

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended **March 31, 2021**

or

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

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

333 Continental Blvd.
El Segundo, CA
(Address of principal executive offices)

90245-5012
(Zip Code)

(310) 252-2000
(Registrant's telephone number, including area code)

NONE
(Former name, former address and former fiscal year, if changed since last report):

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common stock, \$1.00 per share	MAT	The Nasdaq Global Select Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Number of shares outstanding of registrant's common stock, \$1.00 par value, as of April 19, 2021: 348,775,829 shares

MATTEL, INC. AND SUBSIDIARIES

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

Mattel is including this Cautionary Statement to caution investors and qualify for the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (the "Act") for forward-looking statements. This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of the Act. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. The use of words such as "anticipates," "expects," "intends," "plans," "confident that," and "believes," among others, generally identify forward-looking statements. These forward-looking statements are based on currently available operating, financial, economic, and other information and assumptions, and are subject to a number of significant risks and uncertainties. A variety of factors, many of which are beyond our control, could cause actual future results to differ materially from those projected in the forward-looking statements, and are currently, and in the future may be, amplified by the COVID-19 pandemic. Specific factors that might cause such a difference include, but are not limited to: (i) potential impacts of and uncertainty regarding the COVID-19 pandemic (and actions taken in response to it by governments, businesses, and individuals) on our business operations, financial results and financial position and on the global economy, including its impact on our sales; (ii) Mattel's ability to design, develop, produce, manufacture, source, ship, and distribute products on a timely and cost-effective basis; (iii) sufficient interest in and demand for the products and entertainment we offer by retail customers and consumers to profitably recover Mattel's costs; (iv) downturns in economic conditions affecting Mattel's markets which can negatively impact retail customers and consumers, and which can result in lower employment levels and lower consumer disposable income and spending, including lower spending on purchases of Mattel's products; (v) other factors which can lower discretionary consumer spending, such as higher costs for fuel and food, drops in the value of homes or other consumer assets, and high levels of consumer debt; (vi) potential difficulties or delays Mattel may experience in implementing cost savings and efficiency enhancing initiatives; (vii) other economic and public health conditions or regulatory changes in the markets in which Mattel and its customers and suppliers operate, which could create delays or increase Mattel's costs, such as higher commodity prices, labor costs or transportation costs, or outbreaks of disease; (viii) currency fluctuations, including movements in foreign exchange rates, which can lower Mattel's net revenues and earnings, and significantly impact Mattel's costs; (ix) the concentration of Mattel's customers, potentially increasing the negative impact to Mattel of difficulties experienced by any of Mattel's customers, such as bankruptcies or liquidations or a general lack of success, or changes in their purchasing or selling patterns; (x) the inventory policies of Mattel's retail customers, as well as the concentration of Mattel's revenues in the second half of the year, which coupled with reliance by retailers on quick response inventory management techniques increases the risk of underproduction, overproduction, and shipping delays; (xi) legal, reputational, and financial risks related to security breaches or cyberattacks; (xii) work disruptions, which may impact Mattel's ability to manufacture or deliver product in a timely and cost-effective manner; (xiii) the impact of competition on revenues, margins, and other aspects of Mattel's business, including the ability to offer products which consumers choose to buy instead of competitive products, the ability to secure, maintain, and renew popular licenses from licensors of entertainment properties, and the ability to attract and retain talented employees; (xiv) the risk of product recalls or product liability suits and costs associated with product safety regulations; (xv) changes in laws or regulations in the United States and/or in other major markets, such as China, in which Mattel operates, including, without limitation, with respect to taxes, tariffs, trade policies, or product safety, which may increase Mattel's product costs and other costs of doing business, and reduce Mattel's earnings; (xvi) failure to realize the planned benefits from any investments or acquisitions made by Mattel; (xvii) the impact of other market conditions or third party actions or approvals, including that result in any significant failure, inadequacy, or interruption from vendors or outsourcers, which could reduce demand for Mattel's products, delay or increase the cost of implementation of Mattel's programs, or alter Mattel's actions and reduce actual results; (xviii) changes in financing markets or the inability of Mattel to obtain financing on attractive terms; (xix) the impact of litigation, arbitration, or regulatory decisions or settlement actions; (xx) uncertainty from the expected discontinuance of LIBOR and transition to any other interest rate benchmark; and (xxi) other risks and uncertainties detailed in Part I, Item 1A "Risk Factors" in Mattel's 2020 Annual Report on Form 10-K (the "2020 Annual Report on Form 10-K"). Mattel does not update forward-looking statements and expressly disclaims any obligation to do so, except as required by law.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

MATTEL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 2021	March 31, 2020	December 31, 2020
(Unaudited; in thousands, except share data)			
ASSETS			
Current Assets			
Cash and equivalents	\$ 615,238	\$ 499,407	\$ 762,181
Accounts receivable, net of allowances for credit losses of \$13.1 million, \$20.9 million and \$15.9 million, respectively	680,642	528,522	1,033,966
Inventories	609,835	560,645	514,673
Prepaid expenses and other current assets	187,186	218,516	172,070
Total current assets	<u>2,092,901</u>	<u>1,807,090</u>	<u>2,482,890</u>
Noncurrent Assets			
Property, plant, and equipment, net	451,001	519,777	473,794
Right-of-use assets, net	294,819	298,288	291,601
Goodwill	1,392,289	1,382,852	1,393,834
Other noncurrent assets	871,306	796,345	878,970
Total Assets	<u>\$ 5,102,316</u>	<u>\$ 4,804,352</u>	<u>\$ 5,521,089</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Short-term borrowings	\$ 878	\$ 150,000	\$ 969
Accounts payable	361,902	306,440	495,363
Accrued liabilities	689,686	657,254	831,922
Income taxes payable	30,106	12,290	27,125
Total current liabilities	<u>1,082,572</u>	<u>1,125,984</u>	<u>1,355,379</u>
Noncurrent Liabilities			
Long-term debt	2,837,732	2,848,924	2,854,664
Noncurrent lease liabilities	255,670	262,631	249,353
Other noncurrent liabilities	452,411	408,930	465,350
Total noncurrent liabilities	<u>3,545,813</u>	<u>3,520,485</u>	<u>3,569,367</u>
Stockholders' Equity			
Common stock \$1.00 par value, 1.0 billion shares authorized; 441.4 million shares issued	441,369	441,369	441,369
Additional paid-in capital	1,836,958	1,836,067	1,842,680
Treasury stock at cost: 92.6 million shares, 94.5 million shares and 93.2 million shares, respectively	(2,267,961)	(2,316,110)	(2,282,939)
Retained earnings	1,424,591	1,202,440	1,539,809
Accumulated other comprehensive loss	(961,026)	(1,005,883)	(944,576)
Total stockholders' equity	<u>473,931</u>	<u>157,883</u>	<u>596,343</u>
Total Liabilities and Stockholders' Equity	<u>\$ 5,102,316</u>	<u>\$ 4,804,352</u>	<u>\$ 5,521,089</u>

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

MATTEL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended	
	March 31, 2021	March 31, 2020
	(Unaudited; in thousands, except per share amounts)	
Net Sales	\$ 874,192	\$ 594,069
Cost of sales	465,188	338,886
Gross Profit	409,004	255,183
Advertising and promotion expenses	74,096	76,282
Other selling and administrative expenses	303,870	328,711
Operating Income (Loss)	31,038	(149,810)
Interest expense	130,482	48,980
Interest (income)	(820)	(2,084)
Other non-operating (income) expense, net	(1,086)	3,023
Loss Before Income Taxes	(97,538)	(199,729)
Provision for income taxes	20,305	11,892
Income from equity method investments	2,625	880
Net Loss	\$ (115,218)	\$ (210,741)
Net Loss Per Common Share - Basic	\$ (0.33)	\$ (0.61)
Weighted-average number of common shares	349,041	346,867
Net Loss Per Common Share - Diluted	\$ (0.33)	\$ (0.61)
Weighted-average number of common and potential common shares	349,041	346,867

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

MATTEL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	For the Three Months Ended	
	March 31, 2021	March 31, 2020
	(Unaudited; in thousands)	
Net Loss	\$ (115,218)	\$ (210,741)
Other Comprehensive Loss, Net of Tax		
Currency translation adjustments	(28,133)	(145,634)
Employee benefit plan adjustments	2,348	3,060
Net unrealized gains on available-for-sale security	1,964	195
Net unrealized gains on derivative instruments:		
Unrealized holding gains	4,057	9,190
Reclassification adjustments included in net loss	3,314	(3,210)
	<u>7,371</u>	<u>5,980</u>
Other Comprehensive Loss, Net of Tax	<u>(16,450)</u>	<u>(136,399)</u>
Comprehensive Loss	<u>\$ (131,668)</u>	<u>\$ (347,140)</u>

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

MATTEL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended	
	March 31, 2021	March 31, 2020
(Unaudited; in thousands)		
Cash Flows From Operating Activities:		
Net Loss	\$ (115,218)	\$ (210,741)
Adjustments to reconcile net loss to net cash flows used for operating activities:		
Depreciation	36,533	43,654
Amortization	9,514	9,965
Share-based compensation	15,112	14,275
Bad debt expense	237	5,248
Inventory obsolescence	10,892	10,190
Deferred income taxes	1,851	5,210
Income from equity method investments	(2,625)	(880)
Loss on extinguishment of long-term borrowings	83,213	—
(Gain) loss on sale of assets/business, net	(19,735)	1,580
Changes in assets and liabilities:		
Accounts receivable	338,305	365,002
Inventories	(135,103)	(109,938)
Prepaid expenses and other current assets	(12,943)	(16,343)
Accounts payable, accrued liabilities, and income taxes payable	(262,635)	(316,291)
Other, net	11,369	24,580
Net cash flows used for operating activities	(41,233)	(174,489)
Cash Flows From Investing Activities:		
Purchases of tools, dies, and molds	(18,171)	(11,363)
Purchases of other property, plant, and equipment	(12,119)	(23,943)
Payments of foreign currency forward exchange contracts, net	(3,245)	(46,565)
Proceeds from sale of assets/business	39,208	738
Other, net	653	(24)
Net cash flows provided by (used for) investing activities	6,326	(81,157)
Cash Flows From Financing Activities:		
(Payments of) proceeds from short-term borrowings, net	(91)	150,000
Payments of long-term borrowings	(1,287,022)	—
Proceeds from long-term borrowings, net	1,188,000	—
Other, net	(6,592)	(678)
Net cash flows (used for) provided by financing activities	(105,705)	149,322
Effect of Currency Exchange Rate Changes on Cash and Equivalents	(6,331)	(24,297)
Decrease in Cash and Equivalents	(146,943)	(130,621)
Cash and Equivalents at Beginning of Period	762,181	630,028
Cash and Equivalents at End of Period	\$ 615,238	\$ 499,407

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

MATTEL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
(Unaudited; in thousands)						
Balance, December 31, 2020	\$ 441,369	\$ 1,842,680	\$ (2,282,939)	\$ 1,539,809	\$ (944,576)	\$ 596,343
Net loss	—	—	—	(115,218)	—	(115,218)
Other comprehensive loss, net of tax	—	—	—	—	(16,450)	(16,450)
Issuance of treasury stock for stock option exercises	—	(803)	1,913	—	—	1,110
Issuance of treasury stock for restricted stock units vesting	—	(20,031)	13,065	—	—	(6,966)
Share-based compensation	—	15,112	—	—	—	15,112
Balance, March 31, 2021	<u>\$ 441,369</u>	<u>\$ 1,836,958</u>	<u>\$ (2,267,961)</u>	<u>\$ 1,424,591</u>	<u>\$ (961,026)</u>	<u>\$ 473,931</u>

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
(Unaudited; in thousands)						
Balance, December 31, 2019	\$ 441,369	\$ 1,825,569	\$ (2,318,921)	\$ 1,413,181	\$ (869,484)	\$ 491,714
Net loss	—	—	—	(210,741)	—	(210,741)
Other comprehensive loss, net of tax	—	—	—	—	(136,399)	(136,399)
Issuance of treasury stock for restricted stock units vesting	—	(3,777)	2,811	—	—	(966)
Share-based compensation	—	14,275	—	—	—	14,275
Balance, March 31, 2020	<u>\$ 441,369</u>	<u>\$ 1,836,067</u>	<u>\$ (2,316,110)</u>	<u>\$ 1,202,440</u>	<u>\$ (1,005,883)</u>	<u>\$ 157,883</u>

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

MATTEL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements and related disclosures have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") applicable to interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. In the opinion of management, all adjustments, consisting of only those of a normal recurring nature, considered necessary for a fair statement of the financial position and interim results of Mattel, Inc. and its subsidiaries ("Mattel") as of and for the periods presented have been included.

The December 31, 2020 balance sheet data was derived from audited financial statements; however, the accompanying interim notes to the consolidated financial statements do not include all of the annual disclosures required by GAAP. As Mattel's business is seasonal, results for interim periods are not necessarily indicative of those that may be expected for a full year. The financial information included herein should be read in conjunction with Mattel's consolidated financial statements and related notes in the 2020 Annual Report on Form 10-K.

Certain prior period amounts have been reclassified to conform to the current period presentation.

2. Accounts Receivable

Mattel estimates current expected credit losses based on collection history and management's assessment of the current economic trends, business environment, customers' financial condition, accounts receivable aging, and customer disputes that may impact the level of future credit losses. Accounts receivable are net of allowances for credit losses of \$13.1 million, \$20.9 million, and \$15.9 million as of March 31, 2021, March 31, 2020, and December 31, 2020, respectively.

3. Inventories

Inventories include the following:

	March 31, 2021	March 31, 2020	December 31, 2020
	(In thousands)		
Raw materials and work in process	\$ 119,417	\$ 107,880	\$ 110,010
Finished goods	490,418	452,765	404,663
	<u>\$ 609,835</u>	<u>\$ 560,645</u>	<u>\$ 514,673</u>

4. Property, Plant, and Equipment

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

	March 31, 2021	March 31, 2020	December 31, 2020
	(In thousands)		
Land	\$ 22,029	\$ 24,856	\$ 24,913
Buildings	312,114	297,910	335,407
Machinery and equipment	764,276	769,761	772,349
Software	345,477	367,143	344,268
Tools, dies, and molds	603,817	719,615	607,915
Leasehold improvements	119,828	179,872	131,578
	<u>2,167,541</u>	<u>2,359,157</u>	<u>2,216,430</u>
Less: accumulated depreciation	<u>(1,716,540)</u>	<u>(1,839,380)</u>	<u>(1,742,636)</u>
	<u>\$ 451,001</u>	<u>\$ 519,777</u>	<u>\$ 473,794</u>

During the three months ended March 31, 2021, Mattel completed the sale of a manufacturing plant based in Mexico, which included land and buildings, resulting in a pre-tax gain of \$15.8 million. The assets sold were previously designated as held for sale, and included within property, plant, and equipment, net in the consolidated balance sheets as of December 31, 2020 and March 31, 2020.

5. Goodwill

Goodwill is allocated to various reporting units, which are at the operating segment level, for the purpose of evaluating whether goodwill is impaired. Mattel's reporting units are: (i) North America, (ii) International, and (iii) American Girl. Components of the operating segments have been aggregated into a single reporting unit as the components have similar economic characteristics. The similar economic characteristics include the nature of the products, the nature of the production processes, the customers, and the manner in which the products are distributed. Mattel tests its goodwill for impairment annually in the third quarter and whenever events or changes in circumstances indicate that the carrying value of a reporting unit may exceed its fair value.

The change in the carrying amount of goodwill by operating segment for the three months ended March 31, 2021 is shown below. Brand-specific goodwill held by foreign subsidiaries is allocated to the North America segment, thereby causing a foreign currency translation impact. During the three months ended March 31, 2021, Mattel sold its arts, crafts, and stationery business resulting in a reduction of goodwill of approximately \$2 million.

	December 31, 2020	Dispositions	Currency Exchange Rate Impact	March 31, 2021
	(In thousands)			
North America	\$ 733,401	\$ (1,290)	\$ 259	\$ 732,370
International	452,862	(1,056)	542	452,348
American Girl	207,571	—	—	207,571
	<u>\$ 1,393,834</u>	<u>\$ (2,346)</u>	<u>\$ 801</u>	<u>\$ 1,392,289</u>

6. Other Noncurrent Assets

Other noncurrent assets include the following:

	March 31, 2021	March 31, 2020	December 31, 2020
	(In thousands)		
Identifiable intangible assets (net of accumulated amortization of \$296.4 million, \$258.0 million, and \$286.9 million, respectively)	\$ 509,844	\$ 534,044	\$ 518,190
Deferred income taxes	71,157	62,674	72,682

Mattel's amortizable intangible assets primarily consist of trademarks. Mattel tests its amortizable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Mattel's amortizable intangible assets were not impaired during the three months ended March 31, 2021 and 2020.

7. Accrued Liabilities

Accrued liabilities include the following:

	March 31, 2021	March 31, 2020	December 31, 2020
	(In thousands)		
Incentive compensation	\$ 143,414	\$ 135,833	\$ 126,601
Advertising and promotion	78,755	71,563	163,181
Current lease liabilities	73,155	78,247	79,540
Royalties	24,191	22,701	54,442

On March 19, 2021, Mattel issued (i) \$600 million aggregate principal amount of 3.375% Senior Notes due 2026 (the "2026 Notes") and (ii) \$600 million aggregate principal amount of 3.750% Senior Notes due 2029 (the "2029 Notes" and, together with the 2026 Notes, the "Notes"). The 2026 Notes will mature on April 1, 2026 and the 2029 Notes will mature on April 1, 2029, unless earlier redeemed in accordance with their respective terms. The Notes are guaranteed by Mattel's existing and, subject to certain exceptions, future wholly owned domestic restricted subsidiaries that guarantee Mattel's senior secured revolving credit facilities or certain other indebtedness.

The net proceeds from the offering, together with cash on hand, were used to redeem \$1,225 million in aggregate principal amount of Mattel's outstanding 6.750% Senior Notes due December 2025 (the "2025 Notes") and pay related prepayment premiums and transaction fees and expenses. As a result of the partial redemption of the 2025 Notes, Mattel incurred a loss on extinguishment of \$83.2 million, comprised of \$62.0 million of prepayment premium costs and a \$21.2 million write-off of the unamortized debt issuance costs, which was recorded within interest expense in the consolidated statements of operations. Following completion of the partial redemption of the 2025 Notes, \$275 million aggregate principal amount of the 2025 Notes remains outstanding.

10. Other Noncurrent Liabilities

Other noncurrent liabilities include the following:

	March 31, 2021	March 31, 2020	December 31, 2020
	(In thousands)		
Benefit plan liabilities	\$ 221,345	\$ 205,694	\$ 225,957
Noncurrent income tax payable	72,252	70,902	71,342
Deferred income tax liability	60,929	54,896	60,892

11. Accumulated Other Comprehensive Income (Loss)

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

	For the Three Months Ended March 31, 2021				
	Derivative Instruments	Available-for-Sale Security	Employee Benefit Plans	Currency Translation Adjustments	Total
	(In thousands)				
Accumulated Other Comprehensive Loss, Net of Tax, as of December 31, 2020	\$ (15,369)	\$ (7,522)	\$ (186,854)	\$ (734,831)	\$ (944,576)
Other comprehensive income (loss) before reclassifications	4,057	1,964	(67)	(28,133)	(22,179)
Amounts reclassified from accumulated other comprehensive loss	3,314	—	2,415	—	5,729
Net increase (decrease) in other comprehensive income (loss)	7,371	1,964	2,348	(28,133)	(16,450)
Accumulated Other Comprehensive Loss, Net of Tax, as of March 31, 2021	<u>\$ (7,998)</u>	<u>\$ (5,558)</u>	<u>\$ (184,506)</u>	<u>\$ (762,964)</u>	<u>\$ (961,026)</u>

	For the Three Months Ended March 31, 2020				
	Derivative Instruments	Available-for-Sale Security	Employee Benefit Plans	Currency Translation Adjustments	Total
	(In thousands)				
Accumulated Other Comprehensive Income (Loss), Net of Tax, as of December 31, 2019	\$ 11,041	\$ (8,260)	\$ (169,857)	\$ (702,408)	\$ (869,484)
Other comprehensive income (loss) before reclassifications	9,190	195	1,702	(145,634)	(134,547)
Amounts reclassified from accumulated other comprehensive loss	(3,210)	—	1,358	—	(1,852)
Net increase (decrease) in other comprehensive income (loss)	5,980	195	3,060	(145,634)	(136,399)
Accumulated Other Comprehensive Income (Loss), Net of Tax, as of March 31, 2020	<u>\$ 17,021</u>	<u>\$ (8,065)</u>	<u>\$ (166,797)</u>	<u>\$ (848,042)</u>	<u>\$ (1,005,883)</u>

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

	For the Three Months Ended		Statements of Operations Classification
	March 31, 2021	March 31, 2020	
	(In thousands)		
Derivative Instruments			
(Loss) gain on foreign currency forward exchange and other contracts	\$ (3,206)	\$ 3,193	Cost of sales
Tax effect of net (loss) gain	(108)	17	Provision for income taxes
	<u>\$ (3,314)</u>	<u>\$ 3,210</u>	Net loss
Employee Benefit Plans			
Amortization of prior service credit (a)	\$ 398	\$ 466	Other non-operating income/expense, net
Recognized actuarial loss (a)	(2,783)	(2,340)	Other non-operating income/expense, net
	(2,385)	(1,874)	
Tax effect of net (loss) gain	(30)	516	Provision for income taxes
	<u>\$ (2,415)</u>	<u>\$ (1,358)</u>	Net loss

(a) The amortization of prior service credit and recognized actuarial loss are included in the computation of net periodic benefit cost. Refer to "Note 16 to the Consolidated Financial Statements—Employee Benefit Plans" of this Quarterly Report on Form 10-Q for additional information regarding Mattel's net periodic benefit cost.

Currency Translation Adjustments

Mattel's reporting currency is the U.S. dollar. The translation of its net investments in subsidiaries with non-U.S. dollar functional currencies subjects Mattel to the impact of foreign currency exchange rate fluctuations in its results of operations and financial position. Assets and liabilities of subsidiaries with non-U.S. dollar functional currencies are translated into U.S. dollars at fiscal period-end exchange rates. Income and expense items are translated at weighted-average exchange rates prevailing during the fiscal period. The resulting currency translation adjustments are recorded as a component of accumulated other comprehensive loss within stockholders' equity. Currency translation adjustments resulted in a net loss of \$28.1 million for the three months ended March 31, 2021, primarily due to the weakening of the Brazilian real, Mexican peso, Euro, and Turkish lira against the U.S. dollar. Currency translation adjustments resulted in a net loss of \$145.6 million for the three months ended March 31, 2020, primarily due to the weakening of the Mexican peso, Russian ruble, Brazilian real, and British pound sterling against the U.S. dollar.

12. Foreign Currency Transaction Exposure

Currency exchange rate fluctuations may impact Mattel's results of operations and cash flows. Mattel's currency transaction exposures include gains and losses realized on unhedged inventory purchases and unhedged receivables and payables balances that are denominated in a currency other than the applicable functional currency. Gains and losses on unhedged inventory purchases and other transactions associated with operating activities are recorded in the components of operating income (loss) in the consolidated statements of operations. Gains and losses on unhedged intercompany loans and advances are recorded as a component of other non-operating (income) expense, net in the consolidated statements of operations in the period in which the currency exchange rate changes. Inventory transactions denominated in the Euro, Mexican peso, Australian dollar, British pound sterling, Canadian dollar, Russian ruble, and Brazilian real were the primary transactions that caused foreign currency transaction exposure for Mattel during the three months ended March 31, 2021.

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

	For the Three Months Ended		Statements of Operations Classification
	March 31, 2021	March 31, 2020	
	(In thousands)		
Currency transaction (losses) gains	\$ (13,791)	\$ 224	Operating income/loss
Currency transaction (losses)	(3,308)	(832)	Other non-operating income/expense, net
Currency transaction (losses), net	<u>\$ (17,099)</u>	<u>\$ (608)</u>	

13. Derivative Instruments

Mattel seeks to mitigate its exposure to foreign currency transaction risk by monitoring its foreign currency transaction exposure for the year and partially hedging such exposure using foreign currency forward exchange contracts. Mattel uses foreign currency forward exchange contracts as cash flow hedges primarily to hedge its purchases and sales of inventory denominated in foreign currencies. These contracts generally have maturity dates of up to 18 months. These derivative instruments have been designated as effective cash flow hedges, whereby the unsettled hedges are reported in Mattel's consolidated balance sheets at fair value, with changes in the fair value of the hedges reflected in other comprehensive income (loss) ("OCI"). Realized gains and losses for these contracts are recorded in the consolidated statements of operations in the period in which the inventory is sold to customers. Mattel uses foreign currency forward exchange contracts to hedge intercompany loans and advances denominated in foreign currencies. Due to the short-term nature of the contracts involved, Mattel does not use hedge accounting for these contracts, and as such, changes in fair value are recorded in the period of change in the consolidated statements of operations. Mattel utilizes derivative contracts to hedge certain purchases of commodities, which were not material. As of March 31, 2021, March 31, 2020, and December 31, 2020, Mattel held foreign currency forward exchange contracts and other commodity derivative instruments, with notional amounts of \$951.5 million, \$1.37 billion, and \$855.0 million, respectively.

The following tables present Mattel's derivative assets and liabilities:

		Derivative Assets		
		Fair Value		
Balance Sheet Classification		March 31, 2021	March 31, 2020	December 31, 2020
		(In thousands)		
Derivatives designated as hedging instruments				
Foreign currency forward exchange and other contracts	Prepaid expenses and other current assets	\$ 4,534	\$ 21,121	\$ 3,641
Foreign currency forward exchange and other contracts	Other noncurrent assets	1,250	2,525	50
Total derivatives designated as hedging instruments		\$ 5,784	\$ 23,646	\$ 3,691
Derivatives not designated as hedging instruments				
Foreign currency forward exchange and other contracts	Prepaid expenses and other current assets	\$ 2,050	\$ 13,811	\$ 1,982
Foreign currency forward exchange and other contracts	Other noncurrent assets	—	—	38
Total derivatives not designated as hedging instruments		\$ 2,050	\$ 13,811	\$ 2,020
		\$ 7,834	\$ 37,457	\$ 5,711

		Derivative Liabilities		
		Fair Value		
Balance Sheet Classification		March 31, 2021	March 31, 2020	December 31, 2020
		(In thousands)		
Derivatives designated as hedging instruments				
Foreign currency forward exchange and other contracts	Accrued liabilities	\$ 11,009	\$ 6,841	\$ 20,330
Foreign currency forward exchange and other contracts	Other noncurrent liabilities	808	2,507	4,361
Total derivatives designated as hedging instruments		\$ 11,817	\$ 9,348	\$ 24,691
Derivatives not designated as hedging instruments				
Foreign currency forward exchange and other contracts	Accrued liabilities	\$ 5,487	\$ 1,594	\$ 803
Foreign currency forward exchange and other contracts	Other noncurrent liabilities	—	224	—
Total derivatives not designated as hedging instruments		\$ 5,487	\$ 1,818	\$ 803
		\$ 17,304	\$ 11,166	\$ 25,494

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

	<u>Derivatives Designated As Hedging Instruments</u>		<u>Statements of Operations Classification</u>
	<u>For the Three Months Ended</u>		
	<u>March 31, 2021</u>	<u>March 31, 2020</u>	
	(In thousands)		
Foreign currency forward exchange contracts:			
Amount of gains recognized in OCI	\$ 4,057	\$ 9,190	
Amount of (losses) gains reclassified from accumulated OCI to consolidated statements of operations	(3,314)	3,210	Cost of sales

The net (losses) gains reclassified from accumulated other comprehensive loss to the consolidated statements of operations during the three months ended March 31, 2021 and 2020, respectively, were offset by the changes in cash flows associated with the underlying hedged transactions.

	<u>Derivatives Not Designated As Hedging Instruments</u>		<u>Statements of Operations Classification</u>
	<u>For the Three Months Ended</u>		
	<u>March 31, 2021</u>	<u>March 31, 2020</u>	
	(In thousands)		
Amount of net loss recognized in the Statements of Operations			
Foreign currency forward exchange and other contract (losses)	\$ (8,636)	\$ (38,369)	Other non-operating income/expense, net
Foreign currency forward exchange and other contract gains	639	—	Cost of sales
	<u>\$ (7,997)</u>	<u>\$ (38,369)</u>	

The net losses recognized in the consolidated statements of operations during the three months ended March 31, 2021 and 2020, respectively, were offset by foreign currency transaction gains and losses on the related hedged balances.

14. Fair Value Measurements

The following tables present information about Mattel's assets and liabilities measured and reported in the financial statements at fair value on a recurring basis as of March 31, 2021, March 31, 2020, and December 31, 2020 and indicate the fair value hierarchy of the valuation techniques utilized to determine such fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.
- Level 2 – Valuations based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities, either directly or indirectly.
- Level 3 – Valuations based on inputs that are unobservable, supported by little or no market activity, and that are significant to the fair value of the assets or liabilities.

Mattel's financial assets and liabilities include the following:

		March 31, 2021			
		Level 1	Level 2	Level 3	Total
		(In thousands)			
Assets:					
Foreign currency forward exchange contracts and other (a)	\$	—	\$ 7,834	\$ —	\$ 7,834
Available-for-sale (b)		6,232	—	—	6,232
Total assets	\$	6,232	\$ 7,834	\$ —	\$ 14,066
Liabilities:					
Foreign currency forward exchange contracts and other (a)	\$	—	\$ 17,304	\$ —	\$ 17,304
		March 31, 2020			
		Level 1	Level 2	Level 3	Total
		(In thousands)			
Assets:					
Foreign currency forward exchange contracts and other (a)	\$	—	\$ 37,457	\$ —	\$ 37,457
Available-for-sale (b)		3,725	—	—	3,725
Total assets	\$	3,725	\$ 37,457	\$ —	\$ 41,182
Liabilities:					
Foreign currency forward exchange contracts and other (a)	\$	—	\$ 11,166	\$ —	\$ 11,166
		December 31, 2020			
		Level 1	Level 2	Level 3	Total
		(In thousands)			
Assets:					
Foreign currency forward exchange contracts and other (a)	\$	—	\$ 5,711	\$ —	\$ 5,711
Available-for-sale (b)		4,268	—	—	4,268
Total assets	\$	4,268	\$ 5,711	\$ —	\$ 9,979
Liabilities:					
Foreign currency forward exchange contracts and other (a)	\$	—	\$ 25,494	\$ —	\$ 25,494

- (a) The fair value of the foreign currency forward exchange contracts and other commodity derivative instruments is based on dealer quotes of market forward rates and reflects the amount that Mattel would receive or pay at their maturity dates for contracts involving the same notional amounts, currencies, and maturity dates.
- (b) The fair value of the available-for-sale security is based on the quoted price on an active public exchange.

Other Financial Instruments

Mattel's financial instruments include cash and equivalents, accounts receivable and payable, accrued liabilities, short-term borrowings, and long-term debt. The fair values of these instruments, excluding long-term debt, approximate their carrying values because of their short-term nature. Cash and equivalents are classified as Level 1 and all other financial instruments are classified as Level 2 within the fair value hierarchy.

The estimated fair value of Mattel's long-term debt was \$3.05 billion (compared to a carrying value of \$2.88 billion) as of March 31, 2021, \$2.77 billion (compared to a carrying value of \$2.90 billion) as of March 31, 2020, and \$3.11 billion (compared to a carrying value of \$2.90 billion) as of December 31, 2020. The estimated fair values have been calculated based on broker quotes or rates for the same or similar instruments and are classified as Level 2 within the fair value hierarchy.

15. Earnings Per Share

The following table reconciles basic and diluted earnings per common share for the three months ended March 31, 2021 and 2020:

	For the Three Months Ended	
	March 31, 2021	March 31, 2020
	(In thousands, except per share amounts)	
Basic:		
Net loss	\$ (115,218)	\$ (210,741)
Weighted-average number of common shares	349,041	346,867
Basic net loss per common share	<u>\$ (0.33)</u>	<u>\$ (0.61)</u>
Diluted:		
Net loss	\$ (115,218)	\$ (210,741)
Weighted-average number of common shares	349,041	346,867
Dilutive stock options and restricted stock units ("RSUs") (a)	—	—
Weighted-average number of common and potential common shares	<u>349,041</u>	<u>346,867</u>
Diluted net loss per common share	<u>\$ (0.33)</u>	<u>\$ (0.61)</u>

(a) Mattel was in a net loss position for the three months ended March 31, 2021 and 2020, and, accordingly, all outstanding nonqualified stock options and RSUs were excluded from the calculation of diluted net loss per common share because their effect would be antidilutive.

16. Employee Benefit Plans

Mattel and certain of its subsidiaries have qualified and nonqualified retirement plans covering substantially all employees of these companies, which are more fully described in Part II, Item 8 "Financial Statements and Supplementary Data—Note 4 to the Consolidated Financial Statements—Employee Benefit Plans" in the 2020 Annual Report on Form 10-K.

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

	For the Three Months Ended	
	March 31, 2021	March 31, 2020
	(In thousands)	
Service cost	\$ 1,293	\$ 1,109
Interest cost	2,540	3,781
Expected return on plan assets	(4,627)	(4,921)
Amortization of prior service cost	111	43
Recognized actuarial loss	2,785	2,359
	<u>\$ 2,102</u>	<u>\$ 2,371</u>

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

	For the Three Months Ended	
	March 31, 2021	March 31, 2020
	(In thousands)	
Interest cost	\$ 19	\$ 35
Amortization of prior service credit	(509)	(509)
Recognized actuarial gain	(2)	(19)
	<u>\$ (492)</u>	<u>\$ (493)</u>

During the three months ended March 31, 2021, Mattel made cash contributions totaling approximately \$1 million related to its defined benefit pension and postretirement benefit plans. During the remainder of 2021, Mattel expects to make additional cash contributions of approximately \$16 million.

17. Share-Based Payments

Mattel has various stock compensation plans, which are more fully described in Part II, Item 8 "Financial Statements and Supplementary Data—Note 8 to the Consolidated Financial Statements—Share-Based Payments" in the 2020 Annual Report on Form 10-K. Under the Mattel, Inc. Amended and Restated 2010 Equity and Long-Term Compensation Plan, Mattel has the ability to grant nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, RSUs, performance awards, dividend equivalent rights, and shares of common stock to officers, employees, and other persons providing services to Mattel. Stock options are granted with exercise prices at the fair market value of Mattel's common stock on the applicable grant date and expire no later than ten years from the date of grant. Stock options, RSUs, and performance awards generally provide for vesting over, or at the end of, a period of three years from the date of grant.

As of March 31, 2021, three long-term incentive programs were in place with the following performance cycles: (i) a January 1, 2019–December 31, 2021 performance cycle, (ii) a January 1, 2020–December 31, 2022 performance cycle, and (iii) a January 1, 2021–December 31, 2023 performance cycle.

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

	For the Three Months Ended	
	March 31, 2021	March 31, 2020
	(In thousands)	
Stock option compensation expense	\$ 2,783	\$ 3,131
RSU compensation expense	6,357	7,361
Performance award compensation expense	5,972	3,783
	\$ 15,112	\$ 14,275

As of March 31, 2021, total unrecognized compensation expense related to unvested share-based payments totaled \$79.0 million and is expected to be recognized over a weighted-average period of 2.0 years.

Mattel uses treasury shares purchased under its share repurchase program to satisfy stock option exercises and the vesting of RSUs and performance awards. For the three months ended March 31, 2021, cash received for stock option exercises was \$1.3 million. For the three months ended March 31, 2020, no cash was received for stock option exercises.

18. Other Selling and Administrative Expenses

Other selling and administrative expenses include the following:

	For the Three Months Ended	
	March 31, 2021	March 31, 2020
	(In thousands)	
Design and development	\$ 43,981	\$ 44,628
Identifiable intangible asset amortization	9,514	9,965

19. Restructuring Charges

Optimizing for Growth (formerly Capital Light)

On February 9, 2021, Mattel announced the Optimizing for Growth program, a multi-year cost savings program which integrates and expands upon the previously announced Capital Light program (the "Program").

In connection with the Program, Mattel recorded severance and other restructuring costs in the following cost and expense categories within the consolidated statements of operations:

	For the Three Months Ended	
	March 31, 2021	March 31, 2020
	(In thousands)	
Cost of sales (a)	\$ 1,932	\$ 3,057
Other selling and administrative expenses (b)	5,710	2,746
	<u>\$ 7,642</u>	<u>\$ 5,803</u>

- (a) Severance and other restructuring costs recorded within cost of sales in the consolidated statements of operations include charges associated with the consolidation of manufacturing facilities.
- (b) Severance and other restructuring costs recorded within other selling and administrative expenses in the consolidated statements of operations are included in corporate and other expense in "Note 22 to the Consolidated Financial Statements—Segment Information."

The following table summarizes Mattel's severance and other restructuring charges activity related to the Program for the three months ended March 31, 2021:

	Liability at December 31, 2020	Charges (a)	Payments/Utilization	Liability at March 31, 2021
	(In thousands)			
Severance	\$ 5,294	\$ 4,342	\$ (1,405)	\$ 8,231
Other restructuring charges	30	3,300	(3,071)	259
	<u>\$ 5,324</u>	<u>\$ 7,642</u>	<u>\$ (4,476)</u>	<u>\$ 8,490</u>

- (a) Other restructuring charges consist primarily of charges associated with the consolidation of manufacturing facilities.

As of March 31, 2021, Mattel has recorded cumulative severance and other restructuring charges related to the Program of approximately \$58 million, which include approximately \$17 million of non-cash charges. Furthermore, cumulatively, in conjunction with previous actions taken under the Program, total expected cash expenditures are approximately \$140 to \$165 million and total non-cash charges are \$40 to \$45 million.

During the three months ended March 31, 2021, in conjunction with the Program, Mattel completed the sale of a manufacturing plant based in Mexico, which included land and buildings, resulting in a pre-tax gain of \$15.8 million.

Other Cost Savings Actions

During the three months ended March 31, 2020, Mattel recorded severance charges of approximately \$5 million, primarily related to actions taken to further streamline its organizational structure.

20. Income Taxes

Mattel's provision for income taxes was \$20.3 million and \$11.9 million for the three months ended March 31, 2021 and 2020, respectively. During the three months ended March 31, 2021, Mattel recognized a net discrete tax expense of \$7.3 million, primarily related to income taxes recorded on a discrete basis in various jurisdictions and an expense for reassessments of prior year's tax liabilities. During the three months ended March 31, 2020, Mattel recognized a net discrete tax expense of \$6.4 million primarily related to an expense for reassessments of prior years' tax liabilities and income taxes recorded on a discrete basis in various jurisdictions. As a result of the establishment of a valuation allowance on U.S. deferred tax assets in 2017, there was no U.S. tax benefit provided for U.S. losses during the three months ended March 31, 2021 and 2020.

Evaluating the need for and the amount of a valuation allowance for deferred tax assets often requires significant judgment and extensive analysis of all available evidence to determine whether it is more-likely-than-not that these assets will be realized. Mattel maintains a valuation allowance on its deferred tax assets until there is sufficient evidence to support the release of all or some portion of these allowances. Release of the valuation allowance would result in the recognition of a portion of these deferred tax assets and a decrease to income tax expense for the period the release is recorded. However, the exact timing and amount, if any, of the valuation allowance release are subject to change depending on the level of earnings that Mattel is able to achieve in the tax jurisdictions in which a valuation allowance has been recorded.

In the normal course of business, Mattel is regularly audited by federal, state, and foreign tax authorities. Based on the current status of federal, state, and foreign audits, Mattel believes it is reasonably possible that in the next twelve months, the total unrecognized tax benefits could decrease by approximately \$31.6 million related to the settlement of tax audits and/or the expiration of statutes of limitations. The ultimate settlement of any particular issue with the applicable taxing authority could have a material impact on Mattel's consolidated financial statements.

21. Contingencies

Litigation Related to Yellowstone do Brasil Ltda.

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

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

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

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

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

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

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

Yellowstone also filed a special appeal with the Appeals Court in February 2015, which was made available to Mattel do Brasil on October 7, 2015. Yellowstone's special appeal sought to reverse the Appeals Court decision with respect to: (a) the limitation on Yellowstone's loss of profits claim to the amount requested in the complaint, instead of the amount contained in the first court-appointed experts report, and (b) the award of damages to Mattel do Brasil on the counterclaim, since the specific amount was not requested in Mattel do Brasil's counterclaim brief.

On October 19, 2015, Mattel do Brasil filed its answer to the special appeal filed by Yellowstone and Yellowstone filed its answer to the special appeal filed by Mattel do Brasil. On April 4, 2016, the Appeals Court rendered a decision denying the admissibility of Mattel's and Yellowstone's special appeals. On May 11, 2016, both Mattel and Yellowstone filed interlocutory appeals.

On August 31, 2017, the reporting justice for the Appeals Court denied Yellowstone's interlocutory appeal. As to Mattel, the reporting justice reversed the fine referenced above that had been previously imposed on Mattel for filing a motion for clarification. However, the reporting justice rejected Mattel's arguments on the merits of Yellowstone's damages claims. On September 22, 2017, Mattel filed a further appeal to the full panel of five appellate justices to challenge the merits of Yellowstone's damages claims. Yellowstone did not file a further appeal.

In April 2018, Mattel do Brasil entered into a settlement agreement to resolve this matter, but the settlement was later rejected by the courts, subject to a pending appeal by Mattel.

On October 2, 2018, the Appeals Court rejected Mattel's merits appeal, and affirmed the prior rulings in favor of Yellowstone. In October 2019, Mattel reached an agreement with Yellowstone's former counsel regarding payment of the attorney's fees portion of the judgment. In November 2019, Yellowstone initiated an action to enforce its judgment against Mattel, but did not account for an offset for Mattel's counterclaim. On January 27, 2020, Mattel obtained an injunction, staying Yellowstone's enforcement action pending resolution of Mattel's appeal to enforce the parties' April 2018 settlement. As of March 31, 2021, Mattel assessed its probable loss related to the Yellowstone matter and has accrued a reserve, which was not material.

Litigation Related to the Fisher-Price Rock 'n Play Sleeper

A number of putative class action lawsuits are pending against Fisher-Price, Inc. and/or Mattel, Inc. asserting claims for false advertising, negligent product design, breach of warranty, fraud, and other claims in connection with the marketing and sale of the Fisher-Price Rock 'n Play Sleeper (the "Sleeper"). In general, the lawsuits allege that the Sleeper should not have been marketed and sold as safe and fit for prolonged and overnight sleep for infants. The putative class action lawsuits propose nationwide and over 15 statewide consumer classes comprised of those who purchased the Sleeper as marketed as safe for prolonged and overnight sleep. The class actions have been consolidated before a single judge for pre-trial purposes pursuant to the federal courts' Multi-District Litigation program.

Forty-nine additional lawsuits are pending against Fisher-Price, Inc. and Mattel, Inc. alleging that a product defect in the Sleeper caused the fatalities of or injuries to fifty-three children. Additionally, Fisher-Price, Inc. and/or Mattel, Inc. have also received letters from lawyers purporting to represent additional plaintiffs who are threatening to assert similar claims.

In addition, a stockholder has filed a derivative action in the Court of Chancery for the State of Delaware (Kumar v. Bradley, et al., filed July 7, 2020) alleging breach of fiduciary duty and unjust enrichment related to the development, marketing, and sale of the Sleeper. The defendants in the derivative action are certain of Mattel's current and former officers and directors. In August 2020, the derivative action was stayed pending further developments in the class action lawsuits.

The lawsuits seek compensatory damages, punitive damages, statutory damages, restitution, disgorgement, attorneys' fees, costs, interest, declaratory relief, and/or injunctive relief. Mattel believes that the allegations in the lawsuits are without merit and intends to vigorously defend against them.

A reasonable estimate of the amount of any possible loss or range of loss cannot be made at this time.

Litigation and Investigations Related to Whistleblower Letter

In December 2019 and January 2020, two stockholders filed separate complaints styled as class actions against Mattel, Inc., and certain of its current and former officers, alleging violations of federal securities laws. The complaints rely on the results of an investigation announced by Mattel in October 2019 regarding allegations in a whistleblower letter and claim that Mattel misled the market in several of its financial statements beginning in the third quarter of 2017. The lawsuits allege that the defendants' conduct caused the plaintiff and other stockholders to purchase Mattel common stock at artificially inflated prices.

In addition, a stockholder has filed a derivative action in the United States District Court for the District of Delaware (Moher v. Kreiz, et al., filed April 9, 2020) making allegations that are substantially identical to, or are based upon, the allegations of the class action lawsuits. The defendants in the derivative action are certain of Mattel's current and former officers and directors, Mattel, Inc., and PricewaterhouseCoopers LLP. Subsequently, a nearly identical derivative action was filed by a different stockholder against the same defendants. The second lawsuit is styled as an amended complaint and replaces a complaint making unrelated allegations in a previously filed lawsuit already pending in Delaware federal court (Lombardi v. Kreiz, et al., amended complaint filed April 16, 2020). In May 2020, the derivative actions were consolidated and stayed pending further developments in the class action lawsuits.

The lawsuits seek unspecified compensatory damages, attorneys' fees, expert fees, costs and/or injunctive relief. Mattel believes that the allegations in the lawsuits are without merit and intends to vigorously defend against them. A reasonable estimate of the amount of any possible loss or range of loss cannot be made at this time.

Mattel has also received subpoenas from the Securities and Exchange Commission (the "SEC"), seeking documents related to the whistleblower letter and subsequent investigation, and is responding to those subpoenas. Mattel is also responding to requests from the United States Attorney's Office for the Southern District of New York ("SDNY") related to this matter. Mattel cannot predict the eventual scope, duration or outcome of potential legal action by the SEC or SDNY, if any, or whether any such action could have a material impact on Mattel's financial condition, results of operations or cash flows.

22. Segment Information

Mattel designs, manufactures, and markets a broad variety of toy products worldwide, which are sold to its customers and directly to consumers.

Segment Data

Mattel's operating segments are: (i) North America, which consists of the U.S. and Canada; (ii) International; and (iii) American Girl. The North America and International segments sell products across categories, although some products are developed and adapted for particular international markets.

The following tables present information regarding net sales, operating income (loss), and assets by segment. The corporate and other expense category includes operating costs not allocated to individual segments, including charges related to incentive and share-based compensation, corporate headquarters functions managed on a worldwide basis, the impact of changes in foreign currency exchange rates on intercompany transactions, and certain severance and other restructuring costs. Effective as of the first quarter of 2021, operating income by segment reviewed by the Chief Operating Decision Maker does not include certain corporate expenses which were historically allocated by segment. The prior period presentation of operating income by segment has been conformed to the current period's presentation.

It is impracticable for Mattel to present net sales by categories, brands, or products, as trade discounts and other allowances are generally recorded in the financial accounting systems by customer.

	For the Three Months Ended	
	March 31, 2021	March 31, 2020
	(In thousands)	
Net Sales by Segment		
North America	\$ 479,660	\$ 287,553
International	349,354	269,356
American Girl	45,178	37,160
Net sales	<u>\$ 874,192</u>	<u>\$ 594,069</u>
	For the Three Months Ended	
	March 31, 2021	March 31, 2020
	(In thousands)	
Operating Income (Loss) by Segment		
North America (a)	\$ 123,374	\$ 13,985
International (a)	35,170	(28,861)
American Girl	(9,831)	(17,441)
	148,713	(32,317)
Corporate and other expense (b)	(117,675)	(117,493)
Operating income (loss)	31,038	(149,810)
Interest expense	130,482	48,980
Interest (income)	(820)	(2,084)
Other non-operating (income) expense, net	(1,086)	3,023
Loss before income taxes	<u>\$ (97,538)</u>	<u>\$ (199,729)</u>

(a) Operating income (loss) included severance and restructuring expenses of \$1.9 million and \$3.1 million, for the three months ended March 31, 2021, and 2020, respectively, which were allocated to the North America and International segments.

(b) Corporate and other expense included severance and restructuring charges of \$5.7 million and \$7.5 million, for the three months ended March 31, 2021, and 2020, respectively. Corporate and other expense also included expenses related to inclined sleeper product recall litigation of \$5.3 million and \$6.3 million for the three months ended March 31, 2021 and 2020, respectively, and incentive and share-based compensation for all periods presented.

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

	March 31, 2021	March 31, 2020	December 31, 2020
	(In thousands)		
Assets by Segment			
North America	\$ 585,221	\$ 480,738	\$ 664,696
International	520,717	455,918	713,650
American Girl	46,956	36,427	40,290
	1,152,894	973,083	1,418,636
Corporate and other	137,583	116,084	130,003
Accounts receivable and inventories, net	<u>\$ 1,290,477</u>	<u>\$ 1,089,167</u>	<u>\$ 1,548,639</u>

Geographic Information

The table below presents information by geographic area. Net sales are attributed to countries based on location of the customer.

	For the Three Months Ended	
	March 31, 2021	March 31, 2020
	(In thousands)	
Net Sales by Geographic Area		
North America	\$ 524,838	\$ 324,713
International		
EMEA	238,169	173,323
Latin America	56,278	51,275
Asia Pacific	54,907	44,758
Total International	349,354	269,356
Net sales	\$ 874,192	\$ 594,069

23. New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, which simplifies the accounting for incomes taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify the accounting for other areas of Topic 740 by clarifying and amending existing guidance. The amendments related to changes in ownership of foreign equity method investments or foreign subsidiaries are applied on a modified retrospective basis through a cumulative effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The amendments related to franchise taxes that are partially based on income are applied on either a retrospective basis for all periods presented or a modified retrospective basis through a cumulative effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. All other amendments are applied on a prospective basis. Mattel adopted ASU 2019-12 on January 1, 2021. The adoption of this new accounting standard did not have a material impact on Mattel's consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

In March 2020 and January 2021, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting and ASU 2021-01, Reference Rate Reform (Topic 848): Scope, respectively. ASU 2020-04 and ASU 2021-01 provide optional expedients and exceptions for applying U.S. GAAP, to contracts, hedging relationships, and other transactions that reference the London Interbank Offered Rate or another reference rate expected to be discontinued because of reference rate reform, if certain criteria are met. The guidance in ASU 2020-04 and ASU 2021-01 was effective upon issuance and, once adopted, may be applied prospectively to contract modifications and hedging relationships through December 31, 2022. Mattel is currently evaluating the impact of the adoption of ASU 2020-04 and ASU 2021-01 on its consolidated financial statements.

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

In the discussion that follows, "Mattel" refers to Mattel, Inc. and/or one or more of its subsidiaries.

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

The following discussion includes currency exchange rate impact, a non-GAAP financial measure within the meaning of Regulation G promulgated by the SEC ("Regulation G"), to supplement the financial results as reported in accordance with generally accepted accounting principles ("GAAP"). The currency exchange rate impact reflects the portion (expressed as a percentage) of changes in Mattel's reported results that are attributable to fluctuations in currency exchange rates. Mattel uses this non-GAAP financial measure to analyze its continuing operations and to monitor, assess, and identify meaningful trends in its operating and financial performance. Management believes that the disclosure of this non-GAAP financial measure provides useful supplemental information to investors to allow them to better evaluate ongoing business performance and certain components of Mattel's results. This measure is not, and should not be viewed as, a substitute for GAAP financial measures.

The following discussion also includes the use of gross billings, a key performance indicator. Gross billings represent amounts invoiced to customers. It does not include the impact of sales adjustments, such as trade discounts and other allowances. Mattel presents changes in gross billings as a metric for comparing its aggregate, categorical, brand, and geographic results to highlight significant trends in Mattel's business. Changes in gross billings are discussed because, while Mattel records the details of sales adjustments in its financial accounting systems at the time of sale, such sales adjustments are generally not associated with categories, brands, and individual products.

Effective as of the first quarter of 2021, operating income by segment reviewed by the Chief Operating Decision Maker does not include certain corporate expenses which were historically allocated by segment. The prior period presentation of operating income by segment has been conformed to the current period's presentation.

Note that amounts shown in millions within this Item 2 may not sum due to rounding.

Overview

Mattel is a leading global toy company and owner of one of the strongest catalogs of children's and family entertainment franchises in the world, creating innovative products and experiences that inspire, entertain and develop children through play. Mattel is focused on the following two-part strategy to transform Mattel into an intellectual property ("IP") driven, high-performing toy company:

- In the short-term, improve profitability by optimizing operations and accelerate topline growth by growing Mattel's Power Brands and expanding Mattel's brand portfolio.
- In the mid-to-long-term, continue to make progress on capturing the full value of Mattel's IP through franchise management and online retail and e-commerce.

Mattel is the owner of a portfolio of iconic brands and partners with global entertainment companies to license other intellectual property. Mattel's owned and licensed brands and products are organized into the following categories:

Dolls—including brands such as *Barbie*, *American Girl*, *Polly Pocket*, *Spirit (Universal)* and *Enchantimals*. Mattel's Dolls portfolio is driven by the flagship Barbie brand and a collection of complementary brands offered globally. Empowering girls since 1959, *Barbie* has inspired the limitless potential of every girl by showing them that they can be anything. With an extensive portfolio of dolls and accessories, content, gaming, and lifestyle products, *American Girl* is best known for imparting valuable life lessons through its inspiring dolls and books, featuring diverse characters from past and present. Its products are sold directly to consumers via its catalog, website, and proprietary retail stores.

Infant, Toddler, and Preschool—including brands such as *Fisher-Price* and *Thomas & Friends*, *Power Wheels*, and *Fireman Sam*. As a leader in play and child development, *Fisher-Price*'s mission is to provide meaningful solutions for parents and enrich children's lives from birth to school readiness, helping families get the best possible start. *Thomas & Friends* is an award-winning preschool train brand franchise that brings meaningful life lessons of friendship and teamwork to kids through content, toys, live events, and other lifestyle categories.

Vehicles—including brands such as *Hot Wheels*, *Matchbox*, *CARS (Disney Pixar)*, and *Mario Kart (Nintendo)*. In production for over 50 years, *Hot Wheels* continues to push the limits of performance and design, and ignites the challenger spirit of kids, adults, and collectors. From die-cast vehicles, to tracks, playsets, and accessories, the Mattel vehicles portfolio has broad appeal that engages and excites kids of all ages.

Action Figures, Building Sets, Games, and Other—including brands such as *Masters of the Universe*, *MEGA*, *UNO*, *Toy Story (Disney Pixar)*, *Jurassic World (NBCUniversal)*, *WWE*, and *Star Wars (Disney)*. From big blocks to small bricks, first builders to advanced collectors, *MEGA* creates building sets that encourage kids and adults to unlock their creative potential. America's number one game, *UNO* is the classic matching card game that is easy to learn and fast fun for everyone.

COVID-19 Update

The impact of the coronavirus disease ("COVID-19") and the actions taken by governments, businesses, and individuals in response to it have resulted in significant global economic disruption, including, but not limited to, temporary business closures, reduced retail traffic, volatility in financial markets, and restrictions on travel.

Strong consumer demand for toys during the first quarter of 2021 contributed to double digit year-over-year increases in net sales across all reportable segments and in each geographic region, despite COVID-19 disruption and local restrictions that impacted certain locations. Mattel's first quarter of 2020 results and net sales were significantly and negatively impacted by COVID-19.

Mattel's manufacturing and distribution network was fully operational as of March 31, 2021. To the extent COVID-19 causes manufacturing and distribution disruption, particularly during seasonally-high periods of production and/or distribution, Mattel's ability to meet demand may be materially impacted. Due to the uncertainty of the duration and severity of the pandemic and resulting effects, it is not possible to estimate the extent of such impact.

Prolonged disruption to Mattel's customers, supply chain, or other critical operations would result in material adverse effects to Mattel's business and its liquidity. The future impact of COVID-19 on Mattel's results of operations, financial position, and cash flows remains uncertain at this time due to rapidly evolving circumstances. Mattel is closely monitoring the situation and actively managing its business as developments occur. Refer to Part I, Item 1A "Risk Factors" in the 2020 Annual Report on Form 10-K for further discussion regarding potential impacts of COVID-19 on Mattel's business.

The specific line items that have been materially affected by these impacts of COVID-19 are noted within "Results of Operations—First Quarter" below. In addition to the impacts of COVID-19 discussed below, it is reasonably likely that the pandemic and its resulting effects could have other unforeseen consequences that affect Mattel's business.

Results of Operations—First Quarter

Consolidated Results

The following table provides a summary of Mattel's consolidated results for the first quarter of 2021 and 2020:

	For the Three Months Ended				Year/Year Change	
	March 31, 2021		March 31, 2020		%	Basis Points of Net Sales
	Amount	% of Net Sales	Amount	% of Net Sales		
(In millions, except percentage and basis point information)						
Net sales	\$ 874.2	100.0 %	\$ 594.1	100.0 %	47 %	—
Gross profit	\$ 409.0	46.8 %	\$ 255.2	43.0 %	60 %	380
Advertising and promotion expenses	74.1	8.5 %	76.3	12.8 %	-3 %	(430)
Other selling and administrative expenses	303.9	34.8 %	328.7	55.3 %	-8 %	(2,050)
Operating income (loss)	31.0	3.6 %	(149.8)	-25.2 %	n/m	2,880
Interest expense	130.5	14.9 %	49.0	8.2 %	166 %	670
Interest (income)	(0.8)	-0.1 %	(2.1)	-0.4 %	-61 %	30
Other non-operating (income) expense, net	(1.1)		3.0			
Loss before income taxes	(97.5)	-11.2 %	(199.7)	-33.6 %	-51 %	2,240
Provision for income taxes	20.3		11.9			
Income from equity method investments	2.6		0.9			
Net Loss	\$ (115.2)	-13.2 %	\$ (210.7)	-35.5 %	-45 %	2,230

n/m - Not Meaningful

Sales

The following table provides a summary of Mattel's consolidated gross billings by categories, along with supplemental information by brand, for the first quarter of 2021 and 2020:

	For the Three Months Ended			Currency Exchange Rate Impact
	March 31, 2021	March 31, 2020	% Change as Reported	
	(In millions, except percentage information)			
Gross Billings by Categories				
Dolls	\$ 381.3	\$ 225.9	69 %	1 %
Infant, Toddler, and Preschool	183.2	140.3	31 %	2 %
Vehicles	215.4	185.7	16 %	1 %
Action Figures, Building Sets, and Games	199.2	118.1	69 %	3 %
Gross Billings	\$ 979.0	\$ 670.0	46 %	1 %
Sales Adjustments	(104.8)	(75.9)		
Net Sales	\$ 874.2	\$ 594.1	47 %	1 %
Supplemental Gross Billings Disclosure				
Gross Billings by Top 3 Power Brands				
Barbie	\$ 276.2	\$ 147.5	87 %	1 %
Hot Wheels	184.6	158.6	16 %	— %
Fisher-Price and Thomas & Friends	171.6	128.8	33 %	1 %
Other	346.6	235.1	47 %	1 %
Gross Billings	\$ 979.0	\$ 670.0	46 %	1 %

Gross billings were \$979.0 million in the first quarter of 2021, an increase of \$309.0 million or 46%, as compared to \$670.0 million in the first quarter of 2020, with a favorable impact from changes in currency exchange rates of one percentage point. The increase in first quarter of 2021 gross billings was primarily driven by higher billings of Dolls and Action Figures, Building Sets, Games, and Other.

Dolls gross billings increased 69%, of which 57% was due to higher billings of *Barbie* products, driven by positive brand momentum and point of sale demand ("POS") and 4% was due to higher billings of *American Girl* products.

Infant, Toddler, and Preschool gross billings increased 31%, all of which was due to higher billings of *Fisher-Price* and *Thomas & Friends* products, primarily driven by higher billings of infant and newborn products.

Vehicles gross billings increased 16%, of which 14% was due to higher billings of *Hot Wheels* products, driven by positive brand momentum and POS.

Action Figures, Building Sets, Games, and Other gross billings increased 69% due to higher billings from the following products: 15% from initial billings of *Masters of the Universe*, 15% from *Jurassic World*, 9% from *WWE*, 9% from plush, 8% from *MEGA*, and 7% from *UNO*.

Sales adjustments represent arrangements with Mattel's customers to provide sales incentives, support customer promotions, and provide allowances for returns and defective merchandise. Such programs are based primarily on customer purchases, customer performance of specified promotional activities, and other specified factors such as sales to consumers. Sales adjustments as a percentage of net sales was relatively consistent at 12.0% for the first quarter of 2021, as compared to 12.8% for the first quarter of 2020.

Cost of Sales

Cost of sales as a percentage of net sales was 53.2% in the first quarter of 2021, as compared to 57.0% in the first quarter of 2020. Cost of sales increased by \$126.3 million, or 37%, to \$465.2 million in the first quarter of 2021 from \$338.9 million in the first quarter of 2020, as compared to a 47% increase in net sales. Within cost of sales, product and other costs increased by \$110.4 million, or 41%, to \$380.0 million in the first quarter of 2021 from \$269.6 million in the first quarter of 2020; freight and logistics expenses increased by \$11.6 million, or 25%, to \$57.4 million in the first quarter of 2021 from \$45.8 million in the first quarter of 2020; and royalty expense increased by \$4.3 million, or 18%, to \$27.8 million in the first quarter of 2021 from \$23.5 million in the first quarter of 2020. Within cost of sales, certain inbound freight costs were previously classified as freight and logistics costs. Mattel reclassified such inbound freight costs from freight and logistics expenses to present all inbound freight costs within product and other costs for the periods and segments presented.

Gross Margin

Gross margin increased to 46.8% in the first quarter of 2021 from 43.0% in the first quarter of 2020. The increase in gross margin was primarily driven by the favorable impact of fixed cost absorption and incremental realized savings from the cost savings programs, partially offset by input cost inflation due to higher raw material costs.

Advertising and Promotion Expenses

Advertising and promotion expenses primarily consist of: (i) media costs, which include the media, planning, and buying fees for television, print, and online advertisements, (ii) non-media costs, which include commercial and website production, merchandising, and promotional costs, (iii) retail advertising costs, which include consumer direct catalogs, newspaper inserts, fliers, and mailers and (iv) generic advertising costs, which include trade show costs. Advertising and promotion expenses as a percentage of net sales decreased to 8.5% in the first quarter of 2021 from 12.8% in the first quarter of 2020, primarily as a result of a slight decrease in advertising and promotion expense as compared to a 47% increase in net sales.

Other Selling and Administrative Expenses

Other selling and administrative expenses were \$303.9 million, or 34.8% of net sales, in the first quarter of 2021, as compared to \$328.7 million, or 55.3% of net sales, in the first quarter of 2020. The decrease in other selling and administrative expenses was primarily driven by a \$15.8 million gain on sale of long-lived assets and incremental realized savings from the cost savings programs, partially offset by higher employee compensation costs.

Interest expense

Interest expense was \$130.5 million for the first quarter of 2021, as compared to \$49.0 million for the first quarter of 2020. The increase in interest expense was due to a loss on extinguishment of \$83.2 million as a result of the partial redemption of the 2017/2018 Senior Notes due December 2025 in the first quarter of 2021.

Provision for Income Taxes

Mattel's provision for income taxes was \$20.3 million and \$11.9 million for the first quarter of 2021 and 2020, respectively. Mattel recognized net discrete tax expense of \$7.3 million and \$6.4 million for the first quarter of 2021 and 2020, respectively, primarily related to income taxes recorded on a discrete basis in various jurisdictions and an expense for reassessments of prior years' tax liabilities. As a result of the establishment of a valuation allowance on U.S. deferred tax assets, there was no U.S. tax benefit provided for U.S. losses during the first quarter of 2021 and 2020.

Mattel recorded a valuation allowance against certain domestic and foreign deferred tax assets as of both December 31, 2020 and March 31, 2021. Evaluating the need for and the amount of a valuation allowance for deferred tax assets often requires significant judgment and extensive analysis of all available evidence to determine whether it is more likely than not that these assets will be realized. Mattel maintains a valuation allowance on its deferred tax assets until there is sufficient evidence to support the release of all or some portion of these allowances. Given Mattel's improved earnings for the year ended December 31, 2020 and quarter ended March 31, 2021, and if, Mattel's earnings continue to improve in the future, Mattel believes that there is a reasonable possibility that in the near term, sufficient positive evidence may become available to allow us to reach a conclusion that a significant portion of the valuation allowance related to certain foreign jurisdictions will no longer be needed. Release of the valuation allowance would result in the recognition of a portion of these deferred tax assets and a decrease to income tax expense for the period the release is recorded. However, the exact timing and amount, if any, of the valuation allowance release are subject to change depending on the level of earnings that Mattel is able to achieve in the tax jurisdictions in which a valuation allowance has been recorded.

Segment Results

North America Segment

The following table provides a summary of Mattel's net sales, segment income, and gross billings by categories, along with supplemental information by brand, for the North America segment for the first quarter of 2021 and 2020:

	For the Three Months Ended		% Change as Reported	Currency Exchange Rate Impact
	March 31, 2021	March 31, 2020		
	(In millions, except percentage information)			
Net Sales	\$ 479.7	\$ 287.6	67 %	1 %
Segment Income	123.4	14.0	782 %	
Gross Billings by Categories				
Dolls	\$ 176.2	\$ 73.9	138 %	— %
Infant, Toddler, and Preschool	108.6	76.6	42 %	1 %
Vehicles	109.8	88.7	24 %	1 %
Action Figures, Building Sets, Games, and Other	117.2	66.5	76 %	1 %
Gross Billings	\$ 511.8	\$ 305.8	67 %	— %
Sales Adjustments	(32.1)	(18.2)		
Net Sales	\$ 479.7	\$ 287.6	67 %	1 %

Supplemental Gross Billings Disclosure

Gross Billings by Top 3 Power Brands

Barbie	\$ 156.9	\$ 67.8	132 %	1 %
Hot Wheels	92.7	74.1	25 %	— %
Fisher-Price and Thomas & Friends	100.9	69.9	44 %	— %
Other	161.3	94.0	72 %	1 %
Gross Billings	\$ 511.8	\$ 305.8	67 %	— %

Gross billings for the North America segment were \$511.8 in the first quarter of 2021, an increase of \$206.0 million, or 67%, as compared to \$305.8 million in the first quarter of 2020. The increase in the North America segment gross billings was primarily driven by higher billings of Dolls and Action Figures, Building Sets, Games, and Other.

Dolls gross billings increased 138%, of which 120% was due to higher billings of *Barbie* products, primarily driven by positive brand momentum and POS, and 10% was due to initial billings of *Spirit* products.

Infant, Toddler, and Preschool gross billings increased 42%, of which 41% was due to increased billings of *Fisher-Price* and *Thomas & Friends* products, primarily driven by higher billings of infant and newborn products.

Vehicles gross billings increased 24%, of which 21% was due to higher billings of *Hot Wheels* products, primarily driven by positive brand momentum and POS.

Action Figures, Building Sets, Games, and Other gross billings increased 76% due to higher billings from the following products: 16% from initial billings of *Masters of the Universe*, 15% from *Jurassic World*, 13% from plush, 12% from *WWE*, 10% from *MEGA*, and 6% from *UNO*.

Sales adjustments as a percentage of net sales was relatively consistent at 6.7% for the first quarter of 2021, as compared to 6.3% for the first quarter of 2020.

Cost of sales increased 47% in the first quarter of 2021, as compared to a 67% increase in net sales, primarily due to higher product and other costs. Gross margin in the first quarter of 2021 increased primarily due to the favorable impact of fixed cost absorption and incremental realized savings from the cost savings programs, partially offset by input cost inflation. North America segment income was \$123.4 million in the first quarter of 2021, as compared to segment income of \$14.0 million in the first quarter of 2020; the improvement was primarily due to higher gross profit.

International Segment

The following table provides a summary of Mattel's net sales, segment income (loss), and gross billings by categories, along with supplemental information by brand, for the International segment for the first quarter of 2021 and 2020:

	For the Three Months Ended		% Change as Reported	Currency Exchange Rate Impact
	March 31, 2021	March 31, 2020		
(In millions, except percentage information)				
Net Sales	\$ 349.4	\$ 269.4	30 %	3 %
Segment Income (Loss)	35.2	(28.9)	n/m	
Gross Billings by Categories				
Dolls	\$ 158.7	\$ 113.9	39 %	1 %
Infant, Toddler, and Preschool	74.6	63.8	17 %	3 %
Vehicles	105.5	96.9	9 %	2 %
Action Figures, Building Sets, Games, and Other	82.0	51.5	59 %	6 %
Gross Billings	\$ 420.9	\$ 326.1	29 %	3 %
Sales Adjustments	(71.6)	(56.8)		
Net Sales	\$ 349.4	\$ 269.4	30 %	3 %
Supplemental Gross Billings Disclosure				
Gross Billings by Top 3 Power Brands				
Barbie	\$ 119.3	\$ 79.7	50 %	3 %
Hot Wheels	91.9	84.5	9 %	1 %
Fisher-Price and Thomas & Friends	70.7	58.8	20 %	2 %
Other	139.0	103.1	35 %	4 %
Gross Billings	\$ 420.9	\$ 326.1	29 %	3 %

n/m - Not Meaningful

Gross billings for the International segment were \$420.9 million in the first quarter of 2021, an increase of \$94.8 million, or 29%, as compared to \$326.1 million in the first quarter of 2020, with a favorable impact from changes in currency exchange rates of three percentage points. The increase in the International segment gross billings was primarily due to higher billings of Dolls and Action Figures, Building Sets, Games, and Other.

Dolls gross billings increased 39%, of which 34% was due to higher billings of *Barbie* products, primarily driven by positive brand momentum and POS.

Infant, Toddler, and Preschool gross billings increased 17%, of which 19% was driven by higher billings of *Fisher-Price* and *Thomas & Friends* products, primarily driven by higher billings of infant and newborn products. This was partially offset by lower billings of other owned brands products of 2%.

Vehicles gross billings increased 9%, of which 8% was due to higher billings of *Hot Wheels* products.

Action Figures, Building Sets, Games, and Other gross billings increased 59% due to higher billings from the following products: 15% from *Jurassic World*, 12% from initial billings of *Masters of the Universe*, 8% from *UNO*, 6% from *MEGA*, and 6% from *WWE*.

Sales adjustments as a percentage of net sales was relatively consistent at 20.5% for the first quarter of 2021, as compared to 21.1% for the first quarter of 2020.

Cost of sales increased 19% in the first quarter of 2021, as compared to a 30% increase in net sales, primarily due to higher product and other costs. Gross margin in the first quarter of 2021 increased primarily due to the favorable impact of fixed cost absorption and incremental realized savings from the cost savings programs, partially offset by input cost inflation. International segment income was \$35.2 million in the first quarter of 2021, as compared to a segment loss of \$28.9 million in the first quarter of 2020; the improvement was primarily due to higher gross profit.

American Girl Segment

The following table provides a summary of Mattel's net sales, segment loss, and gross billings for the American Girl segment for the first quarter of 2021 and 2020:

	For the Three Months Ended		% Change as Reported	Currency Exchange Rate Impact
	March 31, 2021	March 31, 2020		
	(In millions, except percentage information)			
Net Sales	\$ 45.2	\$ 37.2	22 %	— %
Segment Loss	(9.8)	(17.4)	-44 %	— %
American Girl Segment				
Total Gross Billings	\$ 46.3	\$ 38.1	22 %	— %
Sales Adjustments	(1.1)	(0.9)		
Total Net Sales	\$ 45.2	\$ 37.2	22 %	— %

Gross billings for the American Girl segment were \$46.3 million in the first quarter of 2021, an increase of \$8.2 million, or 22%, as compared to \$38.1 million in the first quarter of 2020. The increase in *American Girl* gross billings was primarily due to higher direct-to-consumer channel billings, partially offset by lower billings in proprietary retail channels.

Sales adjustments as a percentage of net sales was consistent at 2.5% for the first quarter of 2021 and 2020.

Cost of sales increased 21% in the first quarter of 2021, as compared to a 22% increase in net sales, primarily due to higher product and other costs and higher freight and logistics expenses. Gross margin in the first quarter of 2021 increased slightly due to incremental realized savings from cost savings programs, substantially offset by increased freight and logistics expenses due to higher direct-to-consumer channel sales. American Girl segment loss was \$9.8 million in the first quarter of 2021, as compared to segment loss of \$17.4 million in the first quarter of 2020. This improvement was primarily driven by higher gross profit and lower selling and administrative expenses due to the permanent closure of certain retail stores and renegotiated lease terms for certain retail stores.

Cost Savings Programs

Optimizing for Growth (formerly Capital Light)

On February 9, 2021, Mattel announced the Optimizing for Growth program, a multi-year cost savings program which integrates and expands upon the previously announced Capital Light program (the "Program"). Targeted annual gross cost savings from actions that are expected to be completed beginning 2021 through 2023 are \$250 million. Of the \$250 million in incremental targeted gross cost savings, approximately 50% is expected to benefit Cost of Sales, 40% to benefit Other Selling and Administrative Expenses, and 10% to benefit Advertising and Promotion Expense. Incremental cash expenditures associated with the Program are expected to be approximately \$100 to \$125 million.

Mattel estimates the cost of incremental actions for the Program to be as follows:

Optimizing for Growth - Incremental Actions	Estimate of Cost
Employee severance	\$40 to \$50 million
Real estate/supply chain optimization and other restructuring costs	\$15 to \$20 million
Asset impairments and other non-cash charges	\$25 to \$30 million
Total estimated severance and restructuring costs	\$80 to \$100 million
Information technology enhancements and other investments	\$45 to \$55 million
Total estimated incremental charges	\$125 to \$155 million

Cumulatively, in conjunction with previous actions taken under the Capital Light program, targeted annual gross cost savings for the Program are \$325 million by 2023, with total expected cash expenditures of approximately \$140 to \$165 million, and total non-cash charges of \$40 to \$45 million. Of the \$325 million in targeted gross cost savings, approximately 60% is expected to benefit Cost of Sales, 30% to benefit Other Selling and Administrative Expenses, and 10% to benefit Advertising and Promotion Expense.

In connection with the Program, Mattel has recorded severance and other restructuring costs in the following cost and expense categories within the consolidated statements of operations:

	For the Three Months Ended	
	March 31, 2021	March 31, 2020
	(In millions)	
Cost of sales (a)	\$ 1.9	\$ 3.1
Other selling and administrative expenses (b)	5.7	2.7
	<u>\$ 7.6</u>	<u>\$ 5.8</u>

(a) Severance and other restructuring costs recorded within cost of sales in the consolidated statements of operations are included in segment income (loss) in "Note 22 to the Consolidated Financial Statements—Segment Information."

(b) Severance and other restructuring costs recorded within other selling and administrative expenses in the consolidated statements of operations are included in corporate and other expense in "Note 22 to the Consolidated Financial Statements—Segment Information."

As of March 31, 2021, Mattel has recorded cumulative severance and other restructuring charges related to the Program of approximately \$58 million, which include approximately \$17 million of non-cash charges. Mattel realized cumulative cost savings (before severance, restructuring costs, and cost inflation) of approximately \$102 million, primarily within gross profit, as of March 31, 2021 in connection with the Program.

During the three months ended March 31, 2021, in conjunction with the Program, Mattel completed the sale of a manufacturing plant based in Mexico, which included land and buildings, resulting in a pre-tax gain of \$15.8 million.

Other Cost Savings Actions

During the three months ended March 31, 2020, Mattel recorded severance charges of approximately \$5 million, primarily related to actions taken to further streamline its organizational structure.

Liquidity and Capital Resources

Mattel's primary sources of liquidity are its domestic and foreign cash and equivalents balances, short-term borrowing facilities, including its \$1.40 billion senior secured revolving credit facilities, and access to capital markets to fund its operations and obligations. Such obligations may include investing and financing activities such as capital expenditures and debt service. Of Mattel's \$615.2 million in cash and equivalents at March 31, 2021, approximately \$588.3 million was held by foreign subsidiaries.

Cash flows from operating activities could be negatively impacted by decreased demand for Mattel's products, which could result from factors such as, but not limited to, adverse economic conditions and changes in public and consumer preferences, or by increased costs associated with manufacturing and distribution of products or shortages in raw materials or component parts. Additionally, Mattel's ability to issue long-term debt and obtain seasonal financing could be adversely affected by factors such as, but not limited to, global economic crises and tight credit environments, an inability to comply with its debt covenants and its senior secured revolving credit facilities covenants, or deterioration of Mattel's credit ratings. As discussed under Part I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations—COVID-19 Update" of this Quarterly Report on Form 10-Q, many of the aforementioned factors have been and may be adversely affected by COVID-19. However, based on Mattel's current business plan and factors known to date, including the currently known impacts of COVID-19, it is expected that existing cash and equivalents, cash flows from operations, availability under the senior secured credit revolving facilities, and access to capital markets, will be sufficient to meet working capital and operating expenditure requirements for the next twelve months.

Current Market Conditions

Mattel is exposed to financial market risk resulting from changes in interest and foreign currency exchange rates.

Consistent with prior periods, Mattel intends to utilize its senior secured revolving credit facilities to meet its short-term liquidity needs. At March 31, 2021, Mattel had no outstanding borrowings under the senior secured revolving credit facilities and approximately \$11 million in outstanding letters of credit under the senior secured revolving credit facilities.

Market conditions could affect certain terms of other debt instruments that Mattel enters into from time to time.

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

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

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

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

Mattel's business has been impacted by COVID-19. Refer to Part I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations—COVID-19 Update" for further discussion regarding the impact and potential impacts of COVID-19 on Mattel's business.

Cash Flow Activities

Cash flows used for operating activities were \$41.2 million in the first quarter of 2021, as compared to \$174.5 million in the first quarter of 2020. The decrease in cash flows used for operating activities was primarily due to lower net loss, excluding the impact of non-cash charges.

Cash flows provided by investing activities were \$6.3 million in the first quarter of 2021, as compared to cash flows used by investing activities of \$81.2 million in the first quarter of 2020. The change in cash flows from investing activities was primarily driven by proceeds from the disposal of assets and a business of \$39.2 million in the first quarter of 2021 and lower payments on foreign currency forward exchange contracts.

Cash flows used for financing activities were \$105.7 million in the first quarter of 2021, as compared to cash flows provided by financing activities of \$149.3 million in the first quarter of 2020. The change in cash flows from financing activities was driven primarily by the partial redemption of the 2017/2018 Senior Notes due December 2025 in the first quarter of 2021 and proceeds from short-term borrowings of \$150.0 million in the first quarter of 2020.

Seasonal Financing

See Part I, Item 1 "Financial Statements—Note 8 to the Consolidated Financial Statements—Seasonal Financing" of this Quarterly Report on Form 10-Q.

Financial Position

Mattel's cash and equivalents decreased \$146.9 million to \$615.2 million at March 31, 2021, as compared to \$762.2 million at December 31, 2020, due to seasonal working capital usage, the partial redemption of the 2017/2018 Senior Notes due December 2025, and capital expenditures. The decreases were partially offset by improved results of operations, excluding the impact of non-cash charges and proceeds from the disposal of assets and a business during the first quarter of 2021. Mattel's cash and equivalents increased \$115.8 million to \$615.2 million at March 31, 2021, as compared to \$499.4 million at March 31, 2020, primarily due to cash flows from operating activities in the trailing twelve months, partially offset by capital expenditures, the partial redemption of the 2017/2018 Senior Notes due December 2025 in the first quarter of 2021 and repayment of short-term borrowings of \$150.0 million outstanding as of March 31, 2020.

Accounts receivable decreased \$353.3 million to \$680.6 million at March 31, 2021, as compared to \$1.03 billion at December 31, 2020, primarily due to seasonal declines as year-end receivables are collected. Accounts receivable increased \$152.1 million to \$680.6 million at March 31, 2021, as compared to \$528.5 million at March 31, 2020, primarily due to higher net sales in the first quarter of 2021. Net sales in the first quarter of 2020 were negatively impacted by COVID-19.

Inventory increased \$95.2 million to \$609.8 million at March 31, 2021, as compared to \$514.7 million at December 31, 2020, primarily due to seasonal inventory build. Inventory increased \$49.2 million to \$609.8 million at March 31, 2021, as compared to \$560.6 million at March 31, 2020, due to increased production for higher anticipated sales in the second quarter of 2021 and the impact of foreign exchange.

Accounts payable and accrued liabilities decreased \$275.7 million to \$1.05 billion at March 31, 2021, as compared to \$1.33 billion at December 31, 2020 due to seasonal declines in expenditure levels. Accounts payable and accrued liabilities increased \$87.9 million to \$1.05 billion at March 31, 2021, as compared to \$963.7 million at March 31, 2020 due to increased payables associated with higher inventory production levels.

Mattel had \$0.9 million, \$150.0 million, and \$1.0 million of short-term borrowings outstanding at March 31, 2021, March 31, 2020, and December 31, 2020 respectively. Mattel accelerated the timing of its borrowings under the senior secured revolving credit facilities during the first quarter of 2020 in anticipation of its projected seasonal working capital requirements and in light of uncertainties surrounding the impact of COVID-19.

A summary of Mattel's capitalization is as follows:

	March 31, 2021		March 31, 2020		December 31, 2020		
	(In millions, except percentage information)						
Cash and equivalents	\$	615.2	\$	499.4	\$	762.2	
Short-term borrowings		0.9		150.0		1.0	
2010 Senior Notes due October 2040		250.0		250.0		250.0	
2011 Senior Notes due November 2041		300.0		300.0		300.0	
2013 Senior Notes due March 2023		250.0		250.0		250.0	
2017/2018 Senior Notes due December 2025		275.0		1,500.0		1,500.0	
2019 Senior Notes due December 2027		600.0		600.0		600.0	
2021 Senior Notes due April 2026		600.0		—		—	
2021 Senior Notes due April 2029		600.0		—		—	
Debt issuance costs and debt discount		(37.3)		(51.1)		(45.3)	
Total debt		2,838.6	86 %	2,998.9	95 %	2,855.7	83 %
Stockholders' equity		473.9	14	157.9	5	596.3	17
Total capitalization (debt plus equity)	\$	3,312.5	100 %	\$ 3,156.8	100 %	\$ 3,452.0	100 %

Total debt was \$2.84 billion at March 31, 2021, as compared to \$2.86 billion at December 31, 2020. On March 19, 2021, Mattel used the net proceeds from the issuance of \$600.0 million aggregate principal amount of 3.375% Senior Notes due 2026 and \$600.0 million aggregate principal amount of 3.750% Senior Notes due 2029, together with cash on hand, to redeem and retire \$1.23 billion in aggregate principal amount of Mattel's outstanding 2017/2018 Senior Notes due December 2025 and pay related prepayment premiums and transaction fees and expenses. Total debt was \$2.84 billion at March 31, 2021, as compared to \$3.00 billion at March 31, 2020. The decrease is primarily due to the repayment of short-term borrowings of \$150.0 million outstanding at March 31, 2020.

Stockholders' equity decreased \$122.4 million to \$473.9 million at March 31, 2021, as compared to \$596.3 million at December 31, 2020, primarily due to the net loss for the first quarter of 2021. Stockholders' equity increased \$316.0 million to \$473.9 million at March 31, 2021, as compared to \$157.9 million at March 31, 2020, primarily due to net income for the trailing twelve months.

Litigation

See Part I, Item 1 "Financial Statements—Note 21 to the Consolidated Financial Statements—Contingencies" of this Quarterly Report on Form 10-Q.

Application of Critical Accounting Policies and Estimates

Mattel's critical accounting policies and estimates are included in the 2020 Annual Report on Form 10-K and did not materially change during the first three months of 2021.

New Accounting Pronouncements

See Part I, Item 1 "Financial Statements—Note 23 to the Consolidated Financial Statements—New Accounting Pronouncements" of this Quarterly Report on Form 10-Q.

Non-GAAP Financial Measure

To supplement the financial results presented in accordance with U.S. GAAP, Mattel presents a non-GAAP financial measure within the meaning of Regulation G promulgated by the SEC. The non-GAAP financial measure that Mattel presents is currency exchange rate impact. Mattel uses this measure to analyze its continuing operations and to monitor, assess, and identify meaningful trends in its operating and financial performance. Mattel believes that the disclosure of this non-GAAP financial measure provides useful supplemental information to investors to be able to better evaluate ongoing business performance and certain components of Mattel's results. This measure is not, and should not be viewed as, a substitute for GAAP financial measures and may not be comparable to similarly-titled measures used by other companies.

Currency Exchange Rate Impact

The currency exchange rate impact reflects the portion (expressed as a percentage) of changes in Mattel's reported results that are attributable to fluctuations in currency exchange rates.

For entities reporting in currencies other than the U.S. dollar, Mattel calculates the percentage change of period-over-period results at constant currency exchange rates (established as described below) by translating current period and prior period results using these rates. It then determines the currency exchange rate impact percentage by calculating the difference between the percentage change at such constant currency exchange rates and the percentage change at actual exchange rates.

The constant currency exchange rates are determined by Mattel at the beginning of each year and are applied consistently during the year. They are generally different from the actual exchange rates in effect during the current or prior period due to volatility in actual foreign exchange rates. Mattel considers whether any changes to the constant currency rates are appropriate at the beginning of each year. The exchange rates used for these constant currency calculations are generally based on prior year actual exchange rates.

Mattel believes that the disclosure of the percentage impact of foreign currency changes is useful supplemental information for investors to be able to gauge Mattel's current business performance and the longer-term strength of its overall business since foreign currency changes could potentially mask underlying sales trends. The disclosure of the percentage impact of foreign exchange allows investors to calculate the impact on a constant currency basis and also enhances their ability to compare financial results from one period to another.

Key Performance Indicator

Gross billings represent amounts invoiced to customers. It does not include the impact of sales adjustments, such as trade discounts and other allowances. Mattel presents changes in gross billings as a metric for comparing its aggregate, categorical, brand, and geographic results to highlight significant trends in Mattel's business. Changes in gross billings are discussed because, while Mattel records the details of sales adjustments in its financial accounting systems at the time of sale, such sales adjustments are generally not associated with categories, brands, and individual products.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Foreign Currency Exchange Rate Risk

Currency exchange rate fluctuations impact Mattel's results of operations and cash flows. Inventory transactions denominated in the Euro, Mexican peso, Australian dollar, British pound sterling, Canadian dollar, Russian ruble, and Brazilian real were the primary transactions that caused foreign currency transaction exposure for Mattel during the first quarter of 2021. Mattel seeks to mitigate its exposure to market risk by monitoring its foreign currency transaction exposure for the year and partially hedging such exposure using foreign currency forward exchange contracts primarily to hedge its purchase and sale of inventory and other intercompany transactions denominated in foreign currencies. These contracts generally have maturity dates of up to 18 months. For those intercompany receivables and payables that are not hedged, the transaction gains or losses are recorded in the consolidated statements of operations in the period in which the exchange rate changes as part of operating income (loss) or other non-operating (income) expense, net based on the nature of the underlying transaction. Transaction gains or losses on hedged intercompany inventory transactions are recorded in the consolidated statements of operations in the period in which the inventory is sold to customers. In addition, Mattel manages its exposure to currency exchange rate fluctuations through the selection of currencies used for international borrowings. Mattel does not trade in financial instruments for speculative purposes.

Mattel's financial position is also impacted by currency exchange rate fluctuations on translation of its net investments in subsidiaries with non-U.S. dollar functional currencies. Assets and liabilities of subsidiaries with non-U.S. dollar functional currencies are translated into U.S. dollars at fiscal period-end exchange rates. Income, expense, and cash flow items are translated at weighted-average exchange rates prevailing during the fiscal period. The resulting currency translation adjustments are recorded as a component of accumulated other comprehensive loss within stockholders' equity. Mattel's primary currency translation adjustments for the first quarter of 2021 were related to its net investments in entities having functional currencies denominated in the Brazilian real, Mexican peso, Euro, and Turkish lira.

There are numerous factors impacting the amount by which Mattel's financial results are affected by foreign currency translation and transaction gains and losses resulting from changes in currency exchange rates, including, but not limited to, the level of foreign currency forward exchange contracts in place at a given time and the volume of foreign currency-denominated transactions in a given period. However, assuming that such factors were held constant, Mattel estimates that a 1 percent change in the U.S. dollar Trade-Weighted Index would have impacted Mattel's first quarter net sales by approximately 0.4% and have no impact to Mattel's net loss per share.

United Kingdom Operations

During June 2016, the referendum by British voters to exit the EU ("Brexit") adversely impacted global markets and resulted in a sharp decline of the British pound sterling against the U.S. dollar. In February 2017, the British Parliament voted in favor of allowing the British government to begin the formal process of Brexit and discussions with the EU began in March 2017. On January 29, 2020, the British Parliament approved a withdrawal agreement, and the United Kingdom ("U.K.") officially withdrew from the EU on January 31, 2020 and entered into a transition period that ended on December 31, 2020.

On December 24, 2020, the U.K. and EU agreed upon The EU-UK Trade and Cooperation Agreement. The agreement was provisionally applicable beginning January 1, 2021 and sets new rules and arrangements between the U.K. and EU in areas such as the trade of goods and services, intellectual property, transportation, and more. As a result of the agreement, the U.K. is no longer considered a member of the EU Single Market and Customs Union and exited all EU policies and trade agreements. The transfer of goods between the U.K. and EU is subject to additional inspections and checkpoints causing possible delays in the movement of inventory. Although the agreement has mitigated a portion of the risk that arose due to the U.K.'s withdrawal from the EU, the overall impact on Mattel's operations is still being evaluated, including the volatility of the British pound sterling. Mattel's U.K. operations represented approximately 5% of Mattel's consolidated net sales for the three months ended March 31, 2021.

Item 4. Controls and Procedures.*Evaluation of Disclosure Controls and Procedures*

As of March 31, 2021, Mattel's disclosure controls and procedures were evaluated, with the participation of Mattel's principal executive officer and principal financial officer, to assess whether they are effective in providing reasonable assurance that information required to be disclosed by Mattel in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Based on this evaluation, Ynon Kreiz, Mattel's principal executive officer, and Anthony DiSilvestro, Mattel's principal financial officer, concluded that these disclosure controls and procedures were effective to provide reasonable assurance as of March 31, 2021.

Changes in Internal Control over Financial Reporting

There were no changes in internal control over financial reporting that occurred during the quarter ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, Mattel's internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

The content of Part I, Item 1 "Financial Statements—Note 21 to the Consolidated Financial Statements—Contingencies" of this Quarterly Report on Form 10-Q is hereby incorporated by reference in its entirety in this Item 1.

Item 1A. Risk Factors.

There have been no material changes to the risk factors disclosed under Part I, Item 1A "Risk Factors" in the 2020 Annual Report on Form 10-K.

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

Recent Sales of Unregistered Equity Securities

During the first quarter of 2021, Mattel did not sell any unregistered equity securities.

Issuer Purchases of Equity Securities

This table provides certain information with respect to Mattel's purchases of its common stock during the first quarter of 2021:

Period	Total Number of Shares (or Units) Purchased (a)	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (b)
January 1—31	4,687	\$ 18.12	—	\$ 203,016,273
February 1—28	371,505	18.47	—	203,016,273
March 1—31	978	20.27	—	203,016,273
Total	377,170	\$ 18.47	—	\$ 203,016,273

- (a) The total number of shares purchased represents shares withheld from employees to satisfy minimum tax withholding obligations that occur upon settlement of equity awards. These shares were not purchased as part of a publicly announced repurchase plan or program.
- (b) Mattel's share repurchase program was first announced on July 21, 2003. On July 17, 2013, the Board of Directors authorized Mattel to increase its share repurchase program by \$500.0 million. At March 31, 2021, share repurchase authorizations of \$203.0 million had not been executed. Repurchases under the program will take place from time to time, depending on market conditions. Mattel's share repurchase program has no expiration date.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit No.	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit(s)	Filing Date
3.0	Restated Certificate of Incorporation of Mattel, Inc.	8-K	001-05647	99.0	May 21, 2007
3.1	Amended and Restated Bylaws of Mattel, Inc.	8-K	001-05647	3.1	August 28, 2018
4.0	Specimen Stock Certificate with respect to Mattel, Inc.	10-Q	001-05647	4.0	August 3, 2007
4.1	Indenture, dated as of March 19, 2021, by and among the Issuer, the guarantors named therein, and U.S. Bank National Association, as Trustee, related to the Company's 3.375% Senior Notes due 2026	8-K	001-05647	4.1	March 19, 2021
4.2	Indenture, dated as of March 19, 2021, by and among the Issuer, the guarantors named therein, and U.S. Bank National Association, as Trustee, related to the Company's 3.750% Senior Notes due 2029	8-K	001-05647	4.2	March 19, 2021
4.3	Form of 3.375% Senior Note due 2026 (included in Exhibit 4.1)	8-K	001-05647	4.3	March 19, 2021
4.4	Form of 3.750% Senior Note due 2029 (included in Exhibit 4.2)	8-K	001-05647	4.4	March 19, 2021
10.1	Fourth Amendment to Syndicated Facility Agreement, dated as of March 19, 2021, by and among the Company, each of the other borrowers and guarantors party thereto, the lenders signatory thereto and Bank of America, N.A., as Administrative Agent, Collateral Agent and Australian Security Trustee	8-K	001-05647	10.1	March 19, 2021
31.0 *	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
31.1 *	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
32.0 **	Certifications of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
101.INS*	Inline XBRL Instance Document				
101.SCH*	Inline XBRL Taxonomy Extension Schema Document				
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document				
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document				
104*	The cover page from Mattel's Quarterly Report on Form 10-Q for the three months ended March 31, 2021, formatted in Inline XBRL.				

* Filed herewith.

** Furnished herewith. This exhibit should not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934.

SIGNATURE

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

MATTEL, INC.
Registrant

By: _____ /s/ Yoon Hugh
Yoon Hugh
Senior Vice President and Corporate Controller (Duly
Authorized Officer and Chief Accounting Officer)

Date: April 29, 2021

CERTIFICATION

I, Anthony DiSilvestro, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mattel, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 29, 2021

By: _____
/s/ Anthony DiSilvestro
Anthony DiSilvestro
Chief Financial Officer
(Principal Financial Officer)

