	1,353,551	1,041,735
Currency translation and other adjustments (b)	(64,788)	(73,562)
	-----	-----
Total shareholders' equity	1,447,787	1,275,169
	-----	-----
	\$2,893,522	\$2,695,509
	=====	=====

Commitments and Contingencies (See accompanying notes.)

(a) Share data for 1995 has been restated for the effects of the five-for-four stock split distributed in March 1996.

(b) Since December 26, 1987 (Note 1).

CONSOLIDATED STATEMENTS OF INCOME

 Mattel, Inc. and Subsidiaries

(In thousands, except per share amounts)	For the Year		
	1996	1995	1994
Net Sales	\$3,785,958	\$3,638,812	\$3,205,025
Cost of sales	1,877,335	1,849,650	1,603,522
Gross Profit	1,908,623	1,789,162	1,601,503
Advertising and promotion expenses	614,433	584,497	516,485
Other selling and administrative expenses	647,112	603,061	536,443
Restructuring and integration charges	-	-	72,000
Interest expense	75,529	73,589	55,449
Other expense (income), net	25,808	(4,887)	27,494
Income Before Income Taxes	545,741	532,902	393,632
Provision for income taxes	168,100	175,100	137,800
Net Income	377,641	357,802	255,832
Preference stock dividend requirements	-	3,342	4,689
Net Income Applicable to Common Shares	\$ 377,641	\$ 354,460	\$ 251,143
	=====	=====	=====
Primary Income Per Common and Common Equivalent Share			
Net income	\$ 1.36	\$ 1.26	\$ 0.90
	=====	=====	=====
Average number of common and common equivalent shares	278,385	281,015	279,923
	=====	=====	=====
Dividends Declared Per Common Share	\$ 0.24	\$ 0.19	\$ 0.15
	=====	=====	=====

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

 Mattel, Inc. and Subsidiaries

(In thousands)	For the Year		
	1996	1995	1994

Cash Flows From Operating Activities:			
Net income	\$ 377,641	\$ 357,802	\$ 255,832
Adjustments to reconcile net income to net cash flows from operating activities:			
Gain on sale of business	-	(9,142)	-
Depreciation	122,537	105,943	105,687
Amortization of intangibles	26,520	27,041	18,585
Increase (decrease) from changes in assets and liabilities:			
Accounts receivable	(62,152)	70,509	(155,265)
Inventories	(24,220)	(15,279)	(74,148)
Prepaid expenses and other current assets	13,464	3,400	(38,626)
Accounts payable, accrued liabilities and income taxes payable	50,007	(126,290)	215,403
Deferred compensation and other retirement plans	8,364	9,516	13,533
Deferred income taxes	1,411	(5,365)	6,966
Other, net	1,644	(12,643)	(1,415)
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Net cash flows from operating activities	515,216	405,492	346,552
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Cash Flows From Investing Activities:			
Purchases of tools, dies and molds	(88,677)	(89,730)	(75,285)
Purchases of other property, plant and equipment	(120,333)	(117,155)	(88,097)
Purchases of marketable securities	(8,000)	(29,154)	(29,032)
Purchase of other long-term investment	(25,114)	-	-
Proceeds from sales of other property, plant and equipment	6,007	10,903	12,221
Proceeds from sales of marketable securities	25,315	32,237	25,637
Proceeds from sale of business	-	21,129	-
Contingent consideration and investment in acquired businesses	(8,625)	(8,625)	(374,965)
Other, net	317	318	(89)
	-----	-----	-----
Net cash flows used for investing activities	(219,110)	(180,077)	(529,610)
	-----	-----	-----
Cash Flows From Financing Activities:			
Short-term borrowing, net	6,829	18,637	(5,966)
Issuance of Medium-Term Notes	-	139,500	110,500
Payment of Medium-Term Notes	(30,000)	-	-
Long-term foreign borrowing	(3,717)	(2,572)	(4,337)
Redemption of Fisher-Price term loan	-	-	(120,629)
Tax benefit of employee stock options exercised	26,300	8,500	23,923
Exercise of stock options and warrants	73,188	24,353	39,209
Purchase of treasury stock	(269,771)	(64,284)	(80,885)
Repurchase of Series F Preference Stock	-	(73,866)	-
Dividends paid on common and preference stock	(62,747)	(50,963)	(47,840)
Payment for tendered Fisher-Price warrants	-	-	(4,891)
Other, net	(1,012)	578	4,863
	-----	-----	-----
Net cash flows used for financing activities	(260,930)	(117)	(86,053)
	-----	-----	-----
Effect of Exchange Rate Changes on Cash	(633)	1,684	2,098
	-----	-----	-----
Net Increase (Decrease) in Cash	34,543	226,982	(267,013)
Cash at Beginning of Year	466,082	239,100	506,113
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Cash at End of Year	\$ 500,625	\$ 466,082	\$ 239,100
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The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Mattel, Inc. and Subsidiaries

(In thousands)	Preference Stock	Common Stock	Additional Paid-In Capital	Treasury Stock
Balance, December 31, 1993	\$9	\$172,470	\$226,528	\$ (47,350)
Net income				
Five-for-four stock split		44,653	(44,653)	
Purchase of treasury stock				(80,885)
Conversion of 8% debentures		5,897	67,549	
Restricted stock activity			1,915	
Exercise of stock options		244	26,496	
Issuance of treasury stock			(38,031)	74,423
Payment for tendered Fisher-Price warrants			(4,891)	
Dividends declared on common stock				
Dividends declared on preference stock				
Collection of ESOP note receivable				
Currency translation and other adjustments				
Balance, December 31, 1994	9	223,264	234,913	(53,812)
Net income				
Five-for-four stock split		55,794	(55,794)	
Purchase of treasury stock				(64,284)
Repurchase of Series F Preference Stock	(9)		(73,857)	
Restricted stock activity			7,919	
Exercise of stock options			8,500	
Issuance of treasury stock			(18,169)	42,522
Dividends declared on common stock				
Dividends declared on preference stock				
Currency translation and other adjustments				
Balance, December 31, 1995	-	279,058	103,512	(75,574)
Net income				
Purchase of treasury stock				(269,771)
Restricted stock activity			2,770	(6,627)
Exercise of stock options			26,300	
Issuance of treasury stock			(53,554)	124,315
Issuance of stock warrant			26,444	
Exercise of Fisher-Price warrants			(9,507)	11,658
Dividends declared on common stock				
Currency translation and other adjustments				
Balance, December 31, 1996	\$-	\$279,058	\$ 95,965	\$(215,999)

The accompanying notes are an integral part of these statements.

(In thousands)	Retained Earnings	ESOP Note Receivable	Deferred Compensation	Currency Translation and Other Adjustments	Total Shareholders' Equity
Balance, December 31, 1993	\$ 532,003	\$(3,500)	\$(13,003)	\$(49,348)	\$ 817,809
Net income	255,832				255,832
Five-for-four stock split					-
Purchase of treasury stock					(80,885)
Conversion of 8% debentures					73,446
Restricted stock activity			13,003		14,918
Exercise of stock options					26,740
Issuance of treasury stock					36,392
Payment for tendered Fisher-Price warrants					(4,891)
Dividends declared on common stock	(45,618)				(45,618)
Dividends declared on preference stock	(4,689)				(4,689)
Collection of ESOP note receivable		3,500			3,500
Currency translation and other adjustments				(6,864)	(6,864)
Balance, December 31, 1994	737,528	-	-	(56,212)	1,085,690
Net income	357,802				357,802
Five-for-four stock split					-
Purchase of treasury stock					(64,284)
Repurchase of Series F Preference Stock					(73,866)
Restricted stock activity					7,919
Exercise of stock options					8,500
Issuance of treasury stock					24,353
Dividends declared on common stock	(50,253)				(50,253)

Dividends declared on preference stock	(3,342)			(3,342)	(3,342)
Currency translation and other adjustments				(17,350)	(17,350)
	-----	-----	-----	-----	-----
Balance, December 31, 1995	1,041,735	-	-	(73,562)	1,275,169
Net income	377,641				377,641
Purchase of treasury stock					(269,771)
Restricted stock activity					(3,857)
Exercise of stock options					26,300
Issuance of treasury stock					70,761
Issuance of stock warrant					26,444
Issuance of Fisher-Price warrants					2,151
Dividends declared on common stock	(65,825)				(65,825)
Currency translation and other adjustments				8,774	8,774
	-----	-----	-----	-----	-----
Balance, December 31, 1996	<u>\$1,353,551</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$(64,788)</u>	<u>\$1,447,787</u>
	=====	=====	=====	=====	=====

The accompanying notes are an integral part of these statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Mattel, Inc. and Subsidiaries

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Preparation

The consolidated financial statements include the accounts of Mattel, Inc. and its subsidiaries (the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation, and certain amounts in the financial statements for prior years have been reclassified to conform with the current year presentation.

Preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Foreign Currency Translation

Assets and liabilities of foreign subsidiaries are translated into US dollars at fiscal year-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 shareholders' equity.

Quasi-Reorganization

Effective December 26, 1987, the Company implemented a quasi-reorganization and revalued its assets and liabilities to their fair values as of that date. The \$69.0 million net effect of these adjustments was credited to additional paid-in capital. Additionally, as of December 26, 1987, accumulated deficits of \$256.0 million and cumulative currency translation adjustments of \$32.7 million were transferred to additional paid-in capital.

Cash

Cash includes cash equivalents, which are highly liquid investments with maturities of three months or less when purchased. Because of the short maturities of these instruments, the carrying amount is a reasonable estimate of fair value.

Marketable Securities

Marketable securities, comprised principally of US dollar-denominated foreign debt securities held for liquidity purposes, are stated at market value and classified as securities available-for-sale. Unrealized gains or losses are reported as a component of shareholders' equity until realized. Quoted market prices, which approximated cost as of the balance sheet date, are reasonable estimates of the portfolio's fair value.

Inventories

Inventories, net of an allowance for excess quantities and obsolescence, are stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over estimated useful lives of 15 to 40 years for buildings, 3 to 10 years for machinery and equipment, and 10 to 20 years, not to exceed the lease term, for leasehold improvements. Tools, dies and molds are amortized using the straight-line method over three years. The Company's capitalized warehouse facility lease in existence at the time of the quasi-reorganization is recorded at its fair value determined as of December 26, 1987, less accumulated amortization computed over the remaining lease term.

Intangibles and Long-Lived Assets

Intangible assets consist of the excess of purchase price over the fair value of net assets acquired in purchase acquisitions, and the costs of acquired patents and trademarks. Intangible assets are amortized using the straight-line method over periods ranging from 10 to 20 years. Accumulated amortization was \$125.7 million and \$99.6 million as of December 31, 1996 and 1995, respectively.

In the first quarter of 1996, the Company adopted Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of

Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. This

statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. In accordance with this statement, the Company periodically reviews the carrying value of its fixed and intangible assets to identify and assess any impairment by evaluating the operating performance and future undiscounted cash flows of the underlying assets.

Revenue Recognition

Net sales are recognized when products are shipped. Accruals for customer discounts and rebates are recorded as the related revenues are recognized.

Advertising Costs

Costs incurred in producing media advertising are expensed the first time the advertising takes place. Advertising costs associated with customer benefit programs are accrued as the related revenues are recognized.

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Stock-Based Compensation

During 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based

Compensation ("SFAS No. 123"). The Company has adopted the disclosure-only

provisions of SFAS No. 123. Accordingly, no compensation cost has been recognized in the results of operations for nonqualified stock options granted under the Company's plans as such options are granted at not less than the quoted market price of the Company's common stock on the date of grant. Compensation cost for restricted stock is recorded annually based on the quoted market price of the Company's common stock at the end of each accounting period.

Income Taxes

The Company accounts for certain income and expense items differently for financial reporting and income tax purposes. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, applying enacted statutory tax rates in effect for the year in which the differences are expected to reverse.

Income and Dividends Per Common Share

All share and per share data presented in these financial statements reflect the retroactive effect of the five-for-four stock splits distributed in March 1996 and January 1995.

Income per common share is computed by dividing earnings available to common shareholders by the average number of common and common equivalent shares outstanding during each period. Weighted-average share computations assume the exercise of dilutive stock options and warrants, reduced by the number of shares which could be repurchased at average market prices with proceeds from exercise. Earnings available to common shareholders represent reported net income less preference stock dividend requirements, as applicable.

Foreign Currency Contracts

The Company enters into foreign currency forward exchange contracts and swap agreements as hedges to limit the effect of exchange rate fluctuations on the results of operations and cash flows. Gains and losses related to hedged transactions, which qualify for hedge accounting, are deferred and are recognized in the results of operations as part of the underlying transaction while those related to unhedged transactions are included in the income statement currently.

NOTE 2 - INCOME TAXES

Consolidated pre-tax income consists of the following (in thousands):

	For the Year		
	1996	1995	1994
US operations	\$218,917	\$313,703	\$268,817
Foreign operations	326,824	219,199	124,815

\$545,741 \$532,902 \$393,632
 ===== ===== =====

The provision for current and deferred income taxes consists of the following (in thousands):

	For the Year		
	1996	1995	1994
Current			
Federal	\$ 90,500	\$ 84,800	\$ 76,100
State	13,200	14,900	12,100
Foreign	62,300	53,600	48,200
	-----	-----	-----
	166,000	153,300	136,400
	-----	-----	-----
Deferred			
Federal	2,000	21,600	1,500
State	1,000	300	2,250
Foreign	(900)	(100)	(2,350)
	-----	-----	-----
	2,100	21,800	1,400
	-----	-----	-----
Total provision for income taxes	\$168,100	\$175,100	\$137,800
	=====	=====	=====

Deferred income taxes are provided principally for certain reserves, depreciation, employee compensation-related expenses and certain other expenses that are recognized in different years for financial statement and income tax purposes. The Company's deferred income tax assets (liabilities) were comprised of the following (in thousands):

	As of Year End	
	1996	1995
Sales allowances and inventory reserves	\$ 58,945	\$ 58,060
Deferred compensation	26,360	20,732
Postretirement benefits	12,765	12,840
Excess of tax basis over book basis	12,705	14,098
Operating loss and tax credit carryovers	4,335	22,239
Restructuring and integration charges	2,338	6,193
Other	27,658	26,062
	-----	-----
Gross deferred income tax assets	145,106	160,224
	-----	-----
Excess of book basis over tax basis	(13,038)	(14,636)
Retirement benefits	(10,281)	(8,905)
Depreciation	(6,501)	(5,245)
Other	(11,018)	(6,327)
	-----	-----
Gross deferred income tax liabilities	(40,838)	(35,113)
Deferred income tax asset valuation allowances	(10,011)	(28,754)
	-----	-----
Net deferred income tax assets	\$ 94,257	\$ 96,357
	=====	=====

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Differences between the provision for income taxes at the United States federal statutory income tax rate and the provision in the consolidated statements of income were as follows (in thousands):

	For the Year		
	1996	1995	1994
Provision at federal statutory rates	\$ 191,009	\$ 186,516	\$ 137,771
Increase (decrease) resulting from:			
Losses without income tax benefit	4,547	4,252	1,160
Foreign earnings taxed at different rates, including withholding taxes	(38,958)	(27,464)	(12,029)
State and local taxes, net of federal benefit	9,230	10,603	9,327
Dividends paid to ESOP	-	(1,170)	(1,600)
Other	2,272	2,363	3,171

Total provision for income taxes	\$ 168,100	\$ 175,100	\$ 137,800
	=====	=====	=====

Appropriate US and foreign income taxes have been provided for earnings of foreign subsidiary companies that are expected to be remitted in the near future. The cumulative amount of undistributed earnings of foreign subsidiaries which the Company intends to permanently invest and upon which no deferred US income taxes have been provided is \$670.0 million at December 31, 1996. The additional US income tax on the unremitted foreign earnings, if repatriated, would be offset in whole or in part by foreign tax credits. Foreign withholding taxes of \$30.2 million would be due upon remittance of these earnings.

Certain foreign subsidiaries have net operating loss carryforwards totaling \$17.2 million (\$3.6 million with no expiration date, \$5.7 million expiring from 1997 to 2001, and \$7.9 million expiring after 2001).

Generally accepted accounting principles require that tax benefits related to the exercise by employees of nonqualified stock options be credited to additional paid-in capital. In 1996, 1995 and 1994, nonqualified stock options exercised resulted in credits to additional paid-in capital totaling \$26.3 million, \$8.5 million and \$23.9 million, respectively.

The Internal Revenue Service has completed its examination of the Company's federal income tax returns through December 31, 1991.

NOTE 3 - EMPLOYEE BENEFITS

The Company and certain of its subsidiaries have various pension and retirement plans covering substantially all employees of these companies. Expense related to these plans totaled \$16.2 million, \$16.1 million and \$14.6 million in 1996, 1995 and 1994, respectively. Prior to the November 1993 merger, Fisher-Price maintained a number of benefit plans and compensation arrangements. Subject to certain exceptions, these programs shall continue to be maintained by Fisher-Price without material change or modification for periods up to five years following the merger.

Pension Plans

The Company provides defined benefit pension plans, which satisfy the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"), covering certain of its domestic and foreign employees. Plan benefits are based upon covered employees' length of service and earnings. Pension costs are actuarially determined and plans are generally funded to meet benefit obligations existing as of the end of each year. Contributions are based upon amounts required to be funded under applicable governmental regulations, but will not exceed the maximum amount deductible for income tax purposes. Assets of these plans are invested in equity securities, as well as corporate, government and other fixed-income investments. With the exception of the Fisher-Price Pension Plan, activity related to the Company's pension plans, including those of foreign affiliates, was not significant during any year.

The Fisher-Price Pension Plan, a defined benefit plan covering most of the domestic employees of Fisher-Price, contains certain change-of-control provisions which were triggered as a result of the November 1993 merger. For a five-year period, or until the assets of the plan are less than its liabilities, if earlier, the rate at which benefits accrue on behalf of participants may not be decreased. In the event of the plan's termination or consolidation with another plan, assets in excess of liabilities must be used to increase participants' benefits. The components of net pension cost for this plan, based upon an October valuation date for the years ended December 31, 1996, 1995 and 1994, are detailed below (in thousands):

	For the Period Ended		
	1996	1995	1994
Service cost	\$ 2,671	\$ 2,547	\$ 3,562
Interest cost	8,866	7,924	7,646
Actual (gain) loss on plan assets	(16,997)	(30,650)	1,038
Net amortization and deferral	(206)	16,881	(14,221)
Net pension income	\$ (5,666)	\$ (3,298)	\$ (1,975)

sheets are as follows (in thousands):

	As of Year End	
	1996	1995
Vested benefits	\$122,113	\$115,573
Nonvested benefits	3,498	3,126
Accumulated benefit obligation	125,611	118,699
Effect of projected future salary increases	5,768	4,862
Projected benefit obligation	131,379	123,561
Plan assets at fair value	157,507	144,718
Plan assets in excess of projected benefit obligation	26,128	21,157
Unrecognized net loss	2,046	3,769
Unrecognized prior service cost	1,904	2,055
Unrecognized net asset at transition	(6,423)	(8,992)
Prepaid pension asset	\$ 23,655	\$ 17,989

	For the Period		
	1996	1995	1994
Assumptions:			
Weighted average discount rate	7.75%	7.25%	8.50%
Rate of future compensation increases	4.00%	4.00%	4.00%
Long-term rate of return on plan assets	11.00%	10.00%	10.00%

Other Retirement Plans

Domestic employees not covered by collective bargaining agreements are eligible to participate in the Company's 401(k) savings plans, which are defined contribution plans satisfying ERISA requirements. Under these plans, the Company makes contributions to a trust based upon the employee's age and matches a portion of certain amounts of voluntary employee contributions. Employees of Mattel are covered by either the Mattel, Inc. Personal Investment Plan or the Mattel, Inc. Hourly Employee Personal Investment Plan. Effective April 1, 1997, the Fisher-Price, Inc. Matching Savings Plan, which covers employees of Fisher-Price, will be merged and all of its assets will be transferred into the Mattel, Inc. Personal Investment Plan.

The Company maintains unfunded supplemental executive retirement plans which are nonqualified defined benefit plans covering certain key executives of Mattel, Inc. and its subsidiaries. For 1996, 1995 and 1994, the accumulated and vested benefit obligations and related expense of these plans were not significant.

Deferred Compensation and Excess Benefit Plans

The Company provides a deferred compensation plan which permits certain officers and key employees of Mattel, Inc. to elect to defer portions of their compensation. The deferred compensation plan, together with certain Company and employee contributions made to an excess benefit plan, earn various rates of return. The liability for these plans as of December 31, 1996 and 1995 was \$29.4 million and \$16.2 million, respectively. The Company's contribution to these plans and the related administrative expense were not significant to the results of operations during any year.

In August 1996, the Company purchased group trust-owned life insurance contracts designed to assist in funding these programs. The cash surrender value of these policies, valued at \$25.1 million as of December 31, 1996, are held in an irrevocable rabbi trust which is included in sundry assets in the consolidated balance sheets.

Employee Stock Ownership Plan

In connection with the February 1992 merger, IGI convertible preferred stock held by the IGI ESOP was exchanged for 55.8 thousand shares of the Company's common stock and 864.3 thousand shares of the Company's 12.5% Convertible Preference Stock, Series F. The ESOP debt was repaid in August 1994 through a series of dividend and cash contributions paid by the Company to service the debt. On October 20, 1995, the Company repurchased all shares of Series F and common stock from the ESOP for a total of \$75.1

million. All benefits due to participants have been distributed, and the ESOP was terminated.

Postretirement Benefits

The Company maintains a contributory postretirement benefit plan for domestic employees of Mattel. The plan provides for certain medical, dental and life insurance benefits to retirees meeting certain age and years of service requirements. The ongoing costs and obligations associated with the Mattel, Inc. plan are not significant to the Company's financial position and results of operations during any year.

Fisher-Price has an unfunded postretirement health insurance plan covering certain eligible domestic employees hired prior to January 1, 1993. Employees who retired or elected to retire before January 1, 1994 and employees whose age-plus-service was equal to 70 years by December 31, 1993 may continue to participate, for their lifetime, in the Fisher-Price group health insurance plan at the same contribution rate as active employees. Other employees, who were active at December 31, 1992, who do not satisfy the criteria outlined above participate in a retiree medical account balance plan. The account balance will become available upon a participant's retirement at age 55 or anytime thereafter with five years of service, and may be used to purchase health care insurance and to pay for health care expenses not reimbursed by insurance or Medicare. If an employee terminates employment prior to satisfying the retirement criteria, eligibility in either plan is forfeited and no benefits are paid. Any employee hired or rehired on or after January 1, 1993 is not eligible to receive postretirement health insurance coverage.

Details of the plan's expense recognized in the consolidated financial statements for the years ended December 31, 1996, 1995 and 1994 are as follows (in thousands):

	For the Year		
	1996	1995	1994
Service cost	\$ 344	\$ 432	\$ 511
Interest cost	2,494	2,539	1,826
Net amortization and deferral	2	-	-
Net postretirement benefit cost	<u>\$2,840</u>	<u>\$2,971</u>	<u>\$2,337</u>

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Amounts included in the Company's consolidated balance sheets for this plan are as follows (in thousands):

	As of Year End	
	1996	1995
Current retirees	\$25,748	\$28,418
Fully eligible active employees	1,982	2,502
Other active employees	5,452	4,305
Accumulated postretirement benefit obligation	33,182	35,225
Unrecognized net loss	(1,596)	(3,687)
Accrued postretirement benefit liability	<u>\$31,586</u>	<u>\$31,538</u>

The discount rates used in determining the accumulated postretirement benefit obligation were 7.75%, 7.25% and 8.50% for 1996, 1995 and 1994, respectively. For participants under 65 years of age, the health care cost trend rate for expected claim costs was assumed to be 6.00% in 1996, declining to 5.50% by 1997 and remaining constant thereafter. For participants 65 years of age or older, the health care cost trend rate for expected claim costs was assumed to be 5.50% in 1996 and remaining constant thereafter. A one percentage point increase in the assumed health care cost trend rate for each future year would have increased the aggregate of service and interest cost for 1996 by approximately \$0.3 million and increased the accumulated postretirement benefit obligation as of December 31, 1996 by approximately \$3.8 million.

Incentive Awards

The Company's Long-Term Incentive Plan is a three-year plan available to certain key executives of Mattel, Inc. Interim awards are paid annually

based upon the financial performance of the Company over a three-year period. At December 31, 1996, \$3.9 million was accrued for awards under the 1996 plan. As of December 31, 1995, \$19.7 million was accrued for final awards under the 1993 plan.

The Company also has discretionary annual incentive compensation plans for officers and key employees of both Mattel, Inc. and Fisher-Price, Inc. based on the Company's performance and subject to certain approvals of the Compensation/Options Committee of the Board of Directors. At December 31, 1996 and 1995, \$5.2 million and \$17.8 million, respectively, were accrued for awards under these plans.

Pursuant to the Company's 1990 Stock Option Plan, stock appreciation rights ("SAR") had been awarded in 1991 to certain key executives of Mattel, Inc. In February 1994, the value of the SAR was capped, and they were canceled in exchange for awards consisting of nonqualified stock options and cash, contingent upon the executive's continued employment by the Company. Cash awards totaling \$19.0 million were paid in two equal installments and were eligible to be deferred as part of the deferred compensation plan at the election of the executive. The first installment was paid during 1995 and the final installment was paid during 1996. As of December 31, 1995, \$9.0 million was accrued for the SAR.

NOTE 4 - SEASONAL FINANCING AND LONG-TERM DEBT

Seasonal Financing

The Company maintains and periodically amends or replaces an unsecured revolving credit agreement with a commercial bank group that is utilized to finance the seasonal working capital requirements of its domestic and certain international operations. The agreement in effect during 1996, which was recently amended (see below), was renegotiated in the first quarter of 1996 to increase the total facility to \$800.0 million from \$650.0 million. Within the facility, up to \$400.0 million was a standard revolving credit line available for advances and backup for commercial paper issuances (a five-year facility). Interest was charged at various rates selected by the Company not greater than the base rate charged by the agent bank, plus a commitment fee of up to .09% of the unused line available for advances. The remaining \$400.0 million (a five-year facility) was available for nonrecourse purchases of certain trade accounts receivable of the Company by the commercial bank group providing the credit line. Outstanding receivables sold are reduced by collections and cannot exceed the \$400.0 million at any time. The uncollected balance of receivables sold totaled \$40.0 million and \$67.5 million at December 31, 1996 and 1995, respectively. The agreement required the Company to comply with certain financial covenants for consolidated debt-to-capital, interest coverage and tangible net worth levels.

During 1996, the Company entered into and renewed agreements providing for up to \$140.0 million of nonrecourse purchases of certain trade accounts receivable of the Company by a commercial bank at various purchase dates. The uncollected balance of receivables sold totaled \$131.0 million and \$79.5 million at December 31, 1996 and 1995, respectively.

The Company also enters into agreements with banks of its foreign subsidiaries for nonrecourse sales of its foreign subsidiary receivables. The uncollected balances of foreign receivables sold as of December 31, 1996 and 1995 each totaled \$222.0 million.

To meet seasonal borrowing requirements of international operations in addition to amounts funded by proceeds of its revolving credit agreement, the Company negotiates individual financing arrangements, generally with the same groups of banks that provided credit in the prior year. International credit lines total approximately \$324.6 million, a portion of which is used to support letters of credit. The Company expects to extend these credit lines throughout 1997 and believes available amounts will be adequate to meet its seasonal financing requirements.

Interest rates charged on the Company's working capital credit lines are adjusted on a periodic basis; therefore, the carrying amounts of such obligations are a reasonable

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approximation of their fair value. Information relating to the Company's domestic and international credit lines is summarized as follows (in thousands):

For the Year		
1996	1995	1994

Balance at end of year

Domestic	\$	-	\$	-	\$	-
International		20,485		15,520		-
Maximum amount outstanding						
Domestic		506,000		397,000		613,000
International		94,000		84,000		74,000
Average borrowing						
Domestic		182,000		221,000		271,000
International		55,000		45,000		36,000
Weighted average interest rate on average borrowing						
Domestic (computed daily)		5.5%		6.0%		5.0%
International (computed monthly)		9.6%		9.5%		11.5%

Effective in March 1997, the Company amended its revolving credit agreement. The new agreement consists of unsecured facilities providing a total of \$1.0 billion in seasonal financing from substantially the same group of commercial banks. The facilities provide for up to \$600.0 million in advances and backup for commercial paper issuances (a five-year facility), and up to an additional \$400.0 million (a five-year facility) for nonrecourse purchases of certain trade accounts receivable by the bank group. In connection with the agreement, the Company is to comply with certain financial covenants for consolidated debt-to-capital and interest coverage.

6-7/8% Senior Notes

In August 1992, the Company issued \$100.0 million aggregate principal amount of 6-7/8% Senior Notes maturing August 1, 1997. Interest is payable semiannually on the first day of February and August. As of December 31, 1996, the 6-7/8% Senior Notes are included in the current portion of long-term liabilities in the consolidated balance sheets. At December 31, 1996 and 1995, the bid prices for the 6-7/8% Senior Notes, as provided by one of the underwriters, were \$1,005.50 and \$1,020.40, respectively, based on a par value of \$1,000.00.

6-3/4% Senior Notes

In May 1993, the Company issued \$100.0 million aggregate principal amount of 6-3/4% Senior Notes maturing May 15, 2000. Interest is payable semiannually on the fifteenth day of May and November. At December 31, 1996 and 1995, the bid prices for the 6-3/4% Senior Notes, as provided by one of the underwriters, were \$1,007.70 and \$1,033.40, respectively, based on a par value of \$1,000.00.

Medium-Term Notes ("MT Notes")

During the 1994 third quarter, the Company commenced a program for the issuance of up to \$250.0 million in aggregate principal amount of Series A Medium-Term Notes. During the 1994 fourth quarter, the Company issued an aggregate of \$80.5 million principal amount of MT Notes maturing on various dates from October 1999 to December 2004. Interest is payable semiannually at fixed rates ranging from 8.00% to 8.55% per annum on the fifteenth day of May and November. At December 31, 1996 and 1995, the bid prices for these notes ranged from \$1,041.00 to \$1,096.60 and \$1,075.00 to \$1,159.30, respectively, based on a par value of \$1,000.00. In 1994, the Company also issued an aggregate of \$30.0 million principal amount of floating rate MT Notes which matured in January 1996.

During 1995, an aggregate of \$139.5 million principal amount of MT Notes was issued by the Company maturing on various dates from June 1998 to May 2007. Interest is payable semiannually at fixed rates ranging from 5.93% to 7.65% per annum on the fifteenth day of May and November. At December 31, 1996 and 1995, the bid prices for these notes ranged from \$998.70 to \$1,040.90 and \$1,006.50 to \$1,081.60, respectively, based on a par value of \$1,000.00.

Mortgage Note

In 1990, the Company borrowed \$45.0 million under a mortgage agreement secured by its headquarters office facility in El Segundo, California. The agreement requires monthly interest-only payments for the first 60 months of its term and monthly principal and interest payments of approximately \$0.4 million thereafter, until its December 2005 maturity date. Interest is payable at 10.15% for the term of the agreement. The fair value of the mortgage note, estimated by discounting future cash flows at the interest rates currently available for debt with the same credit rating, similar terms and maturity date, was approximately \$53 million and \$51 million at December 31, 1996 and 1995, respectively.

Scheduled Maturities

The aggregate amounts of long-term debt and capitalized lease obligations maturing in the next five years are as follows (in thousands):

	Senior Debt	Medium- Term Notes	Mortgage Note	Capitalized Lease Obligations	Other	Total
1997	\$100,000	\$ -	\$500	\$100	\$5,500	\$106,100
1998	-	9,500	500	100	600	10,700
1999	-	30,000	600	100	600	31,300
2000	100,000	-	600	-	700	101,300
2001	-	30,500	700	-	600	31,800

NOTE 5 - SHAREHOLDERS' EQUITY

Common Stock

In May 1996, the shareholders of the Company approved an amendment to the Company's Restated Certificate of Incorporation that increased the number of shares of authorized common stock from 300.0 million to 600.0 million in order to accommodate issuance of common stock in connection with possible future mergers and other financing transactions, future stock dividends or splits, future awards pursuant to the Company's stock option plans, warrant exercises, and other general corporate purposes.

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Preference Share Purchase Rights

In 1992, the Board of Directors approved an extension of the Company's Preference Share Purchase Rights plan. The rights may be exercised by their holders to purchase shares of the Company's Series E Junior Participating Preference Stock upon the occurrence of certain events, including the acquisition, or announcement of intended acquisition, of 20% or more of Mattel's common stock by a person or group of affiliated or associated persons. The rights are subject to adjustment in the event of stock dividends, stock splits or other changes in the Company's common stock, and will expire on February 17, 2002, unless the plan is further extended or the rights are earlier redeemed or exchanged by the Company.

Preferred and Preference Stock

The Company is authorized to issue 3.0 million shares of \$1.00 par value preferred stock and 20.0 million shares of \$0.01 par value preference stock. No preferred or preference stock is currently outstanding.

In February 1992, 1.5 million shares of \$0.01 par value preference stock were designated as Series E Junior Participating Preference Stock in connection with a distribution of Preference Share Purchase Rights to the Company's common shareholders. Series E shares are issuable only when rights become exercisable under the Preference Share Purchase Rights plan (see above).

In connection with the IGI merger in February 1992, 864.3 thousand shares of \$0.01 par value preference stock were designated as 12.5% Convertible Preference Stock, Series F, and issued to the IGI ESOP. On October 20, 1995, the Company repurchased all outstanding preference stock from the IGI ESOP for \$73.9 million. The ESOP note receivable, which was secured by the Series F Preference Stock, was repaid in August 1994.

Stock Compensation Plans

In May 1996, the shareholders of the Company approved the Mattel 1996 Stock Option Plan. Under this plan, incentive stock options, nonqualified stock options, stock appreciation rights, nonvested stock awards, and shares of common stock may be granted to officers, key employees, and other persons providing services to the Company. In addition, nonqualified stock options may be granted to members of the Company's Board of Directors who are not employees of the Company.

Generally, options are exercisable contingent upon the grantees' continued employment with the Company. Nonqualified stock options are granted at not less than 100% of the fair market value of the Company's common stock on the date of grant, generally vest at the rate of 25% per year of service, and usually expire within ten years from the date of grant. The 1996 Stock Option Plan provides that up to 1.5% of Mattel's outstanding common stock as of the first day of each calendar year will be available for awards under the plan. Any unused portion of the percentage limit for any calendar year shall be carried forward and made available for awards in succeeding calendar years. The aggregate number of shares of common stock available for grants under the 1996 plan shall not exceed 50.0 million shares. This plan expires on December 31, 2005. The Company's previous plans, the 1978, 1982, and 1990 Stock Option Plans, expired on April 12, 1988, April 14, 1992, and December 31, 1996, respectively. All

outstanding awards under these plans continue to be exercisable under the terms of their respective grant agreements.

The Company has adopted the disclosure-only provisions of SFAS No. 123. Accordingly, no compensation cost has been recognized in the results of operations for nonqualified stock options granted under its plans during the years ended December 31, 1996, 1995 and 1994. Had compensation cost for these options been determined based on their fair value at the date of grant consistent with the method of accounting prescribed by SFAS No. 123, the Company's net income and earnings per share would have been reduced by \$6.6 million or \$0.02 per share and \$2.0 million or \$0.01 per share in 1996 and 1995, respectively. The pro forma effect on the Company's 1996 and 1995 net income is not indicative of the pro forma effect in future years, because it does not take into consideration the pro forma expense related to grants made prior to 1995.

The fair value of options granted during 1996 and 1995 has been estimated using the Black-Scholes pricing model. The following weighted-average assumptions were used in determining fair value:

	1996	1995
Expected life (in years)	3.17	3.17
Risk-free interest rate	6.05%	5.28%
Volatility factor	17.98%	19.23%
Dividend yield	0.82%	0.75%

The weighted average fair values of options granted during 1996 and 1995 were \$5.12 and \$3.25, respectively.

The following is a summary of stock option information and weighted-average exercise prices for the Company's stock option plans during the year (options in thousands):

Nonqualified Plans	1996		1995		1994	
	Number	Price	Number	Price	Number	Price
Outstanding at January 1	14,513	\$14.27	13,148	\$12.73	15,616	\$ 9.51
Options granted	4,294	25.15	4,152	16.99	3,803	15.76
Options exercised	(5,267)	13.48	(2,314)	10.52	(6,126)	6.40
Options canceled	(230)	16.67	(473)	13.63	(145)	13.24
Outstanding at December 31	13,310	\$18.05	14,513	\$14.27	13,148	\$12.73
Exercisable at December 31	5,263	\$14.41	5,541	\$13.41	3,200	\$11.89
Available for grant at December 31	4,074		921		123	

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The following table summarizes information about stock options outstanding as of December 31, 1996 (options in thousands):

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
\$ 1.84 to \$10.01	357	3.68 years	\$ 5.41	357	\$ 5.41
10.16 to 15.30	4,018	6.60	13.18	2,522	13.15
15.76 to 22.40	4,647	7.68	16.68	2,256	16.59
23.90 to 29.88	4,288	9.18	25.14	128	26.11
\$ 1.84 to \$29.88	13,310	7.73	\$18.05	5,263	\$14.41

In December 1993, restricted stock awards totaling 927.7 thousand

shares were granted to key Mattel executives. During the time period from the award date until January 1, 1997, when the restrictions lapsed, these shares could not be sold, assigned, pledged or otherwise encumbered by the recipients. During 1996, 244.1 thousand shares were forfeited and returned to the Company. As of December 31, 1996, restricted stock awards in the amount of 683.6 thousand shares were outstanding.

The market value of restricted stock awards as of December 31, 1994 was charged to income as part of the 1994 restructuring. Any subsequent increases or decreases in market value through January 1, 1997, the end of the restriction period, are reflected in the results of operations currently. As a result, \$2.8 million and \$7.9 million were charged to income in 1996 and 1995, respectively. In addition, as a result of the forfeiture, \$6.6 million of compensation expense that was recognized in previous periods was reversed in 1996.

Fisher-Price Stock Subscription Warrants

In connection with their term loan, Fisher-Price issued to the lenders detachable warrants allowing them to purchase shares of Fisher-Price common stock, subject to certain antidilution requirements. As of the effective date of the merger, the Company agreed to assume Fisher-Price's obligations pursuant to the provisions of the warrants.

During June 1994, a holder of 451.0 thousand warrants elected to receive \$4.9 million in cash in lieu of common shares as a result of change-of-control provisions triggered by the merger. In October 1996, 451.0 thousand warrants were exercised for an equal number of common shares by a holder in accordance with the terms of the warrant agreement.

The exercise of all outstanding warrants by the holders would result in delivery of 751.4 thousand shares of the Company's common stock at an exercise price of approximately \$4.77 per share. These warrants expire on June 30, 2000.

Disney Warrant

In June 1996, the Company entered into a licensing agreement with Disney Enterprises, Inc. for an expanded strategic alliance, which grants the Company exclusive worldwide rights (with certain exceptions) to produce toys based on all children-oriented Disney television and film properties introduced, commencing summer 1997. Pursuant to this agreement, the Company issued Disney a warrant to purchase 3.0 million shares of the Company's common stock at an exercise price of \$27.375 per share. This warrant cannot be exercised prior to April 2, 1999 and expires no later than April 2, 2004. The fair value of the warrant will be charged to income when the related properties are introduced as a component of royalty expense over the period the related revenues are recognized. The warrant's fair value of \$26.4 million was determined using the Black-Scholes pricing model, assuming an expected life of eight years, a dividend yield of 0.88%, a risk-free interest rate of 6.17%, and a volatility factor of 27.60%.

Conversion of 8% Convertible Subordinated Debentures

During the 1994 first quarter, holders tendered \$75.7 million of the 8% Convertible Subordinated Debentures for conversion into 9.2 million common shares in response to the Company's Notice of Redemption.

Common Stock Repurchase Plan

In February 1996, the Board of Directors approved a continuation of the stock repurchase program to permit the annual repurchase of 8.8 million shares to fund the Company's stock option plans and provide for warrant exercises. In October 1996, the Executive/Finance Committee of the Board of Directors increased the number of shares to be repurchased during 1996 from 8.8 million to 10.0 million shares. For 1997, the Board of Directors authorized the repurchase of 6.0 million to 7.0 million shares under the plan.

The Company's stock repurchase plan, initiated in May 1990 and expanded in May 1993, provided for the repurchase of up to 19.5 million shares during the four-year period ending in 1997. During 1995 and 1994, the Company repurchased 2.9 million and 4.7 million shares, respectively. In addition to shares acquired on the open market, the Company repurchased, during the fourth quarter of 1995, the equivalent of 3.3 million shares of common stock in connection with its cash payment to the IGI ESOP for all outstanding shares of Series F Preference Stock.

Shares repurchased, less 5.3 million, 2.3 million, and 5.7 million shares reissued in 1996, 1995 and 1994, respectively, are included in treasury stock. During 1996, 244.1 thousand shares were returned to the treasury as a result of forfeiture of restricted stock awards.

Dividends and Capital Transactions

On February 6, 1996, the Board of Directors declared a five-for-four stock split on the Company's common stock, which was distributed on March 1, 1996. Accordingly, \$55.8 million was transferred from additional paid-in capital to common stock, representing the par value of additional shares

issued. A similar transfer was made between additional paid-in capital and common stock in the amount of \$44.7 million reflecting the declaration of a five-for-four stock split in December 1994.

A regular quarterly cash dividend has been declared by the Board of Directors on the Company's common stock since the second quarter of 1990.

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NOTE 6 - COMMITMENTS AND CONTINGENCIES

Leases

The Company routinely enters into noncancelable lease agreements for premises and equipment used in the normal course of business. The following table shows the future minimum obligations under lease commitments in effect at December 31, 1996 (in thousands):

	Capitalized Leases	Operating Leases
	-----	-----
1997	\$ 400	\$ 36,000
1998	400	31,500
1999	400	23,000
2000	400	18,800
2001	400	13,600
Thereafter	10,200	11,600
	-----	-----
	12,200 (a)	134,500
Less: sublease commitments	-	400
	-----	-----
	\$12,200	\$134,100
	=====	=====

(a) Includes \$10.0 million of imputed interest.

Rental expense under operating leases amounted to \$45.2 million, \$42.8 million and \$33.7 million for 1996, 1995 and 1994, respectively, net of sublease income of \$0.5 million in 1996 and \$0.7 million in both 1995 and 1994.

Commitments

In the normal course of business, the Company enters into contractual arrangements to obtain and protect the Company's right to create and market certain toys and for future purchases of goods and services to ensure availability and timely delivery. Such arrangements include royalty payments pursuant to licensing agreements and commitments for future inventory purchases. Certain of these commitments routinely contain provisions for guaranteed or minimum expenditures during the terms of the contracts. Current and future commitments for guaranteed payments reflect the Company's focus on expanding its product lines through alliances with businesses in other industries, such as television and motion picture entertainment companies.

The single largest commitment involves the Company's 1991 agreement with The Walt Disney Company ("Disney"). This licensing agreement, which contains annual minimum royalty guarantees, permits the Company to use the Disney name and certain characters on preschool and infant products through September 2002. In related agreements, the Company participates in attractions and toy stores at three Disney theme parks under agreements in effect through June 2002. Under these agreements, the Company makes semi-annual payments to Disney.

In June 1996, the Company entered into a licensing agreement with Disney Enterprises, Inc. for an expanded strategic alliance, which grants the Company exclusive worldwide rights (with certain exceptions) to produce toys based on all children-oriented Disney television and film properties introduced, commencing summer 1997. The agreement spans three years, with the Company having the right for up to two additional years to market merchandise from film properties produced during the second and third years. The initial term of the agreement may be renewed for an additional three-year period upon mutual consent. This agreement contains minimum royalty guarantees that are contingent upon the number and nature of the properties introduced by Disney. Commitments for 1997 introductions are expected to approximate \$14.5 million payable over a three-year period. Future commitments could be as high as \$37.8 million per introduction year. Pursuant to the agreement, the Company issued Disney a stock warrant, valued at \$26.4 million, to purchase 3.0 million shares of the Company's common stock.

Licensing and related agreements provide for terms extending from 1997 through 2002 and contain provisions for future minimum payments as shown in

the following table (in thousands):

	Minimum Payments

1997	\$ 49,000
1998	62,000
1999	56,000
2000	45,000
2001	46,000
2002	22,000

	\$280,000
	=====

Royalty expense for the years ended December 31, 1996, 1995 and 1994 was \$120.8 million, \$104.4 million and \$83.9 million, respectively.

As of December 31, 1996, the Company had outstanding commitments for 1997 purchases of inventory of approximately \$79 million. As of December 31, 1995, the Company had commitments for 1996 purchases of inventory of approximately \$101 million.

Foreign Currency Contracts

The Company enters into foreign currency forward exchange contracts and swap agreements primarily as hedges of inventory purchases, sales and other intercompany transactions denominated in foreign currencies, to limit the effect of exchange rate fluctuations on the results of operations and cash flows. These contracts generally have maturity dates of up to 18 months. Gains or losses related to hedged transactions, which qualify for hedge accounting, are deferred and are recognized in the results of operations as part of the underlying transaction. Had the Company not entered into hedges covering a percentage of its foreign currency positions, the unfavorable effect on 1996 pre-tax income would have approximated \$14 million.

As of December 31, 1996 and 1995, the Company held the following contracts to obtain US dollars (in thousands):

	1996		1995	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	-----	-----	-----	-----
Forwards	\$334,004		\$491,210	
Swaps	98,678		135,477	
	-----		-----	
	\$432,682	\$423,042	\$626,687	\$630,287
	=====	=====	=====	=====

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Fair value reflects the amount, based on dealer quotes, the Company would receive at maturity for contracts involving the same currencies and maturity dates, if they had been entered into as of year-end 1996 and 1995, respectively.

As of December 31, 1996 and 1995, the Company held the following contracts to purchase foreign currencies (in thousands):

	1996		1995	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	-----	-----	-----	-----
Forwards	\$ 71,732		\$198,006	
Swaps	94,194		59,899	
	-----		-----	
	\$165,926	\$166,428	\$257,905	\$257,019
	=====	=====	=====	=====

Fair value reflects the amount, based on dealer quotes, the Company would pay at maturity for contracts involving the same currencies and maturity dates, if they had been entered into as of year-end 1996 and 1995,

respectively.

The following table summarizes the Company's foreign currency contracts by major currency as of December 31, 1996 and 1995 (in thousands of US dollars):

	1996		1995	
	Buy	Sell	Buy	Sell
US dollars	\$432,682	\$161,965	\$626,687	\$227,944
German deutsche marks	44,735	103,574	33,424	157,738
Italian lira	8,324	59,265	-	54,481
Malaysian ringgits	56,475	-	78,071	-
Hong Kong dollars	-	429	72,274	-
French francs	429	63,852	-	117,150
British pounds sterling	26,501	40,319	-	78,092
Canadian dollars	11,002	40,204	21,127	45,541
Spanish pesetas	-	23,171	-	30,271
Dutch guilders	-	74,864	22,379	68,468
Japanese yen	-	7,913	-	51,534
Australian dollars	-	14,837	-	20,762
Swiss francs	11,955	-	12,930	8,232
Taiwan dollars	2,972	-	17,700	-
Swedish krona	-	-	-	6,675
Danish krone	-	-	-	9,825
Other (under \$5,000)	3,533	8,215	-	7,879
	=====	=====	=====	=====
	\$598,608	\$598,608	\$884,592	\$884,592

In order to minimize the risk of counterparty non-performance, the Company executes its foreign currency forward exchange contracts and swap agreements with financial institutions believed to be credit-worthy, generally those that provide the Company with its working capital lines of credit. The Company does not trade in financial instruments nor does it enter into contracts for speculative purposes.

Market risk exposures exist with respect to the settlement of foreign currency transactions during the year because currency fluctuations cannot be predicted with certainty. The Company seeks to mitigate its exposure to market risk by monitoring its currency exchange exposure for the year and partially or fully hedging such exposure. In addition, the Company manages its exposure by retaining flexibility with respect to currencies used for international borrowings and intercompany invoicing. By policy, the Company maintains hedge coverages between minimum and maximum percentages of its anticipated foreign currency exposures for any given year.

Litigation

The Company is involved in various litigation and other legal matters, including claims related to intellectual property, product liability, labor and environmental cleanup, which are being addressed or defended in the ordinary course of business. Management believes that any liability which may potentially result upon resolution of such matters will not have a material adverse effect on the Company's consolidated financial position or results of operations.

NOTE 7 - ACQUISITIONS AND NONRECURRING ITEMS

Pending Merger

Pursuant to an Agreement and Plan of Merger dated November 17, 1996, as amended by an Amendment to Agreement and Plan of Merger dated November 22, 1996, the Company and Tyco have agreed to the merger of Tyco into the Company. The stock-for-stock transaction, which is expected to be accounted for as a pooling of interests, is subject to the approval of Tyco shareholders and certain regulatory approvals. Under the merger agreement, each outstanding share of Tyco common stock will be converted into the right to receive a number of Mattel common shares equal to the exchange ratio, as defined by the merger agreement, subject to a minimum of 0.37791 and a maximum of 0.51129. Given this range, the merger would result in the issuance of approximately 14 million to 19 million Mattel common shares for Tyco common shares. In addition, each share of Tyco Series B and Series C Preferred Stock will be converted into like Mattel preferred stock. It is anticipated that the merger will be completed in the first half of 1997. Under certain circumstances, if the merger is not ultimately consummated, the Company will be required to pay Tyco a \$15.0 million break-up fee.

Special Charge

During 1996, the Company received comments from the Securities and Exchange Commission regarding its accounting for certain royalties and participation

fees in prior periods. In response to these comments, in the fourth quarter of 1996, the Company charged \$14.2 million of royalty expense to cost of sales, of which \$11.8 million related to 1994 and \$2.0 million related to 1995, and charged \$7.6 million of participation fees to advertising expense, of which \$3.6 million related to 1994 and \$4.0 million related to 1995. This charge reduced fourth quarter net income by \$15.1 million or \$0.05 per share. The Company continues to believe that its original accounting treatment was appropriate.

Acquisitions

During 1994, the Company acquired the entities described below, which were accounted for by the purchase method of accounting. The results of operations of the acquired companies have been included in the accompanying consolidated financial statements from their respective dates of acquisition.

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In May 1994, the Company acquired substantially all of the business assets and assumed the associated debts and liabilities of Kransco, a San Francisco-based designer, manufacturer and marketer of brand name recreational and sporting products for \$274.6 million in cash, including costs directly related to the acquisition and the repayment of \$20.0 million of Kransco's short-term borrowings. The asset purchase agreement also provided for future contingent consideration in the event that net sales of the POWER WHEELS product line reached or exceeded certain levels in each of calendar years 1994, 1995 and 1996. Under the agreement, the contingent consideration payable with respect to any year shall not exceed \$8.6 million. During 1996 and 1995, \$17.2 million was paid relating to the 1995 and 1994 sales, and an additional \$8.6 million was accrued in 1996, resulting in an increase to the initial goodwill. The excess of the aggregate purchase price over the estimated fair market value of the net assets acquired was approximately \$238 million, which is being amortized on a straight-line basis over 20 years.

In July 1994, the Company acquired a majority of the shares of Spear, a company organized in the United Kingdom, that holds the rights to SCRABBLE in markets outside of the United States and Canada, and certain other games worldwide. The aggregate purchase price, including related acquisition costs, denominated in pounds sterling, was approximately \$100 million. The excess of cost over the estimated fair market value of the net assets acquired was approximately \$100 million, which is being amortized on a straight-line basis over 20 years.

Restructuring Charge

In the 1994 fourth quarter, the Company recognized a \$72.0 million pre-tax charge against continuing operations in connection with the consolidation of manufacturing operations and the reduction of headquarters expense and support functions worldwide. After related tax effects, the net \$46.8 million charge impacted 1994 earnings by \$0.17 per share. As of December 31, 1996, the restructuring activity provided for by the 1994 charge was substantially complete and amounts previously accrued had been paid. The type and amount of charges incurred to date approximated the amounts included in the provision.

NOTE 8 - FINANCIAL INFORMATION BY GEOGRAPHIC AREA

The Company's business consists of the design, manufacture and marketing of toys on a worldwide basis. The Company's international operations are located principally in Europe, Canada, Latin America and Asia.

The Company's toy products are sold throughout the world. Credit is granted to customers on an unsecured basis, and generally provides for extended payment terms which result in a substantial portion of trade receivables being collected during the latter half of the year. In the United States, toys are distributed directly to large retailers, including discount and free-standing toy stores, chain stores, department stores, other retail outlets, and to a limited extent, wholesalers. Internationally, the Company sells its products directly in Argentina, Australia, Austria, the Benelux countries, Canada, Chile, Colombia, France, Germany, Greece, Italy, Japan, Mexico, New Zealand, Portugal, Scandinavia, Spain, Switzerland, the United Kingdom, Venezuela, and in certain areas of Eastern Europe and Asia. The Company's products are marketed principally through distributors in certain parts of Latin America, the Middle East, South Africa and Southeast Asia, and the Company also licenses some of its products to outside manufacturers for sale in Peru and other Latin American countries.

Customers accounting for more than 10% of the Company's consolidated net sales and related accounts receivable are as follows (dollars in millions):

	1996	1995	1994
Worldwide sales for the year ended			

Toys R Us	22%	23%	23%
Wal-Mart	12%	12%	13%
Accounts receivable as of December 31			

Toys R Us	\$127.9	\$116.4	\$156.6
Wal-Mart	61.6	50.7	104.3

Information by geographic area is set forth in the tables below. Profit from operations represents income before income taxes, interest expense and general corporate expenses. Sales between geographic areas are based upon transfer prices which include manufacturing cost and profit.

(In thousands)	Net Sales	Profit From Operations	Identifiable Assets
-----	-----	-----	-----
1996			
United States	\$2,317,169	\$ 344,212	\$1,432,617
Europe and Canada	1,197,679	203,502	715,892
Asia and Latin America	1,759,961	194,949	447,953
	-----	-----	-----
	5,274,809	742,663	2,596,462
Sales and transfers between geographic areas (a)	(1,488,851)	-	-
Interest expense	-	(75,529)	-
Corporate and other	-	(121,393)	297,060
	-----	-----	-----
Consolidated total	\$3,785,958	\$ 545,741	\$2,893,522
	=====	=====	=====
1995			
United States	\$2,546,903	\$327,685	\$1,196,742
Europe and Canada	1,234,048	231,010	742,721
Asia and Latin America	1,533,256	138,498	405,615
	-----	-----	-----
	5,314,207	697,193	2,345,078
Sales and transfers between geographic areas (a)	(1,675,395)	-	-
Interest expense	-	(73,589)	-
Corporate and other	-	(90,702)	350,431
	-----	-----	-----
Consolidated total	\$3,638,812	\$532,902	\$2,695,509
	=====	=====	=====
1994			
United States	\$2,315,778	\$305,874	\$1,150,514
Europe and Canada	1,066,349	143,658	715,021
Asia and Latin America	1,287,502	130,247	396,100
	-----	-----	-----
	4,669,629	579,779	2,261,635
Sales and transfers between geographic areas (a)	(1,464,604)	-	-
Interest expense	-	(55,449)	-
Corporate and other	-	(130,698)	197,391
	-----	-----	-----
Consolidated total	\$3,205,025	\$393,632	\$2,459,026
	=====	=====	=====

(a) Primarily from Asia to other regions of the world.

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NOTE 9 - QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(In thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
-----	-----	-----	-----	-----
YEAR ENDED DECEMBER 31, 1996				
Net sales	\$585,879	\$777,355	\$1,232,179	\$1,190,545
Gross profit (a)	285,777	378,554	639,270	605,022
Advertising and promotion expenses (b)	80,289	102,367	187,291	244,486
Other selling and administrative expenses	142,920	154,623	173,542	176,027

Other expense, net	3,665	7,293	7,735	7,115
Operating profit (c) (d)	58,903	114,271	270,702	177,394
Income before taxes	44,485	97,993	248,907	154,356
Net income applicable to common shares	29,885	66,293	168,007	113,456
Income per share (e):				
Net income	\$ 0.11	\$ 0.24	\$ 0.61	\$ 0.41
Average number of common and common equivalent shares	281,836	280,894	276,939	275,184
Dividends declared per common share (e)	\$ 0.060	\$ 0.060	\$ 0.060	\$ 0.060
Common stock market price (e):				
High	\$ 28.30	\$ 28.88	\$ 29.13	\$ 31.50
Low	23.90	24.38	22.13	24.63

YEAR ENDED DECEMBER 31, 1995

Net sales	\$543,570	\$763,474	\$1,176,484	\$1,155,284
Gross profit	259,025	366,689	582,949	580,499
Advertising and promotion expenses	78,600	106,718	182,355	216,824
Other selling and administrative expenses	131,918	141,498	159,359	170,286
Other (income) expense, net (f)	(3,414)	(730)	(9,025)	8,282
Operating profit (d)	51,921	119,203	250,260	185,107
Income before taxes	40,844	101,210	227,526	163,322
Net income	26,958	67,496	151,326	112,022
Preference stock dividend requirements	(1,099)	(1,099)	(1,099)	(45)
Net income applicable to common shares	25,859	66,397	150,227	111,977
Income per share (e):				
Net income	\$ 0.09	\$ 0.24	\$ 0.53	\$ 0.40
Average number of common and common equivalent shares	279,853	280,691	281,904	280,916
Dividends declared per common share (e)	\$ 0.048	\$ 0.048	\$ 0.048	\$ 0.048
Common stock market price (e):				
High	\$ 19.80	\$ 22.20	\$ 24.50	\$ 24.90
Low	15.76	18.20	20.30	21.20

- (a) Fourth quarter gross profit was reduced by a \$14.2 million nonrecurring charge related to the accounting for certain royalties in prior periods, \$2.0 million of which relates to 1995.
- (b) Fourth quarter advertising and promotion expenses include a \$7.6 million nonrecurring charge related to the accounting for participation fees in prior periods, \$4.0 million of which relates to the fourth quarter of 1995.
- (c) Fourth quarter operating profit includes a \$21.8 million nonrecurring charge related to the accounting for certain royalties and participation fees in prior periods.
- (d) Represents income from operations before interest expense and provision for income taxes.
- (e) Per share data and market prices for all periods reflect the retroactive effect of stock splits distributed to shareholders in March 1996 and January 1995.
- (f) Third quarter other (income) expense, net includes a \$9.1 million gain from the sale of the non-toy business and worldwide trademark rights related to Corgi.

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NOTE 10 - SUPPLEMENTAL FINANCIAL INFORMATION

(In thousands)	As of Year End	
	1996	1995
INVENTORIES INCLUDE THE FOLLOWING:		
Raw materials and work in process	\$ 55,263	\$ 52,528
Finished goods	317,423	298,313
	-----	-----
	\$372,686	\$350,841
	=====	=====

PREPAID EXPENSES AND OTHER CURRENT ASSETS

INCLUDE THE FOLLOWING:		
Deferred income taxes	\$ 87,860	\$ 87,965
Other	77,363	89,273
	-----	-----
	\$165,223	\$177,238
	=====	=====

INTANGIBLE ASSETS, NET, INCLUDE THE

FOLLOWING:		
Goodwill	\$397,824	\$411,258
Other	9,620	11,538
	-----	-----
	\$407,444	\$422,796
	=====	=====

ACCRUED LIABILITIES INCLUDE THE FOLLOWING:

Advertising and promotion	\$111,134	\$ 96,669
Royalties	49,334	31,657
Compensation	41,819	82,751
Other	204,057	199,285
	-----	-----
	\$406,344	\$410,362
	=====	=====

For the Year

(In thousands)	-----	-----	-----
	1996	1995	1994
	-----	-----	-----

SELLING AND ADMINISTRATIVE EXPENSES INCLUDE THE FOLLOWING:

Research and development	\$126,241	\$111,280	\$93,153
--------------------------	-----------	-----------	----------

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for:			
Income taxes	\$103,442	\$168,400	\$66,270
Interest	76,261	75,513	52,937
Noncash investing and financing activities:			
Issuance of stock warrant	26,444	-	-
Conversion of 8% Debentures	-	-	75,662

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MANAGEMENT REPORT ON RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the preparation of the Company's consolidated financial statements and the related financial and nonfinancial information appearing in this Annual Report. The financial statements have been prepared in accordance with generally accepted accounting principles and, in the opinion of management, present fairly the Company's financial position, results of operations and cash flows. The financial statements necessarily contain some amounts that are based on the best estimates and judgments of management.

The Company maintains accounting and internal control systems which management believes are adequate to provide reasonable assurance, in relation to reasonable cost, as to the integrity and reliability of the financial statements and as to protection of assets from unauthorized use or disposition. The selection and training of qualified personnel, the establishment and communication of accounting and administrative policies and procedures, and a program of internal audit are important elements of these control systems.

The Company's internal auditors are directed to examine the adequacy and effectiveness of the Company's system of internal accounting, administrative and operational controls. They conduct formal and systematic reviews to determine that operations are adequately controlled and to assure that assets are effectively safeguarded.

The Board of Directors has appointed an audit committee, composed entirely of nonemployee directors. The committee meets regularly with financial management, internal auditors and the independent accountants to review accounting control, auditing and financial reporting matters.

Price Waterhouse LLP, independent accountants, have been retained to audit the Company's consolidated financial statements. They conduct a review of internal accounting controls to the extent required by generally accepted auditing standards and perform such tests and related procedures as they deem necessary to arrive at an opinion on the fairness of the financial statements.

/s/ Francesca Luzuriaga

Francesca Luzuriaga
Executive Vice President and
Chief Financial Officer

sixty

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of Mattel, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Mattel, Inc. and its subsidiaries at December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PRICE WATERHOUSE LLP

Los Angeles, California
February 5, 1997

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DIRECTORS AND OFFICERS

Mattel, Inc. and Subsidiaries

BOARD OF DIRECTORS

John W. Amerman (1)
Chairman of the Board, Mattel, Inc.

Jill E. Barad (1) (5)
President and Chief Executive Officer,
Mattel, Inc.

Dr. Harold Brown (4) (5)
Senior Managing Director, E.M. Warburg,
Pincus & Co., Inc.

James A. Eskridge (5)
Retired Group President, Mattel, Inc.

Tully M. Friedman (1) (3)
Founding Partner, Hellman & Friedman

Ronald M. Loeb (3)
Partner, Irell & Manella

Edward H. Malone (1) (2) (4)
Retired Vice President, General Electric Co.

Ned Mansour
President, Corporate Operations,
Mattel, Inc.

Edward N. Ney (4) (5)

CORPORATE OFFICERS

Jill E. Barad
Chairman and Chief Executive Officer

Bruce L. Stein
President, Mattel Worldwide

Astrid Autolitano
President, Mattel International

Byron Davis
President, Fisher-Price, Inc.

Joseph C. Gandolfo (5)
President, Mattel Worldwide
Manufacturing Operations

Ned Mansour
President, Corporate Operations

Francesca Luzuriaga
Executive Vice President and
Chief Financial Officer

Glenn Bozarth
Senior Vice President,
Corporate Communications

Kevin M. Farr

Chairman of the Board of Advisors,
Burson-Marsteller

Senior Vice President and
Controller

William D. Rollnick (1) (2) (3)
Retired Chairman, Genstar Rental
Electronics, Inc.

Douglas Glen
Senior Vice President and
Chief Strategy Officer

Christopher A. Sinclair
Chairman and Chief Executive Officer,
Quality Food Centers

E. Joseph McKay
Senior Vice President,
Human Resources

Bruce L. Stein
President, Mattel Worldwide,
Mattel, Inc.

John T. Phippen
Senior Vice President and
Chief Information Officer

John L. Vogelstein (1) (2) (3)
Vice Chairman of the Board, President,
and Director, E.M. Warburg, Pincus
& Co., Inc.

Barnett Rosenberg
Senior Vice President, General
Counsel and Secretary

William Stavro
Senior Vice President and
Treasurer

- (1) Member, Executive/Finance Committee
John L. Vogelstein, Chairman
- (2) Member, Compensation/Options Committee
John L. Vogelstein, Chairman
- (3) Member, Audit Committee
William D. Rollnick, Chairman
- (4) Member, Pension Committee
Edward H. Malone, Chairman
- (5) Member, Foundation Committee
Dr. Harold Brown, Chairman

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CORPORATE INFORMATION

Mattel, Inc. and Subsidiaries

Transfer Agent and Registrar

Mattel, Inc. Common Stock
The First National Bank of Boston
c/o Boston EquiServe, L.P.

Note Trustees

Mattel, Inc. 6-3/4% Senior Notes due May 15, 2000
PNC Bank, N.A.
One Oliver Plaza, 23rd Floor
Pittsburgh, Pennsylvania 15265

Mattel, Inc. 6-7/8% Senior Notes due August 1, 1997
State Street Bank and Trust Company
Corporate Services Division
P.O. Box 778
Boston, Massachusetts 03102

Mattel, Inc. Medium-Term Notes
Chemical Trust Company of California
300 South Grand Avenue
Los Angeles, California 90071

Stock Exchange Listings

Mattel, Inc. Common Stock and Mattel, Inc. Preference
Share Purchase Rights
New York and Pacific Stock Exchanges

Mattel, Inc. 6-7/8% Senior Notes due August 1, 1997
New York Stock Exchange

Shareholder Administration

Inquiries relating to shareholder accounting records, stock
transfer and dividends (including dividend reinvestment)
should be directed to:
The First National Bank of Boston

c/o Boston EquiServe, L.P.
150 Royall Street
Canton, Massachusetts 02021
(overnight or courier delivery only) or
P.O. Box 644
Boston, Massachusetts 02102
Telephone: 617-575-3170 or toll free 888-909-9922

Common Shareholders

As of March 1, 1997, there were approximately 42,000
holders of record of Mattel, Inc. common stock

Annual Meeting

The Annual Meeting of Shareholders will be held May 7,
1997, at 10:00 a.m. in the Manhattan Ballroom of the
Radisson Plaza Hotel, Manhattan Beach, California

Form 10-K

Mattel's Annual Report to the Securities and Exchange
Commission on Form 10-K for the year ended December 31,
1996, is available upon request by writing to the
Secretary of the Company, 333 Continental Boulevard,
El Segundo, California 90245

Trademark Legends

Barbie, Fisher-Price, Hot Wheels, and See 'N Say are trademarks of Mattel, Inc.

Disney characters: [copyright] Disney. Pooh character is based on the
"Winnie the Pooh" works. Copyright A.A. Milne and E.H. Shepard. Cabbage
Patch Kids and Snacktime Kid: [trademark] and [copyright] Original Appalachian
Artworks, Inc., used under license. Sesame Street characters: [trademark] and
[copyright] Childrens Television Workshop. Nickelodeon and related trademarks
[trademark] and [copyright] Viacom International Inc. Polly Pocket and
characters [trademark] and [copyright] Bluebird Toys (UK) Ltd., England.
Matchbox, Magna Doodle and View-Master are trademarks of Tyco Toys, Inc. CAT
and Caterpillar are trademarks of Caterpillar, Inc. [copyright] 1997
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SUBSIDIARIES OF MATTEL, INC.

Subsidiaries(1)	Jurisdiction in Which Organized	Percentage of Voting Securities Owned Directly or Indirectly By Parent(2)
Arco Toys, Limited	Hong Kong	100%
ARCOTOYS, Inc.	Delaware	100%
Aurimat, S.A. de C.V.	Mexico	100%
Mattel de Mexico, S.A. de C.V.	Mexico	100%
Far West Insurance Company, Limited	Bermuda	100%
Fisher-Price, Inc.	Delaware	100%
Fisher-Price Beteiligungs-G.m.b.H.	Germany	100%
Mattel G.m.b.H.	Germany	100%
Mattel Toys K.F.T.	Hungary	100%
Mattel Spol. S.R.O.	Czech Republic	100%
Mabamex, S.A. de C.V.	Mexico	100%
Mattel Argentina S.A.	Argentina	100%
Mattel Chile S.A.	Chile	100%
Mattel Colombia S.A.	Colombia	100%
Mattel East Asia Limited	Hong Kong	100%
Mattel Espana, S.A.	Spain	100%
Mattel Europa B.V.	The Netherlands	100%
Mattel B.V.	The Netherlands	100%
P.T. Mattel Indonesia	Indonesia	100%
Mattel France S.A.	France	100%
Corolle S.A.	France	100%
Mattel Portugal Limitada	Portugal	100%
Mattel Gesellschaft m.b.H.	Austria	100%
Mattel (HK) Limited	Hong Kong	100%
Mattel Holding, Inc.	Delaware	100%
Mattel U.K. Limited	U.K.	100%
Fisher-Price Toys Ltd.	U.K.	100%
Mattel Group PLC	U.K.	100%
J.W. Spear & Sons PLC	U.K.	100%

1

All of the subsidiaries listed above are included in the Consolidated Financial Statements. Twenty are not named because, when considered in the aggregate, they do not constitute a significant subsidiary. Furthermore, approximately seven subsidiaries are inactive and financial statements are not prepared for such companies.

2

Parent refers to Mattel, Inc. (a Delaware corporation) and excludes Directors' qualifying shares.

SUBSIDIARIES OF MATTEL, INC.

Subsidiaries(1)	Jurisdiction in Which Organized	Percentage of Voting Securities Owned Directly or Indirectly By Parent(2)
Mattel Holdings Limited	Canada	100%
Mattel Canada Inc.	Canada	100%
Mattel I., Inc.	Delaware	100%
Mattel Toys, S.r.l.	Italy	100%
Fisher-Price, S.r.l.	Italy	100%
Mattel A.E.B.E.	Greece	100%
Mattel A.G.	Switzerland	100%
Mattel Manufacturing Europe, S.r.l.	Italy	100%
Mattel Japan Limited	Japan	100%
Mattel (K.L.) Sdn.Bhd.	Malaysia	100%
Mattel (Malaysia) Sdn.Bhd.	Malaysia	100%
Mattel Media, Inc.	Delaware	100%
Mattel (NZ) Limited	New Zealand	100%
Mattel Operations, Inc.	Delaware	100%

Mattel Overseas, Inc.	California	100%
Mattel Toys Vendor Operations Limited	Hong Kong	100%
Mattel Polska Sp. Z.O.O.	Poland	100%
Mattel Pty. Limited	Australia	100%
Mattel Realty Corporation	Delaware	100%
Mattel Servicios, S.A. de C.V.	Mexico	100%
Mattel Sales Corp.	California	100%
Mattel Scandinavia A/S	Denmark	100%
Mattel Southeast Asia Pte. Ltd.	Singapore	100%
Mattel Specialty, Inc.	Delaware	100%
Mattel Tools Sdn.Bhd.	Malaysia	100%
Mattel Taiwan Corporation	Taiwan	100%
Mattel de Venezuela, C.A.	Venezuela	100%
Montoi S.A. de C.V.	Mexico	100%
Precision Moulds Limited	Hong Kong	100%

1

All of the subsidiaries listed above are included in the Consolidated Financial Statements. Twenty are not named because, when considered in the aggregate, they do not constitute a significant subsidiary. Furthermore, approximately seven subsidiaries are inactive and financial statements are not prepared for such companies.

2

Parent refers to Mattel, Inc. (a Delaware corporation) and excludes Directors' qualifying shares.

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in each of the nine Registration Statements on Form S-8 (No. 33-54391, No. 33-52723, No. 33-14717, No. 33-51454, No. 33-34920, No. 33-57082, No. 33-62185, No. 333-01061 and No. 333-03385) and in the Prospectus constituting part of the Registration Statement on Form S-3 (No. 333-01307) of Mattel, Inc. and its subsidiaries of our report dated February 5, 1997, appearing on page 61 of the December 31, 1996 Annual Report to Shareholders which is incorporated by reference in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report on the Financial Statement Schedule, which appears on page 33 of the Company's Annual Report on Form 10-K.

/s/ PRICE WATERHOUSE LLP

Los Angeles, California
March 17, 1997

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM MATTEL INC.'S BALANCE SHEETS AND INCOME STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

	YEAR
	DEC-31-1996
	DEC-31-1996
	500,625
	0
	746,661
	14,354
	372,686
	1,770,841
	872,773
	293,160
	2,893,522
960,368	
	374,889
	279,058
	0
	0
	1,168,729
2,893,522	
	3,785,958
3,785,958	
	1,877,335
	1,877,335
1,287,353	
	0
75,529	
	545,741
	168,100
377,641	
	0
	0
	0
	377,641
	1.36
	1.36

Notes -

Per share data reflects the effects of a five-for-four stock split distributed to shareholders in March 1996. Previously submitted financial data schedules have not been restated for this recapitalization.

Fully diluted earnings per share for the year ended December 31, 1996 has been submitted in accordance with Regulation S-K, Item 601 (b)(11), although it is not required by footnote 2 to paragraph 14 of APB Opinion No. 15 because it results in dilution of less than 3%.