

MATTEL INC /DE/

Form 10-Q

April 26, 2019

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2019.

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 **95-1567322**
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
333 Continental Blvd. **90245-5012**
El Segundo, CA
(Address of principal executive offices) (Zip Code)
(310) 252-2000

(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report):
NONE

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

Indicate by check mark whether the registrant has submitted electronically 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 Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

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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 12, 2019:

345,425,041 shares

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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 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. Specific factors that might cause such a difference include, but are not limited to: (i) Mattel's ability to design, develop, produce, manufacture, source and ship products on a timely and cost-effective basis, as well as interest in and purchase of those products by retail customers and consumers in quantities and at prices that will be sufficient to profitably recover Mattel's costs; (ii) downturns in economic conditions affecting Mattel's markets which can negatively impact retail customers and consumers, and which can result in lower employment levels, lower consumer disposable income and spending, including lower spending on purchases of Mattel's products; (iii) 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; (iv) potential difficulties or delays Mattel may experience in implementing cost savings and efficiency enhancing initiatives; (v) 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; (vi) currency fluctuations, including movements in foreign exchange rates, which can lower Mattel's net revenues and earnings, and significantly impact Mattel's costs; (vii) the concentration of Mattel's customers, potentially increasing the negative impact to Mattel of difficulties experienced by any of Mattel's customers, including the bankruptcy and liquidation of Toys "R" Us, Inc., or changes in their purchasing or selling patterns; (viii) the future willingness of licensors of entertainment properties for which Mattel currently has licenses or would seek to have licenses in the future to license those products to Mattel; (ix) the inventory policies of Mattel's retail customers, including retailers' potential decisions to lower their inventories, even if it results in lost sales, 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 of popular items, overproduction of less popular items and failure to achieve compressed shipping schedules; (x) the increased costs of developing more sophisticated digital and smart technology products, and the corresponding supply chain and design challenges associated with such products; (xi) work disruptions, which may impact Mattel's ability to manufacture or deliver product in a timely and cost-effective manner; (xii) the bankruptcy and liquidation of Toys "R" Us, Inc. or other of Mattel's significant retailers, or the general lack of success of one of Mattel's significant retailers which could negatively impact Mattel's revenues or bad debt exposure; (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 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, third party actions or approvals and competition which could reduce demand for Mattel's products or 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 or arbitration decisions or settlement actions; and (xx) other risks and uncertainties detailed in Part 1, Item 1A "Risk Factors" in Mattel's 2018 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, 2019	March 31, 2018	December 31, 2018
	(Unaudited; in thousands, except share data)		
<u>ASSETS</u>			
Current Assets			
Cash and equivalents	\$ 380,107	\$ 526,724	\$ 594,481
Accounts receivable, net	624,477	676,119	970,083
Inventories	615,828	677,732	542,889
Prepaid expenses and other current assets	274,674	341,095	244,987
Total current assets	1,895,086	2,221,670	2,352,440
Noncurrent Assets			
Property, plant, and equipment, net	622,251	756,684	657,595
Right-of-use assets, net	327,419	—	—
Goodwill	1,388,758	1,397,217	1,386,424
Other noncurrent assets	848,853	928,519	847,006
Total Assets	\$ 5,082,367	\$ 5,304,090	\$ 5,243,465
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>			
Current Liabilities			
Short-term borrowings	\$ —	\$ —	\$ 4,176
Accounts payable	324,949	398,360	537,965
Accrued liabilities	661,911	578,909	700,421
Income taxes payable	19,409	9,910	10,046
Total current liabilities	1,006,269	987,179	1,252,608
Noncurrent Liabilities			
Long-term debt	2,853,454	2,871,771	2,851,723
Noncurrent lease liabilities	294,812	—	—
Other noncurrent liabilities	409,315	462,674	469,669
Total noncurrent liabilities	3,557,581	3,334,445	3,321,392
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	1,822,718	1,817,139	1,812,682
Treasury stock at cost: 95.9 million shares, 97.4 million shares, and 96.1 million shares, respectively	(2,353,175)	(2,385,850)	(2,354,617)
Retained earnings	1,445,539	1,848,957	1,629,257
Accumulated other comprehensive loss	(837,934)	(739,149)	(859,226)
Total stockholders' equity	518,517	982,466	669,465
Total Liabilities and Stockholders' Equity	\$ 5,082,367	\$ 5,304,090	\$ 5,243,465

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,	March 31,
	2019	2018
	(Unaudited; in thousands, except per share amounts)	
Net Sales	\$689,246	\$708,372
Cost of sales	449,456	489,499
Gross Profit	239,790	218,873
Advertising and promotion expenses	69,465	70,837
Other selling and administrative expenses	301,284	424,617
Operating Loss	(130,959)	(276,581)
Interest expense	46,958	41,079
Interest (income)	(2,272)	(3,147)
Other non-operating expense (income), net	1,904	(608)
Loss Before Income Taxes	(177,549)	(313,905)
Provision for (benefit from) income taxes	6,169	(2,652)
Net Loss	\$(183,718)	\$(311,253)
Net Loss Per Common Share - Basic	\$(0.53)	\$(0.90)
Weighted average number of common shares	345,852	344,434
Net Loss Per Common Share - Diluted	\$(0.53)	\$(0.90)
Weighted average number of common and potential common shares	345,852	344,434

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,	March 31,
	2019	2018
	(Unaudited; in thousands)	
Net Loss	\$(183,718)	\$(311,253)
Other Comprehensive Income, Net of Tax		
Currency translation adjustments	14,133	41,989
Defined benefit pension plan adjustments	223	1,616
Net unrealized gains (losses) on available-for-sale security	1,877	(80)
Net unrealized gains (losses) on derivative instruments:		
Unrealized holding gains (losses)	5,818	(5,319)
Reclassification adjustment for realized (losses) gains included in net loss	(759)	4,431
	5,059	(888)
Other Comprehensive Income, Net of Tax	21,292	42,637
Comprehensive Loss	\$(162,426)	\$(268,616)

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,
 2019

March 31,
 2018

(Unaudited; in thousands)

Cash Flows From

Operating Activities:

Net loss \$ (183,718) \$ (311,253)

Adjustments to
 reconcile net loss to
 net cash flows used for
 operating activities:

Depreciation 52,071 58,539
 Amortization 10,429 10,198
 Share-based
 compensation 11,865 14,423
 Bad debt expense 2,745 58,837
 Inventory
 obsolescence 21,452 19,949
 Deferred income taxes (66) (1,026)

Increase (decrease)
 from changes in assets
 and liabilities:

Accounts receivable 351,450 402,927
 Inventories (94,698) (100,347)
 Prepaid expenses and
 other current assets (28,417) (40,052)
 Accounts payable,
 accrued liabilities, and
 income taxes payable (327,821) (367,298)
 Other, net (8,102) (18,629)
 Net cash flows used
 for operating activities (192,810) (273,732)

Cash Flows From

Investing Activities:

Purchases of tools,
 dies, and molds (10,706) (21,013)
 Purchases of other
 property, plant, and
 equipment (13,409) (26,424)
 Proceeds from foreign
 currency forward
 exchange contracts, net 4,703 23,250

Other, net 212 (6,675)

Net cash flows used
 for investing activities (19,200) (30,862)

Cash Flows From

Financing Activities:

Payments of short-term borrowings	(4,176))	—	
Payments of long-term borrowings	—		(250,000))
Other, net	(173))	(1,516))
Net cash flows used for financing activities	(4,349))	(251,516))
Effect of Currency				
Exchange Rate	1,985		3,613	
Changes on Cash				
Decrease in Cash and Equivalents	(214,374))	(552,497))
Cash and Equivalents at Beginning of Period	594,481		1,079,221	
Cash and Equivalents at End of Period	\$ 380,107		\$ 526,724	

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, 2018	\$441,369	\$1,812,682	\$(2,354,617)	\$1,629,257	\$(859,226)	\$669,465
Net loss	—	—	—	(183,718)	—	(183,718)
Other comprehensive income, net of tax	—	—	—	—	21,292	21,292
Issuance of treasury stock for restricted stock units vesting	—	(1,829)	1,442	—	—	(387)
Share-based compensation	—	11,865	—	—	—	11,865
Balance, March 31, 2019	\$441,369	\$1,822,718	\$(2,353,175)	\$1,445,539	\$(837,934)	\$518,517
Balance, December 31, 2017	\$441,369	\$1,808,391	\$(2,389,877)	\$2,179,358	\$(781,786)	\$1,257,455
Cumulative effect of accounting change	—	—	—	(19,148)	—	(19,148)
Net loss	—	—	—	(311,253)	—	(311,253)
Other comprehensive income, net of tax	—	—	—	—	42,637	42,637
Issuance of treasury stock for restricted stock units vesting	—	(5,675)	4,027	—	—	(1,648)
Share-based compensation	—	14,423	—	—	—	14,423
Balance, March 31, 2018	\$441,369	\$1,817,139	\$(2,385,850)	\$1,848,957	\$(739,149)	\$982,466

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.

Mattel adopted Accounting Standards Update ("ASU") No. 2016-02—Leases (Topic 842) and its related amendments (collectively "the new lease standard") on January 1, 2019 using the modified retrospective transition method. Prior periods were not retrospectively adjusted and continue to be reported under the accounting standards in effect for those periods, as further discussed in "Note 5 to the Consolidated Financial Statements—Leases."

Mattel modified its reporting structure for revenues and reorganized its regional sales reporting structure in the first quarter of 2019. Prior period amounts have been reclassified to conform to the current period presentation, as further discussed in "Note 23 to the Consolidated Financial Statements—Segment Information."

The December 31, 2018 balance sheet data was derived from audited financial statements; however, the accompanying interim notes to the consolidated financial statements do not include all 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 its 2018 Annual Report on Form 10-K.

2. Accounts Receivable

Accounts receivable are net of allowances for doubtful accounts of \$24.3 million, \$24.9 million, and \$22.0 million as of March 31, 2019, March 31, 2018, and December 31, 2018, respectively. During the first quarter of 2018, as a result of the Toys "R" Us liquidation, Mattel reversed net sales and related accounts receivable of approximately \$30 million and recorded bad debt expense of approximately \$57 million.

3. Inventories

Inventories include the following:

	March 31, 2019	March 31, 2018	December 31, 2018
	(In thousands)		
Raw materials and work in process	\$ 118,143	\$ 119,704	\$ 115,966
Finished goods	497,685	558,028	426,923
	\$ 615,828	\$ 677,732	\$ 542,889

4. Property, Plant, and Equipment

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

	March 31, 2019	March 31, 2018	December 31, 2018
	(In thousands)		
Land	\$25,071	\$25,197	\$25,023
Buildings	298,022	298,780	294,227
Machinery and equipment	885,178	896,388	875,308
Software	398,071	387,551	400,488
Tools, dies, and molds	814,078	877,181	831,743
Capital leases	—	23,927	23,927
Leasehold improvements	241,769	245,299	240,636
	2,662,189	2,754,323	2,691,352
Less: accumulated depreciation	(2,039,938)	(1,997,639)	(2,033,757)
	\$622,251	\$756,684	\$657,595

5. Leases

Mattel adopted the new lease standard on January 1, 2019 using the modified retrospective transition method. Prior periods were not retrospectively adjusted and continue to be reported under the accounting standards in effect for those periods. Mattel elected the package of practical expedients permitted under the transition guidance within the new lease standard, which among other things, allowed Mattel to continue to account for existing leases based on the historical lease classification. Mattel also elected the practical expedients to exclude right-of-use ("ROU") assets and lease liabilities for leases with an initial term of 12 months or less from the balance sheet, and to combine lease and non-lease components for property leases, which primarily relate to ancillary expenses such as common area maintenance charges and management fees.

Mattel determines if an arrangement is a lease at inception by assessing whether it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Mattel's leases are primarily related to property leases for its retail stores, warehouses, and corporate offices. Mattel's leases have remaining lease terms of one to 14 years, and often include one or more options to renew for up to 10 years. Renewal and termination options are included in the lease term when it is reasonably certain that Mattel will exercise the option.

In addition, certain of Mattel's lease agreements include contingent rental payments based on a percentage of sales. Contingent rental expense is recorded in the period in which the contingent event becomes probable. Mattel's lease agreements do not contain any material residual guarantees or material restrictive covenants.

ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. As substantially all of Mattel's leases do not provide an implicit rate, Mattel uses its incremental borrowing rate, based on the information available at the lease commencement date, to determine the present value of lease payments. Based on the present value of lease payments for Mattel's existing leases, Mattel recorded net lease assets and lease liabilities of approximately \$343 million and \$390 million, respectively, upon adoption. The net lease assets were adjusted for deferred rent, lease incentives, and prepaid rent. Mattel had no material finance leases. The new lease standard did not materially impact Mattel's consolidated statements of operations and had no impact on Mattel's consolidated statements of cash flows.

The impact of the new lease standard on the March 31, 2019 consolidated balance sheet was as follows:

	March 31, 2019 (In thousands, except years and percentage information)
Right-of-use assets, net	\$ 327,419
Accrued liabilities	\$ 77,092
Noncurrent lease liabilities	294,812
Total lease liabilities, net	\$ 371,904

Weighted average remaining lease term 6.8 years

Weighted average discount rate 8.3 %

Operating lease costs are recognized on a straight-line basis over the lease term. Total operating lease costs for the three months ended March 31, 2019 were \$34.1 million, which included approximately \$9 million related to short-term and variable lease costs.

Supplemental cash flow information related to leases was as follows:

	March 31, 2019 (In thousands)
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows	\$ 26,426

The following table shows the future maturities of lease liabilities for leases in effect as of March 31, 2019:

Years Ending December 31,	Lease Liabilities (In thousands)
2019 (excluding the three months ended March 31, 2019)	\$ 78,289
2020	91,791
2021	76,050
2022	56,502
2023	42,406
Thereafter	149,099
Total lease payments	494,137
Less: imputed interest	(122,233)
Total	\$ 371,904

As previously disclosed in our 2018 Annual Report on Form 10-K and under the previous lease standard (Topic 840), future minimum obligations under lease commitments in effect at December 31, 2018 were as follows:

	Capital Leases (In thousands)	Operating Leases
2019	\$294	\$ 110,794
2020	25	83,566
2021	—	72,606
2022	—	59,191
2023	—	56,123
Thereafter	—	133,716
	\$319(a)	\$515,996

(a) Includes minimal imputed interest.

Rental expense under operating leases were \$127.1 million for 2018.

6. 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. 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, 2019 is shown below. Brand-specific goodwill held by foreign subsidiaries is allocated to the North America operating segment, thereby causing a foreign currency translation impact.

	December 31, 2018	Currency Exchange Rate Impact	March 31, 2019
	(In thousands)		
North America	\$731,234	\$ 632	\$731,866
International	447,619	1,702	449,321
American Girl	207,571	—	207,571
	\$1,386,424	\$ 2,334	\$1,388,758

7. Other Noncurrent Assets

Other noncurrent assets include the following:

	March 31, 2019	March 31, 2018	December 31, 2018
	(In thousands)		
Identifiable intangibles (net of accumulated amortization of \$218.3 million, \$179.0 million, and \$207.9 million, respectively)	\$580,497	\$635,143	\$587,528
Deferred income taxes	50,510	78,922	49,937
Other	217,846	214,454	209,541
	\$848,853	\$928,519	\$847,006

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. Amortizable intangible assets were not impaired during the three months ended March 31, 2019.

8. Accrued Liabilities

Accrued liabilities include the following:

	March 31, 2019	March 31, 2018	December 31, 2018
	(In thousands)		
Current lease liabilities	\$77,092	\$—	\$—
Advertising and promotion	56,553	72,179	86,935
Royalties	46,483	46,698	108,109
Taxes other than income taxes	28,202	28,281	54,317
Other	453,581	431,751	451,060
	\$661,911	\$578,909	\$700,421

9. Seasonal Financing

On December 20, 2017, Mattel, Inc. entered into a syndicated facility agreement (as amended, the "Credit Agreement"), as a borrower thereunder (in such capacity, the "Borrower"), along with certain of the Borrower's other subsidiaries as additional borrowers and/or guarantors thereunder, providing for \$1.60 billion in aggregate principal amount of senior secured revolving credit facilities (the "senior secured revolving credit facilities"), consisting of (i) an asset based lending facility with aggregate commitments of \$1.31 billion, subject to borrowing base capacity, secured by substantially all of the accounts receivable and inventory of the Borrower and its subsidiaries who are borrowers and/or guarantors under the Credit Agreement, as well as (ii) a revolving credit facility with \$294.0 million in aggregate commitments secured by certain fixed assets and intellectual property and various equity interests in the borrower and guarantor subsidiaries under the Credit Agreement. The senior secured revolving credit facilities will mature on June 1, 2021.

Borrowings under the senior secured revolving credit facilities will (i) be limited by jurisdiction-specific borrowing base calculations based on the sum of specified percentages of eligible accounts receivable, eligible inventory and certain fixed assets and intellectual property, as applicable, minus the amount of any applicable reserves, and (ii) bear interest at a floating rate, which can be either, at the Borrower's option, (a) an adjusted LIBOR rate plus an applicable margin ranging from 1.25% to 3.00% per annum or (b) an alternate base rate plus an applicable margin ranging from 0.25% to 2.00% per annum, in each case, such applicable margins to be determined based on the Borrower's average borrowing availability remaining under the senior secured revolving credit facilities.

In addition to paying interest on the outstanding principal under the senior secured revolving credit facilities, the Borrower will be required to pay (i) an unused line fee per annum of the average daily unused portion of the senior secured revolving credit facilities, (ii) a letter of credit fronting fee based on a percentage of the aggregate face amount of outstanding letters of credit, and (iii) certain other customary fees and expenses of the lenders and agents.

Mattel had no borrowings under the senior secured revolving credit facilities as of March 31, 2019, March 31, 2018, and December 31, 2018. Outstanding letters of credit under the senior secured revolving credit facilities totaled approximately \$70 million, \$42 million, and \$89 million as of March 31, 2019, March, 31, 2018, and December 31, 2018, respectively.

The Credit Agreement contains customary covenants, including, but not limited to, restrictions on the Borrower's and its subsidiaries' ability to merge and consolidate with other companies, incur indebtedness, grant liens or security interests on assets, make acquisitions, loans, advances, or investments, pay dividends, sell or otherwise transfer assets outside of the ordinary course, optionally prepay or modify terms of any junior indebtedness, enter into transactions with affiliates, or change their line of business.

The Credit Agreement requires the maintenance of a fixed charge coverage ratio of 1.00 to 1.00 at the end of each fiscal quarter when excess availability under the senior secured revolving credit facilities is less than the greater of (x) \$100 million and (y) 10% of the aggregate amount available thereunder (the "Availability Threshold") and on the last day of each subsequent fiscal quarter ending thereafter until no event of default exists and excess availability is greater than the Availability Threshold for at least 30 consecutive days.

Since the execution of the Credit Agreement, the fixed charge coverage ratio covenant has not been in effect as no event of default has occurred and as Mattel's excess availability has been greater than \$100 million and the Availability Threshold. As of March 31, 2019, Mattel was in compliance with all covenants contained in the Credit Agreement. The Credit Agreement is a material agreement, and failure to comply with the covenants may result in an event of default under the terms of the senior secured revolving credit facilities. If Mattel were to default under the terms of the senior secured revolving credit facilities, its ability to meet its seasonal financing requirements could be adversely affected.

10. Long-Term Debt

Long-term debt includes the following:

	March 31, 2019	March 31, 2018	December 31, 2018
	(In thousands)		
2010 Senior Notes due October 2020 and October 2040	\$ 500,000	\$ 500,000	\$ 500,000
2011 Senior Notes due November 2041	300,000	300,000	300,000
2013 Senior Notes due March 2023	250,000	250,000	250,000
2014 Senior Notes due May 2019	—	500,000	—
2016 Senior Notes due August 2021	350,000	350,000	350,000
2017/2018 Senior Notes due December 2025	1,500,000	1,000,000	1,500,000
Debt issuance costs and debt discount	(46,546)	(28,229)	(48,277)
	2,853,454	2,871,771	2,851,723
Less: current portion	—	—	—
Total long-term debt	\$ 2,853,454	\$ 2,871,771	\$ 2,851,723

In March 2018, Mattel repaid \$250.0 million of its 2013 Senior Notes in connection with the scheduled maturity. In May 2018, Mattel issued \$500.0 million aggregate principal amount of its 6.75% senior unsecured notes due December 31, 2025 ("2018 Senior Notes"). In June 2018, Mattel used the net proceeds from the issuance of the 2018 Senior Notes, plus cash on hand, to redeem and retire all of its 2014 Senior Notes due May 6, 2019 at a redemption price equal to the principal amount, plus accrued and unpaid interest.

11. Other Noncurrent Liabilities

Other noncurrent liabilities include the following:

	March 31, 2019	March 31, 2018	December 31, 2018
	(In thousands)		
Benefit plan liabilities	\$ 183,294	\$ 186,114	\$ 166,289
Noncurrent tax liabilities	143,723	127,912	150,960
Other	82,298	148,648	152,420
	\$ 409,315	\$ 462,674	\$ 469,669

12. Accumulated Other Comprehensive Income (Loss)

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

	For the Three Months Ended March 31, 2019				
	Derivative Instruments	Available-for-Sale Security	Defined Benefit Pension Plans	Currency Translation Adjustments	Total
	(In thousands)				
Accumulated Other Comprehensive Income (Loss), Net of Tax, as of December 31, 2018	\$ 11,411	\$ (6,547)	\$ (142,763)	\$ (721,327)	\$ (859,226)
Other comprehensive income (loss) before reclassifications	5,818	1,877	(1,206)	14,133	20,622
Amounts reclassified from accumulated other comprehensive income (loss)	(759)	—	1,429	—	670
Net increase in other comprehensive income (loss)	5,059	1,877	223	14,133	21,292
Accumulated Other Comprehensive Income (Loss), Net of Tax, as of March 31, 2019	\$ 16,470	\$ (4,670)	\$ (142,540)	\$ (707,194)	\$ (837,934)

	For the Three Months Ended March 31, 2018				
	Derivative Instruments	Available-for-Sale Security	Defined Benefit Pension Plans	Currency Translation Adjustments	Total
	(In thousands)				
Accumulated Other Comprehensive Loss, Net of Tax, as of December 31, 2017	\$ (21,098)	\$ (2,799)	\$ (143,213)	\$ (614,676)	\$ (781,786)
Other comprehensive (loss) income before reclassifications	(5,319)	(80)	(208)	41,989	36,382
Amounts reclassified from accumulated other comprehensive loss	4,431	—	1,824	—	6,255
Net (decrease) increase in other comprehensive (loss) income	(888)	(80)	1,616	41,989	42,637
Accumulated Other Comprehensive Loss, Net of Tax, as of March 31, 2018	\$ (21,986)	\$ (2,879)	\$ (141,597)	\$ (572,687)	\$ (739,149)

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, 2019	March 31, 2018	
Derivative Instruments			
Gain (loss) on foreign currency forward exchange contracts	\$927	\$(4,383)	Cost of sales
Tax effect of net gain (loss)	(168)	(48)	Provision for (benefit from) income taxes
	\$759	\$(4,431)	Net loss
Defined Benefit Pension Plans			
Amortization of prior service credit (a)	\$493	\$501	Other non-operating expense (income), net
Recognized actuarial loss (a)	(1,737)	(2,317)	Other non-operating expense (income), net
Settlement loss	—	(42)	Other non-operating expense (income), net
	(1,244)	(1,858)	
Tax effect of net loss	(185)	34	Provision for (benefit from) income taxes
	\$(1,429)	\$(1,824)	Net loss

The amortization of prior service credit and recognized actuarial loss are included in the computation of net (a) 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 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, expense, and cash flow items are translated at weighted average exchange rates prevailing during the fiscal period. The resulting currency translation adjustments are recorded as a component of accumulated other comprehensive income (loss) within stockholders' equity. Currency translation adjustments resulted in a net gain of \$14.1 million for the three months ended March 31, 2019, primarily due to the strengthening of the British pound sterling and Russian ruble against the U.S. dollar. Currency translation adjustments resulted in a net gain of \$42.0 million for the three months ended March 31, 2018, primarily due to the strengthening of the Euro, British pound sterling, and Mexican peso against the U.S. dollar.

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 ("OCI"). Realized gains and losses for these contracts are recorded in the consolidated statements of operations in the period in which the inventory is sold to customers. Additionally, Mattel uses foreign currency forward exchange contracts to hedge intercompany loans and advances denominated in foreign currencies. Due to the short-term nature of the contracts involved, Mattel does not use hedge accounting for these contracts, and as such, changes in fair value are recorded in the period of change in the consolidated statements of operations. As of March 31, 2019, March 31, 2018, and December 31, 2018, Mattel held foreign currency forward

exchange contracts with notional amounts of \$1.10 billion, \$1.10 billion, and \$962.1 million, respectively.

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

	Derivative Assets			Balance Sheet Classification
	Fair Value			
	March 31, 2019	March 31, 2018	December 31, 2018	
Derivatives designated as hedging instruments:				
Foreign currency forward exchange contracts	\$ 16,703	\$ 1,787	\$ 12,122	Prepaid expenses and other current assets
Foreign currency forward exchange contracts	3,041	390	1,613	Other noncurrent assets
Total derivatives designated as hedging instruments	\$ 19,744	\$ 2,177	\$ 13,735	
Derivatives not designated as hedging instruments:				
Foreign currency forward exchange contracts	\$ 377	\$ 1,424	\$ 2,357	Prepaid expenses and other current assets
Total	\$ 20,121	\$ 3,601	\$ 16,092	

	Derivative Liabilities			Balance Sheet Classification
	Fair Value			
	March 31, 2019	March 31, 2018	December 31, 2018	
Derivatives designated as hedging instruments:				
Foreign currency forward exchange contracts	\$ 1,045	\$ 17,456	\$ 954	Accrued liabilities
Foreign currency forward exchange contracts	146	1,419	185	Other noncurrent liabilities
Total derivatives designated as hedging instruments	\$ 1,191	\$ 18,875	\$ 1,139	
Derivatives not designated as hedging instruments:				
Foreign currency forward exchange contracts	\$ 4,992	\$ 4,663	\$ 1,771	Accrued liabilities
Total	\$ 6,183	\$ 23,538	\$ 2,910	

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

	For the Three Months Ended				Statements of Operations Classification
	March 31, 2019		March 31, 2018		
	Amount of Gain Recognized in OCI	Amount of Gain from Accumulated OCI to Statement of Operations	Amount of (Loss) Recognized in OCI	Amount of (Loss) Reclassified from Accumulated OCI to Statement of Operations	
Derivatives designated as hedging instruments:					
Foreign currency forward exchange contracts	\$ 5,818	\$ 759	\$ (5,319)	\$ (4,431)	Cost of sales

The net gain of \$0.8 million and the net loss of \$4.4 million reclassified from accumulated other comprehensive loss to the consolidated statements of operations for the three months ended March 31, 2019 and 2018, respectively, are offset by the changes in cash flows associated with the underlying hedged transactions.

Amount of (Loss)
Gain Recognized in the
Statements of
Operations **Statements of Operations**
For the Three **Classification**
Months Ended
March 31, March 31,
2019 2018
(In thousands)

Derivatives not designated as hedging instruments:

Foreign currency forward exchange contracts	\$(498)	\$14,688	Other non-operating expense (income), net
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The net loss of \$0.5 million and net gain of \$14.7 million recognized in the consolidated statements of operations for the three months ended March 31, 2019 and 2018, respectively, are 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, 2019, March 31, 2018, and December 31, 2018 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value. The three levels of the fair value hierarchy are as follows:

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

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

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

Mattel's financial assets and liabilities include the following:

March 31, 2019

Level 1 Level 2 Level 3 Total

(In thousands)

Assets:

Foreign currency forward exchange contracts (a) \$— \$20,121 \$ —\$20,121

Available-for-sale security (b) 7,150 — — 7,150

Total assets \$7,150 \$20,121 \$ —\$27,271

Liabilities:

Foreign currency forward exchange contracts (a) \$— \$6,183 \$ —\$6,183

March 31, 2018

Level 1 Level 2 Level 3 Total

(In thousands)

Assets:

Foreign currency forward exchange contracts (a) \$— \$3,601 \$ —\$3,601

Available-for-sale security (b) 8,911 — — 8,911

Total assets \$8,911 \$3,601 \$ —\$12,512

Liabilities: