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 September 30, 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 incorporation or organization)	**(I.R.S. Employer Identification No.)**
333 Continental Blvd.	
El Segundo, CA	**90245-5012**
(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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
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	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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 October 25, 2019: 346,715,490 shares

(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; (xx) uncertainty from the expected discontinuance of LIBOR and transition to any other interest rate benchmark; (xxi) an inability to remediate the material weakness in our internal control over financial reporting or additional material weaknesses or other deficiencies in the future or the failure to maintain an effective system of internal controls; and (xxii) other risks and uncertainties detailed in Part 1, Item 1A "Risk Factors" in Mattel's 2018 Annual Report on Form 10-K/A. 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

	September 30, 2019	September 30, 2018	December 31, 2018
	(Unaudited; in thousands, except share data)		
ASSETS			
Current Assets			
Cash and equivalents	$ 218,298	$ 209,150	$ 594,481
Accounts receivable, net	1,291,255	1,312,932	970,083
Inventories	701,567	726,012	542,889
Prepaid expenses and other current assets	225,877	287,042	239,747
Total current assets	2,436,997	2,535,136	2,347,200
Noncurrent Assets			
Property, plant, and equipment, net	572,269	677,030	657,595
Right-of-use assets, net	306,223	—	—
Goodwill	1,382,588	1,388,883	1,386,424
Other noncurrent assets	829,504	880,796	847,006
Total Assets	$ 5,527,581	$ 5,481,845	$ 5,238,225
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Short-term borrowings	$ 230,000	$ 275,000	$ 4,176
Accounts payable	512,491	529,720	537,965
Accrued liabilities	732,262	690,858	704,369
Income taxes payable	48,795	5,813	13,520
Total current liabilities	1,523,548	1,501,391	1,260,030
Noncurrent Liabilities			
Long-term debt	2,856,773	2,849,922	2,851,723
Noncurrent lease liabilities	273,906	—	—
Other noncurrent liabilities	419,696	471,510	469,669
Total noncurrent liabilities	3,550,375	3,321,432	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	1,811,214	1,802,556	1,812,682
Treasury stock at cost: 94.7 million shares, 96.2 million shares, and 96.1 million shares, respectively	(2,321,012)	(2,356,836)	(2,354,617)
Retained earnings	1,402,908	1,606,955	1,616,595
Accumulated other comprehensive loss	(880,821)	(835,022)	(859,226)
Total stockholders' equity	453,658	659,022	656,803
Total Liabilities and Stockholders' Equity	$ 5,527,581	$ 5,481,845	$ 5,238,225

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		For the Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	(Unaudited; in thousands, except per share amounts)			
Net Sales	$ 1,481,557	$ 1,437,451	$ 3,030,866	$ 2,990,529
Cost of sales	795,130	824,395	1,763,265	1,901,440
Gross Profit	686,427	613,056	1,267,601	1,089,089
Advertising and promotion expenses	170,379	165,308	324,333	318,538
Other selling and administrative expenses	365,961	325,874	971,608	1,110,491
Operating Income (Loss)	150,087	121,874	(28,340)	(339,940)
Interest expense	47,689	48,156	140,881	132,702
Interest (income)	(821)	(785)	(4,625)	(5,631)
Other non-operating expense, net	1,264	1,911	2,874	4,366
Income (Loss) Before Income Taxes	101,955	72,592	(167,470)	(471,377)
Provision for income taxes	31,359	66,314	46,217	71,561
Net Income (Loss)	$ 70,596	$ 6,278	$ (213,687)	$ (542,938)
Net Income (Loss) Per Common Share - Basic	$ 0.20	$ 0.02	$ (0.62)	$ (1.57)
Weighted average number of common shares	346,698	345,285	346,210	344,774
Net Income (Loss) Per Common Share - Diluted	$ 0.20	$ 0.02	$ (0.62)	$ (1.57)
Weighted average number of common and potential common shares	348,487	345,672	346,210	344,774

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

MATTEL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	(Unaudited; in thousands)			
Net Income (Loss)	$ 70,596	$ 6,278	$ (213,687)	$ (542,938)
Other Comprehensive Loss, Net of Tax				
Currency translation adjustments	(46,722)	(17,132)	(33,759)	(80,870)
Defined benefit pension plan adjustments	883	1,762	1,730	4,447
Net unrealized (losses) gains on available-for-sale security	(1,922)	424	(1,989)	(2,365)
Net unrealized gains on derivative instruments:				
Unrealized holding gains	12,996	3,215	22,068	15,548
Amounts reclassified from accumulated other comprehensive loss	(6,394)	787	(9,645)	10,004
	6,602	4,002	12,423	25,552
Other Comprehensive Loss, Net of Tax	(41,159)	(10,944)	(21,595)	(53,236)
Comprehensive Income (Loss)	$ 29,437	$ (4,666)	$ (235,282)	$ (596,174)

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

MATTEL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Nine Months Ended	
	September 30, 2019	September 30, 2018
	(Unaudited; in thousands)	
Cash Flows From Operating Activities		
Net loss	$ (213,687)	$ (542,938)
Adjustments to reconcile net loss to net cash flows used for operating activities:		
Depreciation	156,252	179,617
Amortization	30,162	29,925
Asset impairments	9,344	13,653
Share-based compensation	39,140	36,187
Bad debt expense	2,869	43,617
Inventory obsolescence	56,913	56,586
Indefinite reinvestment assertion and U.S. Tax Act	—	23,833
Deferred income taxes	(13,424)	2,425
Increase (decrease) from changes in assets and liabilities:		
Accounts receivable	(337,530)	(259,739)
Inventories	(229,524)	(210,437)
Prepaid expenses and other current assets	14,703	1,862
Accounts payable, accrued liabilities, and income taxes payable	(29,026)	(100,213)
Other, net	147	(5,830)
Net cash flows used for operating activities	(513,661)	(731,452)
Cash Flows From Investing Activities		
Purchases of tools, dies, and molds	(36,715)	(58,187)
Purchases of other property, plant, and equipment	(38,962)	(52,945)
Payments for foreign currency forward exchange contracts, net	(3,394)	(10,220)
Other, net	702	6,712
Net cash flows used for investing activities	(78,369)	(114,640)
Cash Flows From Financing Activities		
Proceeds from short-term borrowings, net	225,824	275,000
Payments of long-term borrowings	—	(750,000)
Proceeds from long-term borrowings, net	—	475,550
Other, net	(7,523)	(11,236)
Net cash flows provided by (used for) financing activities	218,301	(10,686)
Effect of Currency Exchange Rate Changes on Cash	(2,454)	(13,293)
Decrease in Cash and Equivalents	(376,183)	(870,071)
Cash and Equivalents at Beginning of Period	594,481	1,079,221
Cash and Equivalents at End of Period	$ 218,298	$ 209,150

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)	$ 1,616,595	$ (859,226)	$ 656,803
Net loss	—	—	—	(176,296)	—	(176,296)
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)	1,440,299	(837,934)	513,277
Net loss	—	—	—	(107,987)	—	(107,987)
Other comprehensive loss, net of tax	—	—	—	—	(1,728)	(1,728)
Issuance of treasury stock for restricted stock units vesting	—	(3,060)	3,025	—	—	(35)
Deferred compensation	—	(151)	276	—	—	125
Share-based compensation	—	12,445	—	—	—	12,445
Balance, June 30, 2019	441,369	1,831,952	(2,349,874)	1,332,312	(839,662)	416,097
Net income	—	—	—	70,596	—	70,596
Other comprehensive loss, net of tax	—	—	—	—	(41,159)	(41,159)
Issuance of treasury stock for restricted stock units vesting	—	(35,569)	28,862	—	—	(6,707)
Share-based compensation	—	14,831	—	—	—	14,831
Balance, September 30, 2019	$ 441,369	$ 1,811,214	$ (2,321,012)	$ 1,402,908	$ (880,821)	$ 453,658

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	(Unaudited; in thousands)					
Balance, December 31, 2017	$ 441,369	$ 1,808,391	$ (2,389,877)	$ 2,169,002	$ (781,786)	$ 1,247,099
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)	1,838,601	(739,149)	972,110
Net loss	—	—	—	(237,963)	—	(237,963)
Other comprehensive loss, net of tax	—	—	—	—	(84,929)	(84,929)
Issuance of treasury stock for restricted stock units vesting	—	(4,625)	3,872	—	—	(753)
Deferred compensation	—	(77)	201	—	—	124
Share-based compensation	—	7,994	—	—	—	7,994
Balance, June 30, 2018	441,369	1,820,431	(2,381,777)	1,600,638	(824,078)	656,583
Net income	—	—	—	6,278	—	6,278
Other comprehensive loss, net of tax	—	—	—	—	(10,944)	(10,944)
Issuance of treasury stock for restricted stock units vesting	—	(31,645)	24,941	—	—	(6,704)
Share-based compensation	—	13,770	—	—	—	13,770
Dividend equivalents for restricted stock units	—	—	—	39	—	39
Balance, September 30, 2018	$ 441,369	$ 1,802,556	$ (2,356,836)	$ 1,606,955	$ (835,022)	$ 659,022

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

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/A.

Revision of Consolidated Financial Statements

In its 2018 Annual Report on Form 10-K/A filed on November 12, 2019 ("2018 Form 10-K/A"), Mattel revised its audited consolidated financial statements as of December 31, 2018 and 2017, and for each of the three years in the period ended December 31, 2018 to correct for misstatements which the Company has determined to be immaterial, both individually and in the aggregate. The revision of these periods was effective upon the filing of the 2018 Form 10-K/A.

Mattel is also revising its unaudited consolidated financial statements for the first and second quarters of 2019 and the first, second, and third quarters of 2018 to correct for prior period misstatements, which Mattel has determined did not, either individually or in the aggregate, materially misstate its previously issued consolidated financial statements. These misstatements related to the improper capitalization of certain advertising costs, the under-accrual of sales adjustments and employee related costs, an increase to the provision for income taxes, and an adjustment for the misclassification between amounts within operating cash flows. Accordingly, the accompanying financial statements as of and for the three and nine months ended September 30, 2018 have been revised to correct for such misstatements. Further information regarding the revision of Mattel's unaudited consolidated financial statements is included in Note 25 - Revision of Quarterly Information.

Mattel will also affect the revision of its unaudited consolidated financial statements for the three months ended March 31, 2019 and the three and six months ended June 30, 2019 with the future filing of its Form 10-Q for the three months ended March 31, 2020 and the three and six months ended June 30, 2020.

All relevant footnotes to the consolidated financial statements in this Form 10-Q have also been revised to reflect the items discussed above.

2. Accounts Receivable

Accounts receivable are net of allowances for doubtful accounts of $22.4 million, $23.4 million, and $22.0 million as of September 30, 2019, September 30, 2018, and December 31, 2018, respectively.

3. Inventories

Inventories include the following:

	September 30, 2019	September 30, 2018	December 31, 2018
		(In thousands)	
Raw materials and work in process	$ 107,562	$ 129,088	$ 115,966
Finished goods	594,005	596,924	426,923
	$ 701,567	$ 726,012	$ 542,889

4. Property, Plant, and Equipment

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

	September 30, 2019	September 30, 2018	December 31, 2018
		(In thousands)	
Land	$ 25,086	$ 25,064	$ 25,023
Buildings	299,489	298,659	294,227
Machinery and equipment	866,002	873,574	875,308
Software	413,903	387,503	400,488
Tools, dies, and molds	801,064	864,089	831,743
Capital leases	—	23,927	23,927
Leasehold improvements	211,455	239,587	240,636
	2,616,999	2,712,403	2,691,352
Less: accumulated depreciation	(2,044,730)	(2,035,373)	(2,033,757)
	$ 572,269	$ 677,030	$ 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 up to 13 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 September 30, 2019 consolidated balance sheet was as follows:

		September 30, 2019
		(In thousands, except years and percentage information)
Right-of-use assets, net	$	306,223
Accrued liabilities	$	73,297
Noncurrent lease liabilities		273,906
Total lease liabilities	$	347,203
Weighted average remaining lease term		6.6 years
Weighted average discount rate		8.0%

Operating lease costs are recognized on a straight-line basis over the lease term. Total operating lease costs for the three months ended September 30, 2019 were $35.4 million, which included approximately $11 million related to short-term and variable lease costs. Total operating lease costs for the nine months ended September 30, 2019 were $104.7 million, which included approximately $31 million related to short-term and variable lease costs.

Supplemental information related to leases was as follows:

		For the Three Months Ended September 30, 2019		For the Nine Months Ended September 30, 2019
		(In thousands)		
Cash paid for amounts included in the measurement of operating lease liabilities	$	26,048	$	79,217
Right-of-use assets obtained in exchange for new operating lease liabilities	$	10,789	$	18,221

The following table shows the future maturities of lease liabilities for leases in effect as of September 30, 2019:

Years Ending December 31,		Lease Liabilities
		(In thousands)
2019 (excluding the nine months ended September 30, 2019)	$	25,240
2020		93,741
2021		79,984
2022		59,965
2023		44,657
Thereafter		151,851
		455,438
Less: imputed interest		(108,235)
	$	347,203

As disclosed in its 2018 Annual Report on Form 10-K/A 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	Operating Leases
	(In thousands)	
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 was $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.

In the third quarter of 2019, Mattel performed its annual impairment test and determined that goodwill was not impaired. The change in the carrying amount of goodwill by operating segment for the nine months ended September 30, 2019 is shown below. Brand-specific goodwill held by foreign subsidiaries is allocated to the North America segment, thereby causing a foreign currency translation impact.

	December 31, 2018	Currency Exchange Rate Impact	September 30, 2019
		(In thousands)	
North America	$ 731,234	$ (1,101)	$ 730,133
International	447,619	(2,735)	444,884
American Girl	207,571	—	207,571
	$ 1,386,424	$ (3,836)	$ 1,382,588

7. Other Noncurrent Assets

Other noncurrent assets include the following:

	September 30, 2019	September 30, 2018	December 31, 2018
		(In thousands)	
Identifiable intangible assets (net of accumulated amortization of $238.1 million, $198.7 million, and $207.9 million, respectively)	$ 552,332	$ 599,938	$ 587,528
Deferred income taxes	63,551	75,590	49,937
Other	213,621	205,268	209,541
	$ 829,504	$ 880,796	$ 847,006

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 and nine months ended September 30, 2019. During the second quarter of 2018 and nine months ended September 30, 2018, Mattel discontinued the use of certain brands and products, which resulted in $4.3 million of asset impairments. Mattel's remaining amortizable intangible assets were not impaired during the three and nine months ended September 30, 2018.

8. Accrued Liabilities

Accrued liabilities include the following:

	September 30, 2019	September 30, 2018	December 31, 2018
		(In thousands)	
Advertising and promotion	$ 117,561	$ 131,509	$ 86,935
Royalties	92,154	92,998	108,109
Current lease liabilities	73,297	—	—
Taxes other than income taxes	52,381	52,273	54,317
Other	396,869	414,078	455,008

$	732,262	$	690,858	$	704,369

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 (i) are 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 is 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 borrowings under the senior secured revolving credit facilities of approximately $230 million and $275 million as of September 30, 2019 and September 30, 2018, respectively, and had no borrowings under the senior secured revolving credit facilities as of December 31, 2018. Outstanding letters of credit under the senior secured revolving credit facilities totaled approximately $65 million, $81 million, and $89 million as of September 30, 2019, September 30, 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 September 30, 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:

	September 30, 2019	September 30, 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
2016 Senior Notes due August 2021	350,000	350,000	350,000
2017/2018 Senior Notes due December 2025	1,500,000	1,500,000	1,500,000
Debt issuance costs and debt discount	(43,227)	(50,078)	(48,277)
	2,856,773	2,849,922	2,851,723
Less: current portion	—	—	—
	$ 2,856,773	$ 2,849,922	$ 2,851,723

11. Other Noncurrent Liabilities

Other noncurrent liabilities include the following:

	September 30, 2019	September 30, 2018	December 31, 2018
		(In thousands)	
Benefit plan liabilities	$ 183,214	$ 177,289	$ 186,380
Noncurrent income tax liabilities	146,297	156,135	150,960
Other	90,185	138,086	132,329
	$ 419,696	$ 471,510	$ 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 September 30, 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 June 30, 2019	$ 17,232	$ (6,614)	$ (141,916)	$ (708,364)	$ (839,662)
Other comprehensive income (loss) before reclassifications	12,996	(1,922)	(359)	(46,722)	(36,007)
Amounts reclassified from accumulated other comprehensive income (loss)	(6,394)	—	1,242	—	(5,152)
Net increase (decrease) in other comprehensive income (loss)	6,602	(1,922)	883	(46,722)	(41,159)
Accumulated Other Comprehensive Income (Loss), Net of Tax, as of September 30, 2019	$ 23,834	$ (8,536)	$ (141,033)	$ (755,086)	$ (880,821)

	For the Nine Months Ended September 30, 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	22,068	(1,989)	(2,183)	(33,759)	(15,863)
Amounts reclassified from accumulated other comprehensive income (loss)	(9,645)	—	3,913	—	(5,732)
Net increase (decrease) in other comprehensive income (loss)	12,423	(1,989)	1,730	(33,759)	(21,595)
Accumulated Other Comprehensive Income (Loss), Net of Tax, as of September 30, 2019	$ 23,834	$ (8,536)	$ (141,033)	$ (755,086)	$ (880,821)

	For the Three Months Ended September 30, 2018				
	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 June 30, 2018	$ 452	$ (5,588)	$ (140,528)	$ (678,414)	$ (824,078)
Other comprehensive income (loss) before reclassifications	3,215	424	219	(17,132)	(13,274)
Amounts reclassified from accumulated other comprehensive income (loss)	787	—	1,543	—	2,330
Net increase (decrease) in other comprehensive income (loss)	4,002	424	1,762	(17,132)	(10,944)
Accumulated Other Comprehensive Income (Loss), Net of Tax, as of September 30, 2018	$ 4,454	$ (5,164)	$ (138,766)	$ (695,546)	$ (835,022)

	For the Nine Months Ended September 30, 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 income (loss) before reclassifications	15,548	(2,365)	(2,888)	(80,870)	(70,575)
Amounts reclassified from accumulated other comprehensive loss	10,004	—	7,335	—	17,339
Net increase (decrease) in other comprehensive income (loss)	25,552	(2,365)	4,447	(80,870)	(53,236)
Accumulated Other Comprehensive Income (Loss), Net of Tax, as of September 30, 2018	$ 4,454	$ (5,164)	$ (138,766)	$ (695,546)	$ (835,022)

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		
	September 30, 2019	September 30, 2018	Statements of Operations Classification
	(In thousands)		
Derivative Instruments			
Gain (loss) on foreign currency forward exchange contracts	$ 6,583	$ (910)	Cost of sales
Tax effect of net gain (loss)	(189)	123	Provision for income taxes
	$ 6,394	$ (787)	Net income (loss)
Defined Benefit Pension Plans			
Amortization of prior service credit (a)	$ 494	$ 502	Other non-operating expense, net
Recognized actuarial loss (a)	(1,736)	(2,045)	Other non-operating expense, net
	(1,242)	(1,543)	
Tax effect of net loss	—	—	Provision for income taxes
	$ (1,242)	$ (1,543)	Net income (loss)

	For the Nine Months Ended		
	September 30, 2019	September 30, 2018	Statements of Operations Classification
	(In thousands)		
Derivative Instruments			
Gain (loss) on foreign currency forward exchange contracts	$ 10,185	$ (10,060)	Cost of sales
Tax effect of net gain (loss)	(540)	56	Provision for income taxes
	$ 9,645	$ (10,004)	Net income (loss)
Defined Benefit Pension Plans			
Amortization of prior service credit (a)	$ 1,480	$ 1,505	Other non-operating expense, net
Recognized actuarial loss (a)	(5,208)	(6,408)	Other non-operating expense, net
Settlement loss	—	(2,443)	Other non-operating expense, net
	(3,728)	(7,346)	
Tax effect of net loss	(185)	11	Provision for income taxes
	$ (3,913)	$ (7,335)	Net income (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 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 loss of $33.8 million for the nine months ended September 30, 2019, primarily due to the weakening of the British pound sterling, Euro, and Brazilian real against the U.S. dollar, partially offset by the strengthening of the Russian ruble against the U.S. dollar. Currency translation adjustments resulted in a net loss of $80.9 million for the nine months ended September 30, 2018, primarily due to the weakening of the Euro, Brazilian real, Russian ruble, British pound sterling, and Turkish lira 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 September 30, 2019, September 30, 2018, and December 31, 2018, Mattel held foreign currency forward exchange contracts with notional amounts of $832.4 million, $936.8 million, and $962.1 million, respectively.

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

	Derivative Assets			
	Fair Value			
	September 30, 2019	September 30, 2018	December 31, 2018	Balance Sheet Classification
	(In thousands)			
Derivatives designated as hedging instruments				
Foreign currency forward exchange contracts	$ 22,077	$ 7,399	$ 12,122	Prepaid expenses and other current assets
Foreign currency forward exchange contracts	4,942	1,758	1,613	Other noncurrent assets
Total derivatives designated as hedging instruments	$ 27,019	$ 9,157	$ 13,735	
Derivatives not designated as hedging instruments				
Foreign currency forward exchange contracts	$ 619	$ 619	$ 2,357	Prepaid expenses and other current assets
	$ 27,638	$ 9,776	$ 16,092	

	Derivative Liabilities			
	Fair Value			
	September 30, 2019	September 30, 2018	December 31, 2018	Balance Sheet Classification
	(In thousands)			
Derivatives designated as hedging instruments				
Foreign currency forward exchange contracts	$ 426	$ 5,219	$ 954	Accrued liabilities
Foreign currency forward exchange contracts	48	68	185	Other noncurrent liabilities
Total derivatives designated as hedging instruments	$ 474	$ 5,287	$ 1,139	
Derivatives not designated as hedging instruments				
Foreign currency forward exchange contracts	$ 2,736	$ 4,505	$ 1,771	Accrued liabilities
	$ 3,210	$ 9,792	$ 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				
	September 30, 2019		September 30, 2018		
	Amount of Gain Recognized in OCI	Amount of Gain Reclassified from Accumulated OCI to Statement of Operations	Amount of Gain Recognized in OCI	Amount of (Loss) Reclassified from Accumulated OCI to Statement of Operations	Statements of Operations Classification
	(In thousands)				
Derivatives designated as hedging instruments					
Foreign currency forward exchange contracts	$ 12,996	$ 6,394	$ 3,215	$ (787)	Cost of sales

	For the Nine Months Ended				
	September 30, 2019		September 30, 2018		
	Amount of Gain Recognized in OCI	Amount of Gain Reclassified from Accumulated OCI to Statement of Operations	Amount of Gain Recognized in OCI	Amount of (Loss) Reclassified from Accumulated OCI to Statement of Operations	Statements of Operations Classification
	(In thousands)				
Derivatives designated as hedging instruments					
Foreign currency forward exchange contracts	$ 22,068	$ 9,645	$ 15,548	$ (10,004)	Cost of sales

The net gains of $6.4 million and $9.6 million reclassified from accumulated other comprehensive loss to the consolidated statements of operations for the three and nine months ended September 30, 2019, respectively, and the net losses of $0.8 million and $10.0 million reclassified from accumulated other comprehensive loss to the consolidated statements of operations for the three and nine months ended September 30, 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		
	For the Three Months Ended		
	September 30, 2019	September 30, 2018	Statements of Operations Classification
	(In thousands)		
Derivatives not designated as hedging instruments			
Foreign currency forward exchange contracts	$ (9,965)	$ (2,332)	Other non-operating expense, net
Foreign currency forward exchange contracts	—	15	Cost of sales
	$ (9,965)	$ (2,317)	

	Amount of Loss Recognized in the Statements of Operations		
	For the Nine Months Ended		
	September 30, 2019	September 30, 2018	Statements of Operations Classification
	(In thousands)		
Derivatives not designated as hedging instruments			
Foreign currency forward exchange contracts	$ (6,097)	$ (19,196)	Other non-operating expense, net
Foreign currency forward exchange contracts	—	(233)	Cost of sales
	$ (6,097)	$ (19,429)	

The net losses of $10.0 million and $6.1 million recognized in the consolidated statements of operations for the three and nine months ended September 30, 2019, respectively, and the net losses of $2.3 million and $19.4 million recognized in the consolidated statements of operations for the three and nine months ended September 30, 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 September 30, 2019, September 30, 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:

	September 30, 2019			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets				
Foreign currency forward exchange contracts (a)	$ —	$ 27,638	$ —	$ 27,638
Available-for-sale security (b)	3,284	—	—	3,284
Total assets	$ 3,284	$ 27,638	$ —	$ 30,922
Liabilities				
Foreign currency forward exchange contracts (a)	$ —	$ 3,210	$ —	$ 3,210

	September 30, 2018			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets				
Foreign currency forward exchange contracts (a)	$ —	$ 9,776	$ —	$ 9,776
Available-for-sale security (b)	6,657	—	—	6,657
Total assets	$ 6,657	$ 9,776	$ —	$ 16,433
Liabilities				
Foreign currency forward exchange contracts (a)	$ —	$ 9,792	$ —	$ 9,792

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets				
Foreign currency forward exchange contracts (a)	$ —	$ 16,092	$ —	$ 16,092
Available-for-sale security (b)	5,243	—	—	5,243
Total assets	$ 5,243	$ 16,092	$ —	$ 21,335
Liabilities				
Foreign currency forward exchange contracts (a)	$ —	$ 2,910	$ —	$ 2,910

(a) The fair value of the foreign currency forward exchange contracts 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.

Non-Recurring Fair Value Measurements

Mattel tests its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable or that the carrying value may exceed its fair value. Mattel fully impaired certain property, plant, and equipment in the amounts of $2.5 million and $9.3 million for the three and nine months ended September 30, 2019, respectively, and fully impaired certain intangible assets and property, plant, and equipment in the amounts of $1.8 million and $13.7 million for the three and nine months ended September 30, 2018, respectively, due to discontinued use. There was no remaining value attributed to the identified intangible assets and property, plant, and equipment impaired during the nine months ended September 30, 2019 and 2018.

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 $2.84 billion (compared to a carrying value of $2.90 billion) as of September 30, 2019, $2.70 billion (compared to a carrying value of $2.90 billion) as of September 30, 2018, and $2.49 billion (compared to a carrying value of $2.90 billion) as of December 31, 2018. 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

Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of earnings per share pursuant to the two-class method. Prior to June 30, 2018, certain of Mattel's restricted stock units ("RSUs") were considered participating securities because they contained nonforfeitable rights to dividend equivalents.

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

The following table reconciles earnings per common share for the three and nine months ended September 30, 2019 and 2018:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	(In thousands, except per share amounts)			
Basic				
Net income (loss)	$ 70,596	$ 6,278	$ (213,687)	$ (542,938)
Less: Net income (loss) allocable to participating RSUs (a)	—	—	—	—
Net income (loss) available for basic common shares	$ 70,596	$ 6,278	$ (213,687)	$ (542,938)
Weighted average number of common shares	346,698	345,285	346,210	344,774
Basic net income (loss) per common share	$ 0.20	$ 0.02	$ (0.62)	$ (1.57)
Diluted				
Net income (loss)	$ 70,596	$ 6,278	$ (213,687)	$ (542,938)
Less: Net income (loss) allocable to participating RSUs (a)	—	—	—	—
Net income (loss) available for diluted common shares	$ 70,596	$ 6,278	$ (213,687)	$ (542,938)
Weighted average number of common shares	346,698	345,285	346,210	344,774
Weighted average number of common equivalent shares from:				
Dilutive stock options and non-participating RSUs (b)	1,789	387	—	—
Weighted average number of common and potential common shares	348,487	345,672	346,210	344,774
Diluted net income (loss) per common share	$ 0.20	$ 0.02	$ (0.62)	$ (1.57)

(a) *Mattel did not have participating RSUs for the three and nine months ended September 30, 2019 and for the three months ended September 30, 2018. For the nine months ended September 30, 2018, Mattel did not allocate its net loss to its participating RSUs as its participating RSUs were not obligated to share in the losses of the Company.*

(b) *Nonqualified stock options and nonparticipating RSUs totaling 25.3 million and 22.6 million shares were excluded from the calculation of diluted net income per common share for the three months ended September 30, 2019 and 2018, respectively, because their effect would be antidilutive. Mattel was in a net loss position for the nine months ended September 30, 2019 and 2018, and, accordingly, all outstanding nonqualified stock options and non-participating 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 its 2018 Annual Report on Form 10-K/A.

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		For the Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	(In thousands)			
Service cost	$ 923	$ 1,014	$ 3,557	$ 3,206
Interest cost	4,812	4,494	14,478	13,691
Expected return on plan assets	(5,402)	(5,621)	(16,280)	(16,952)
Amortization of prior service cost	16	7	48	23
Recognized actuarial loss	1,832	2,125	5,496	6,648
Settlement loss	—	—	—	2,443
	$ 2,181	$ 2,019	$ 7,299	$ 9,059

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	(In thousands)			
Service cost	$ 1	$ —	$ 1	$ 1
Interest cost	50	52	150	156
Amortization of prior service credit	(510)	(509)	(1,528)	(1,528)
Recognized actuarial gain	(96)	(80)	(288)	(240)
	$ (555)	$ (537)	$ (1,665)	$ (1,611)

During the nine months ended September 30, 2019, Mattel made cash contributions totaling approximately $4 million related to its defined benefit pension and postretirement benefit plans. During the remainder of 2019, Mattel expects to make additional cash contributions of approximately $3 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 its 2018 Annual Report on Form 10-K/A. 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 10 years from the date of grant. Stock options and RSUs generally provide for vesting over a period of three years from the date of grant.

As of September 30, 2019, three long-term incentive programs were in place with the following performance cycles: (i) a January 1, 2017–December 31, 2019 performance cycle, (ii) a January 1, 2018–December 31, 2020 performance cycle, and (iii) a January 1, 2019–December 31, 2021 performance cycle.

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	(In thousands)			
Stock option compensation expense	$ 2,786	$ 2,751	$ 7,359	$ 6,125
RSU compensation expense (a)	12,045	11,019	31,781	30,062
	$ 14,831	$ 13,770	$ 39,140	$ 36,187

(a) *Includes compensation expense of $3.9 million and $6.0 million associated with Mattel's long-term incentive programs for the three and nine months ended September 30, 2019, respectively.*

As of September 30, 2019, total unrecognized compensation expense related to unvested share-based payments totaled $104.5 million and is expected to be recognized over a weighted average period of 2.1 years.

Mattel uses treasury shares purchased under its share repurchase program to satisfy stock option exercises and the vesting of RSUs. No cash was received for stock option exercises during the nine months ended September 30, 2019 and 2018.

18. Other Selling and Administrative Expenses

Other selling and administrative expenses include the following:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	(In thousands)			
Design and development	$ 48,811	$ 48,766	$ 143,441	$ 154,987
Identifiable intangible asset amortization	$ 9,824	$ 10,195	$ 30,162	$ 29,925

19. 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 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, British pound sterling, Canadian dollar, Russian ruble, and Brazilian real were the primary transactions that caused foreign currency transaction exposure for Mattel during the nine months ending September 30, 2019.

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	(In thousands)			
Operating income (loss)	$ 1,316	$ (4,482)	$ (1,782)	$ (9,023)
Other non-operating expense, net	(1,254)	(1,568)	(1,804)	(535)
Currency transaction gains (losses), net	$ 62	$ (6,050)	$ (3,586)	$ (9,558)

20. Restructuring Charges

Structural Simplification Cost Savings Program

During the third quarter of 2017, Mattel initiated its Structural Simplification cost savings program. The major initiatives of the Structural Simplification cost savings program include:

- Reducing manufacturing complexity, including SKU reduction, and implementing process improvement initiatives at owned and co-manufacturing facilities;
- Streamlining the organizational structure and reducing headcount expense to better align with the revenue base; and
- Optimizing advertising spend.

In connection with the Structural Simplification cost savings program, Mattel recorded severance and other restructuring charges of $3.4 million and $18.6 million during the three and nine months ended September 30, 2019, respectively, within other selling and administrative expenses in the consolidated statements of operations, which is included in corporate and other expense in "Note 23 to the Consolidated Financial Statements—Segment Information." Mattel recorded severance and other restructuring charges of $31.2 million and $103.9 million during the three and nine months ended September 30, 2018, respectively. Of the total charges recorded during the three months ended September 30, 2018, $25.5 million was recorded within other selling and administrative expenses and $5.7 million was recorded within cost of sales in the consolidated statements of operations. Of the total charges recorded during the nine months ended September 30, 2018, $98.2 million was recorded within other selling and administrative expenses and $5.7 million was recorded within cost of sales in the consolidated statements of operations.

The following table summarizes Mattel's severance and other restructuring charges activity related to the Structural Simplification cost savings program for the nine months ended September 30, 2019:

	Liability at December 31, 2018	Charges	Payments/Utilization	Liability at September 30, 2019
	(In thousands)			
Severance	$ 27,670	$ 10,179	$ (27,174)	$ 10,675
Other restructuring charges (a)	13,722	8,383	(18,320)	3,785
	$ 41,392	$ 18,562	$ (45,494)	$ 14,460

(a) Consists primarily of consulting fees.

To date, Mattel has recorded cumulative severance and other restructuring charges of $173.5 million and expects to incur total severance and restructuring charges of approximately $179 million related to the Structural Simplification cost savings program.

Capital Light Initiative

During the first quarter of 2019, Mattel announced the commencement of its Capital Light initiative to optimize Mattel's manufacturing footprint (including the sale or consolidation of manufacturing facilities), increase the productivity of its plant infrastructure, and achieve additional efficiencies across its entire supply chain. In connection with the Capital Light initiative, Mattel recorded severance and other restructuring charges of $16.3 million and $27.8 million during the three and nine months ended September 30, 2019, respectively. Of the total charges recorded during the three months ended September 30, 2019, $7.9 million was recorded within other selling and administrative expenses and $8.4 million was recorded within cost of sales in the consolidated statements of operations. Of the total charges recorded during the nine months ended September 30, 2019, $15.9 million was recorded within other selling and administrative expenses which is included in corporate and other expense in "Note 23 to the Consolidated Financial Statements—Segment Information" and $11.9 million was recorded within cost of sales in the consolidated statements of operations which is included in North America, International, and corporate and other expense in "Note 23 to the Consolidated Financial Statements—Segment Information.".

The following table summarizes Mattel's severance and other restructuring charges activity related to the Capital Light initiative for the nine months ended September 30, 2019:

	Liability at December 31, 2018	Charges	Payments/Utilization	Liability at September 30, 2019
	(In thousands)			
Severance	$ —	$ 15,879	$ (1,114)	$ 14,765
Other restructuring charges (a)	—	11,913	(6,374)	5,539
	$ —	$ 27,792	$ (7,488)	$ 20,304

(a) Consists primarily of plant restructuring non-cash charges and exit obligation.

To date, Mattel has recorded cumulative severance and other restructuring charges of $27.8 million. Mattel expects to incur total severance and restructuring charges, excluding non-cash charges, of approximately $34 million related to the Capital Light initiative.

21. Income Taxes

Mattel's provision for income taxes was $31.4 million and $46.2 million for the three and nine months ended September 30, 2019, respectively, as compared to a provision for income taxes of $66.3 million and $71.6 million for the three and nine months ended September 30, 2018, respectively. During the three and nine months ended September 30, 2019, Mattel recognized a net discrete tax expense of $0.1 million and a net discrete tax benefit of $1.1 million, respectively, as compared to a net discrete tax expense of $42.1 million and $44.3 million for the three and nine months ended September 30, 2018, respectively.

For the three months ended September 30, 2019, Mattel recognized discrete tax expense of $13.5 million related to reassessments of prior years' tax liabilities and income taxes recorded on a discrete basis in various jurisdictions, offset by a $13.4 million tax benefit related to the reassessment of the future realizability of certain foreign deferred tax assets. For the three months ended September 30, 2018, Mattel recognized discrete tax expense primarily related to the provisional tax expense of $9.3 million for deemed repatriation of accumulated foreign earnings (net of related valuation allowance change), $14.6 million related to changes to the indefinite reinvestment assertion, and $17.8 million net tax expense related to reassessments of prior years' tax liabilities and income taxes recorded on a discrete basis in various jurisdictions.

For the nine months ended September 30, 2019, Mattel recognized a discrete tax benefit of $13.4 million related to the reassessment of the future realizability of certain foreign deferred tax assets, offset by discrete tax expense of $12.3 million related to reassessments of prior years' tax liabilities and income taxes recorded on a discrete basis in various jurisdictions. For the nine months ended September 30, 2018, Mattel recognized provisional tax expense of $9.3 million for deemed repatriation of accumulated foreign earnings (net of related valuation allowance change), discrete tax expense from changes to the indefinite reinvestment assertion of $14.6 million, and net discrete tax expense from reassessments of prior years' tax liabilities and income taxes recorded on a discrete basis in various jurisdictions of $20.4 million. 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 and nine months ended September 30, 2019 and 2018.

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 $8 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.

Mattel adopted ASU 2018-02, *Income Statement - Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* on January 1, 2019. Under the Tax Cuts and Jobs Act (the "U.S. Tax Act"), deferred taxes were adjusted to reflect the reduction of the federal income tax rate to the newly enacted federal income tax rate, which left the tax effects on items within accumulated other comprehensive income (loss) stranded at historical tax rates. ASU 2018-02 permits the reclassification of disproportionate tax effects in accumulated other comprehensive income (loss) caused by the U.S. Tax Act to retained earnings. Mattel elected not to reclassify income tax effects related to the U.S. Tax Act out of accumulated other comprehensive loss and into retained earnings. Mattel releases tax effects from accumulated other comprehensive loss utilizing the portfolio approach with respect to pension and postretirement benefit plan obligations.

22. Contingencies

Litigation Related to Carter Bryant and MGA Entertainment, Inc.

In April 2004, Mattel filed a lawsuit in Los Angeles County Superior Court against Carter Bryant ("Bryant"), a former Mattel design employee. The suit alleges that Bryant aided and assisted a Mattel competitor, MGA Entertainment, Inc. ("MGA"), during the time he was employed by Mattel, in violation of his contractual and other duties to Mattel. In September 2004, Bryant asserted counterclaims against Mattel, including counterclaims in which Bryant sought, as a putative class action representative, to invalidate Mattel's Confidential Information and Proprietary Inventions Agreements with its employees. Bryant also removed Mattel's suit to the United States District Court for the Central District of California. In December 2004, MGA intervened as a party-defendant in Mattel's action against Bryant, asserting that its rights to Bratz properties are at stake in the litigation.

Separately, in November 2004, Bryant filed an action against Mattel in the United States District Court for the Central District of California. The action sought a judicial declaration that Bryant's purported conveyance of rights in Bratz was proper and that he did not misappropriate Mattel property in creating Bratz.

In April 2005, MGA filed suit against Mattel in the United States District Court for the Central District of California. MGA's action alleges claims of trade dress infringement, trade dress dilution, false designation of origin, unfair competition, and unjust enrichment. The suit alleges, among other things, that certain products, themes, packaging, and/or television commercials in various Mattel product lines have infringed upon products, themes, packaging, and/or television commercials for various MGA product lines, including Bratz. The complaint also asserts that various alleged Mattel acts with respect to unidentified retailers, distributors, and licensees have damaged MGA and that various alleged acts by industry organizations, purportedly induced by Mattel, have damaged MGA. MGA's suit alleges that MGA has been damaged in an amount "believed to reach or exceed tens of millions of dollars" and further seeks punitive damages, disgorgement of Mattel's profits and injunctive relief.

In June 2006, the three cases were consolidated in the United States District Court for the Central District of California. On July 17, 2006, the Court issued an order dismissing all claims that Bryant had asserted against Mattel, including Bryant's purported counterclaims to invalidate Mattel's Confidential Information and Proprietary Inventions Agreements with its employees, and Bryant's claims for declaratory relief.

On January 12, 2007, Mattel filed an Amended Complaint setting forth counterclaims that included additional claims against Bryant as well as claims for copyright infringement, Racketeer Influenced and Corrupt Organizations ("RICO") violations, misappropriation of trade secrets, intentional interference with contract, aiding and abetting breach of fiduciary duty and breach of duty of loyalty, and unfair competition, among others, against MGA, its Chief Executive Officer Isaac Larian, certain MGA affiliates and an MGA employee. The RICO claim alleged that MGA stole Bratz and then, by recruiting and hiring key Mattel employees and directing them to bring with them Mattel confidential and proprietary information, unfairly competed against Mattel using Mattel's trade secrets, confidential information, and key employees to build their business.

Mattel sought to try all of its claims in a single trial, but in February 2007, the Court decided that the consolidated cases would be tried in two phases, with the first trial to determine claims and defenses related to Mattel's ownership of Bratz works and whether MGA infringed those works. On May 19, 2008, Bryant reached a settlement agreement with Mattel and is no longer a defendant in the litigation. In the public stipulation entered by Mattel and Bryant in connection with the resolution, Bryant agreed that he was and would continue to be bound by all prior and future Court Orders relating to Bratz ownership and infringement, including the Court's summary judgment rulings.

The first phase of the first trial resulted in a unanimous jury verdict on July 17, 2008 in favor of Mattel. The jury found that almost all of the Bratz design drawings and other works in question were created by Bryant while he was employed at Mattel; that MGA and Isaac Larian intentionally interfered with the contractual duties owed by Bryant to Mattel, aided and abetted Bryant's breaches of his duty of loyalty to Mattel, aided and abetted Bryant's breaches of the fiduciary duties he owed to Mattel, and converted Mattel property for their own use. The same jury determined that defendants MGA, Larian, and MGA Entertainment (HK) Limited infringed Mattel's copyrights in the Bratz design drawings and other Bratz works, and awarded Mattel total damages of approximately $100 million against the defendants. On December 3, 2008, the Court issued a series of orders rejecting MGA's equitable defenses and granting Mattel's motions for equitable relief, including an order enjoining the MGA party defendants from manufacturing, marketing, or selling certain Bratz fashion dolls or from using the "Bratz" name. The Court stayed its December 3, 2008 injunctive orders until further order of the Court.

The parties filed and argued additional motions for post-trial relief, including a request by MGA to enter judgment as a matter of law on Mattel's claims in MGA's favor and to reduce the jury's damages award to Mattel. Mattel additionally moved for the appointment of a receiver. On April 27, 2009, the Court entered an order confirming that Bratz works found by the jury to have been created by Bryant during his Mattel employment were Mattel's property and that hundreds of Bratz female fashion dolls infringe Mattel's copyrights. The Court also upheld the jury's award of damages in the amount of $100 million and ordered an accounting of post-trial Bratz sales. The Court further vacated the stay of the December 3, 2008 orders.

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

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

Judge Stephen Larson, who presided over the first trial, retired from the bench during the course of the appeal, and the case was transferred to Judge David O. Carter. After the transfer, Judge Carter granted Mattel leave to file a Fourth Amended

Answer and Counterclaims which focused on RICO, trade secret and other claims, and added additional parties, and subsequently granted in part and denied in part a defense motion to dismiss those counterclaims.

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

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

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

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

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

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

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

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

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

Circuit. On December 23, 2013, Mattel paid the copyright fees judgment in the total sum, including interest, of approximately $138 million. On December 26, 2013, the District Court entered an order exonerating and discharging the appeal bond posted by Mattel, and on December 27, 2013, MGA filed an acknowledgment of satisfaction of judgment. On December 30, 2013, Evanston Insurance Company's appeal in its action against Mattel was dismissed.

On January 13, 2014, MGA filed a new, but virtually identical, trade secrets claim against Mattel in Los Angeles County Superior Court. In its complaint, MGA purports to seek damages in excess of $1 billion. On December 3, 2014, the Court overruled Mattel's request to dismiss MGA's case as barred as a result of prior litigation between the parties. On July 31, 2017, Mattel filed a motion for summary judgment on the grounds that MGA's complaint is barred by the statute of limitations. On February 13, 2018, the Court granted Mattel's summary judgment motion. Consistent with this ruling, the Court entered judgment for Mattel on March 8, 2018. On April 24, 2018, MGA filed a Notice of Appeal of the judgment, and on December 20, 2018, MGA filed its opening appellate brief. On April 18, 2019, Mattel filed its responsive appellate brief, and on June 19, 2019, MGA filed its reply brief. Oral argument took place on October 24, 2019, and on October 29, 2019, the Court of Appeal issued a decision in favor of Mattel, affirming the granting of summary judgment. Mattel does not presently believe that damages in any amount are reasonably possible. Accordingly, no liability has been accrued to date.

Litigation Related to Yellowstone do Brasil Ltda.

Yellowstone do Brasil Ltda. (formerly known as Trebbor Informática Ltda.) was a customer of Mattel's subsidiary Mattel do Brasil Ltda. when a commercial dispute arose between Yellowstone and Mattel do Brasil regarding the supply of product and related payment terms. As a consequence of the dispute, in April 1999, Yellowstone filed a declarative action against Mattel do Brasil before the 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.

On October 2, 2018, the Appeals Court rejected Mattel's merits appeal, and affirmed the prior rulings in favor of Yellowstone. The actual amount to be paid by Mattel to Yellowstone has yet to be determined. However, Mattel has reached an agreement with Yellowstone’s former counsel regarding payment of the attorney’s fees portion of the judgment. As of September 30, 2019, Mattel assessed its probable loss related to the Yellowstone matter and has accrued a reserve, which was not material.

2017 Securities Litigation

A purported class action lawsuit is pending in the United States District Court for the Central District of California, (consolidating Waterford Township Police & Fire Retirement System v. Mattel, Inc., et al., filed June 27, 2017; and Lathe v. Mattel, Inc., et al., filed July 6, 2017) against Mattel, Christopher A. Sinclair, Richard Dickson, Kevin M. Farr, and Joseph B. Johnson alleging federal securities laws violations in connection with statements allegedly made by the defendants during the period October 20, 2016 through April 20, 2017. In general, the lawsuit asserts allegations that the defendants artificially inflated Mattel's common stock price by knowingly making materially false and misleading statements and omissions to the investing public about retail customer inventory, the alignment between point-of-sale and shipping data, and Mattel's overall financial condition. The lawsuit alleges that the defendants' conduct caused the plaintiff and other stockholders to purchase Mattel common stock at artificially inflated prices. On May 24, 2018, the Court granted Mattel's motion to dismiss the class action lawsuit, and on June 25, 2018, the plaintiff filed a motion informing the Court he would not be filing an amended complaint. Judgment was entered in favor of Mattel and the individual defendants on September 19, 2018. The plaintiff filed his Notice of Appeal on October 16, 2018 and his opening appellate brief on February 25, 2019. On April 26, 2019, Mattel filed its responsive appellate brief, and on June 17, 2019, plaintiff filed his reply brief. Oral argument has not yet been scheduled.

In addition, a stockholder has filed a derivative action in the United States District Court for the District of Delaware (Lombardi v. Sinclair, et al., filed December 21, 2017) making allegations that are substantially identical to, or are based upon, the allegations of the class action lawsuit. The defendants in the derivative action are the same as those in the class action lawsuit plus Margaret H. Georgiadis, Michael J. Dolan, Trevor A. Edwards, Frances D. Fergusson, Ann Lewnes, Dominic Ng, Vasant M. Prabhu, Dean

A. Scarborough, Dirk Van de Put, and Kathy W. Loyd. On February 26, 2018, the derivative action was stayed pending further developments in the class action litigation.

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.

2019 Securities Litigation

A purported class action lawsuit is pending in the United States District Court for the Central District of California (Wyatt v. Mattel, Inc., et al., filed March 6, 2019) against Mattel, Ynon Kreiz, and Joseph J. Euteneuer alleging federal securities laws violations in connection with statements allegedly made by the defendants during the period February 7, 2019 through February 15, 2019. In general, the lawsuit alleges that the defendants artificially inflated Mattel's common stock price by knowingly making materially false and misleading statements and omissions to the investing public about Mattel's Structural Simplification Program and regarding prospects for *Barbie* and *Hot Wheels* in 2019. The lawsuit alleges that the defendants' conduct caused the plaintiff and other stockholders to purchase Mattel common stock at artificially inflated prices. In August 2019, Mattel and the individual defendants filed a motion to dismiss the case, which is currently scheduled to be heard by the Court in the fourth quarter of 2019.

The lawsuit seeks unspecified compensatory damages, attorneys' fees, expert fees, and/or costs. Mattel believes that the allegations in the lawsuit 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 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.

Ten additional lawsuits are pending against Fisher-Price, Inc. and Mattel, Inc. alleging that a product defect in the Sleeper caused the fatalities of fourteen 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.

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.

23. Segment Information

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

Gross Sales

Although there were no changes to Mattel's commercial operations that impacted its operating segments, in the first quarter of 2019, Mattel modified its reporting structure for revenues, as outlined below, and reorganized its regional sales reporting structure within the International segment. Prior period amounts have been reclassified to conform to the current period presentation. Gross sales by categories are presented as follows:

Dolls—including brands such as *Barbie*, *American Girl*, *Enchantimals*, and *Polly Pocket.*

Infant, Toddler, and Preschool—including brands such as *Fisher-Price* and *Thomas & Friends*, *Power Wheels*, *Fireman Sam*, and *Shimmer and Shine* (*Nickelodeon*).

Vehicles—including brands such as *Hot Wheels*, *Matchbox*, and *CARS* (*Disney Pixar*).

Action Figures, Building Sets, and Games—including brands such as *MEGA*, *UNO*, *Toy Story* (*Disney Pixar*), *Jurassic World* (*Universal*), and *WWE*.

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 about revenues, income (loss), and assets by segment. Mattel does not include sales adjustments such as trade discounts and other allowances in the calculation of segment revenues (referred to as "gross sales" and reconciled to net sales in the tables below). Mattel records these adjustments in its financial accounting systems at the time of sale to each customer, but the adjustments are not allocated to individual products. For this reason, Mattel's Chief Operating Decision Maker uses gross and net sales by segment as metrics to measure segment performance. Such sales adjustments are included in the determination of segment income (loss) from operations based on the adjustments recorded in the financial accounting systems. Segment income (loss) represents each segment's operating income (loss), while consolidated operating income (loss) represents income (loss) from operations before net interest, other non-operating expense, net, and income taxes as reported in the consolidated statements of operations. The corporate and other expense category includes costs not allocated to individual segments, including charges related to incentive compensation, severance and other restructuring costs, share-based compensation, corporate headquarters functions managed on a worldwide basis, and the impact of changes in foreign currency exchange rates on intercompany transactions.

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	(In thousands)			
Revenues by Segment				
North America	$ 880,441	$ 886,307	$ 1,697,186	$ 1,677,580
International	721,705	656,467	1,567,390	1,507,277
American Girl	54,764	63,862	134,726	175,910
Gross sales	1,656,910	1,606,636	3,399,302	3,360,767
Sales adjustments	(175,353)	(169,185)	(368,436)	(370,238)
Net sales	$ 1,481,557	$ 1,437,451	$ 3,030,866	$ 2,990,529

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	(In thousands)			
Segment Income (Loss)				
North America (a)	$ 194,368	$ 186,705	$ 202,923	$ 54,015
International (a)	89,244	46,466	61,434	(71,582)
American Girl (a)	(11,079)	(9,638)	(41,442)	(40,703)
	272,533	223,533	222,915	(58,270)
Corporate and other expense (b)	(122,446)	(101,659)	(251,255)	(281,670)
Operating income (loss)	150,087	121,874	(28,340)	(339,940)
Interest expense	47,689	48,156	140,881	132,702
Interest (income)	(821)	(785)	(4,625)	(5,631)
Other non-operating expense, net	1,264	1,911	2,874	4,366
Income (loss) before income taxes	$ 101,955	$ 72,592	$ (167,470)	$ (471,377)

(a) *Segment income (loss) for the three and nine months ended September 30, 2019 included charges of $3.9 million and $34.3 million, respectively, attributable to the inclined sleeper product recalls, most of which was recorded in the North America segment. Segment income (loss) for the three and nine months ended September 30, 2018 included $(13.0) million and $66.8 million, respectively, of net sales reversal and bad debt expense, net, attributable to the Toys "R" Us liquidation. Of the $66.8 million of charges recognized for the Toys "R" Us liquidation for the nine months ended September 30, 2018, $57.4 million, $7.7 million, and $1.7 million was recorded in the North America, International, and American Girl segments, respectively.*

(b) *Corporate and other expense included severance and restructuring charges of $11.3 million and $34.4 million for the three and nine months ended September 30, 2019, respectively, and $25.5 million and $98.2 million for the three and nine months ended September 30, 2018, respectively, and share-based compensation expense of $14.8 million and $39.1 million for the three and nine months ended September 30, 2019, respectively, and $13.8 million and $36.2 million for the three and nine months ended September 30, 2018, respectively.*

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

	September 30, 2019	September 30, 2018	December 31, 2018
	(In thousands)		
Assets by Segment			
North America	$ 916,250	$ 912,008	$ 615,654
International	906,788	917,668	728,870
American Girl	60,171	85,515	43,748
	1,883,209	1,915,191	1,388,272
Corporate and other	109,613	123,753	124,700
Accounts receivable and inventories, net	$ 1,992,822	$ 2,038,944	$ 1,512,972

The table below presents worldwide revenues by categories:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	(In thousands)			
Revenues by Categories (a)				
Dolls	$ 567,598	$ 538,368	$ 1,093,890	$ 1,062,357
Infant, Toddler, and Preschool	430,973	483,424	876,595	998,072
Vehicles	346,939	306,490	744,437	710,461
Action Figures, Building Sets, and Games	311,400	278,354	684,380	589,877
Gross sales	1,656,910	1,606,636	3,399,302	3,360,767
Sales adjustments	(175,353)	(169,185)	(368,436)	(370,238)
Net sales	$ 1,481,557	$ 1,437,451	$ 3,030,866	$ 2,990,529

(a) *Mattel modified its reporting structure for revenues in the first quarter of 2019 to disclose revenues by categories.*

The table below presents supplemental disclosure of worldwide revenues:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	(In thousands)			
Revenues by Top 3 Power Brands				
Barbie	$ 412,840	$ 374,707	$ 762,849	$ 698,131
Hot Wheels	293,295	234,993	619,030	547,239
Fisher-Price and Thomas & Friends	396,339	409,497	791,146	833,468
Other	554,436	587,439	1,226,277	1,281,929
Gross sales	1,656,910	1,606,636	3,399,302	3,360,767
Sales adjustments	(175,353)	(169,185)	(368,436)	(370,238)
Net sales	$ 1,481,557	$ 1,437,451	$ 3,030,866	$ 2,990,529

Geographic Information

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	(In thousands)			
Revenues				
North America	$ 935,205	$ 950,169	$ 1,831,912	$ 1,853,490
International (a)				
EMEA	408,660	370,084	859,116	819,153
Latin America	213,535	198,760	430,095	411,778
Asia Pacific	99,510	87,623	278,179	276,346
Total International	721,705	656,467	1,567,390	1,507,277
Gross sales	1,656,910	1,606,636	3,399,302	3,360,767
Sales adjustments	(175,353)	(169,185)	(368,436)	(370,238)
Net sales	$ 1,481,557	$ 1,437,451	$ 3,030,866	$ 2,990,529

(a) *Mattel reorganized its regional sales reporting structure in the first quarter of 2019. As a result, the new regions are Europe, the Middle East, and Africa ("EMEA"), Latin America, and Asia Pacific. The Middle East, Africa, Russia, and Turkey were previously included in the Asia Pacific region (previously Global Emerging Markets) and are now included in EMEA (previously Europe). Prior period amounts have been reclassified to conform to the current period presentation.*

24. New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

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, as further discussed in "Note 5 to the Consolidated Financial Statements—Leases."

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities*, which expands the hedging strategies eligible for hedge accounting and changes both how companies assess hedge effectiveness and presentation and disclosure requirements. Mattel adopted ASU 2017-12 on January 1, 2019 and the adoption did not have a material impact on its consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which permits the reclassification of disproportionate tax effects in accumulated other comprehensive income (loss) caused by the U.S. Tax Act to retained earnings. Mattel adopted ASU 2018-02 on January 1, 2019 and the adoption did not have a material impact on its consolidated financial statements. For additional information, see "Note 21 to the Consolidated Financial Statements—Income Taxes."

Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326)*, which changes the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. This update replaces the existing incurred loss impairment model with an expected loss model (referred to as the Current Expected Credit Loss model, or "CECL"). In November 2018, the FASB issued ASU 2018-19, *Codifications Improvements to Topic 326, Financial Instruments-Credit Losses*" which clarifies that receivables arising from operating leases are accounted for using lease guidance and not as financial instruments. ASU 2016-13 and its related amendments (ASU 2018-19, ASU 2019-04, and ASU 2019-05) will become effective for the fiscal year beginning on January 1, 2020. Mattel is currently evaluating the impact of the adoption of ASU 2016-13 and its related amendments on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement: Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements on fair value measurements, including the consideration of costs and benefits. ASU 2018-13 will become effective for interim and annual reporting periods beginning on January 1, 2020. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty will be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments will be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted. In addition, early adoption of any removed or modified disclosures, but delayed adoption of any additional disclosures until their effective date, is permitted. Mattel is currently evaluating the impact of the adoption of ASU 2018-13 on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans - General: Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans*, which modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. ASU 2018-14 will become effective for the fiscal year beginning on January 1, 2021. Early adoption is permitted and the amendments will be applied retrospectively to all periods presented. Mattel is currently evaluating the impact of the adoption of ASU 2018-14 on its consolidated financial statements.

25. Revision of Quarterly Information

As disclosed in Note 1, Mattel is revising its unaudited consolidated financial statements for the first and second quarters of 2019 and the first, second, and third quarters of 2018 to correct for prior period misstatements which Mattel has determined did not, either individually or in the aggregate, materially misstate its previously issued consolidated financial statements. These misstatements related to the improper capitalization of certain advertising costs, the under-accrual of sales adjustments and employee related costs, an increase to the provision for income taxes, and an adjustment for the misclassification between amounts within operating cash flows. Accordingly, the accompanying financial statements as of and for the three and nine months ended September 30, 2018 have been revised to correct for such misstatements. Financial statements which were not impacted by such revisions are not presented.

The cumulative impact of correcting prior period immaterial misstatements on retained earnings of $(5.2) million as of June 30, 2019 is comprised of the adjustments for prior period errors of $7.4 million for the six months ended June 30, 2019, $(2.3) million for the year ended December 31, 2018, and $(10.3) million for the year ended December 31, 2017 and prior periods.

The revisions to Mattel's unaudited consolidated balance sheet, statements of operations and comprehensive loss, and cash flows as of and for the period ended June 30, 2019 were as follows:

	June 30, 2019		
	As Previously Reported	Adjustments	As Revised
		(In thousands)	
Consolidated Balance Sheet			
Accrued liabilities	$ 590,532	$ 5,240	$ 595,772
Total current liabilities	$ 1,074,580	$ 5,240	$ 1,079,820
Retained earnings	$ 1,337,552	$ (5,240)	$ 1,332,312
Total stockholders' equity	$ 421,337	$ (5,240)	$ 416,097

	Six Months Ended June 30, 2019		
	As Previously Reported	Adjustments	As Revised
	(In thousands, except per share amounts)		
Consolidated Statement of Operations and Comprehensive Loss			
Net sales	$ 1,549,309	$ —	$ 1,549,309
Cost of sales	$ 968,135	$ —	$ 968,135
Gross profit	$ 581,174	$ —	$ 581,174
Advertising and promotion expenses	$ 153,954	$ —	$ 153,954
Other selling and administrative expenses	$ 609,595	$ (3,948)	$ 605,647
Operating loss	$ (182,375)	$ 3,948	$ (178,427)
Loss before income taxes	$ (273,373)	$ 3,948	$ (269,425)
Provision for income taxes	$ 18,332	$ (3,474)	$ 14,858
Net loss	$ (291,705)	$ 7,422	$ (284,283)
Comprehensive loss	$ (272,141)	$ 7,422	$ (264,719)
Net loss per common share - basic	$ (0.84)	$ 0.02	$ (0.82)
Net loss per common share - diluted	$ (0.84)	$ 0.02	$ (0.82)

	Six Months Ended June 30, 2019		
	As Previously Reported	Adjustments	As Revised
	(In thousands)		
Consolidated Statement of Cash Flows			
Net loss	$ (291,705)	$ 7,422	$ (284,283)
Increase (decrease) from changes in assets and liabilities:			
Accounts receivable	$ 222,823	$ (5,069)	$ 217,754
Prepaid expenses and other current assets	$ 146	$ (8,300)	$ (8,154)
Accounts payable, accrued liabilities, and income taxes payable	$ (307,889)	$ 5,947	$ (301,942)
Net cash flows used for operating activities	$ (400,519)	$ —	$ (400,519)

The revisions to Mattel's unaudited consolidated balance sheet, statements of operations and comprehensive loss, and cash flows as of and for the period ended March 31, 2019 were as follows:

	March 31, 2019		
	As Previously Reported	Adjustments	As Revised
	(In thousands)		
Consolidated Balance Sheet			
Accrued liabilities	$ 661,911	$ 5,240	$ 667,151
Total current liabilities	$ 1,006,269	$ 5,240	$ 1,011,509
Retained earnings	$ 1,445,539	$ (5,240)	$ 1,440,299
Total stockholders' equity	$ 518,517	$ (5,240)	$ 513,277

	Three Months Ended March 31, 2019		
	As Previously Reported	Adjustments	As Revised
	(In thousands, except per share amounts)		
Consolidated Statement of Operations and Comprehensive Loss			
Net sales	$ 689,246	$ —	$ 689,246
Cost of sales	$ 449,456	$ —	$ 449,456
Gross profit	$ 239,790	$ —	$ 239,790
Advertising and promotion expenses	$ 69,465	$ —	$ 69,465
Other selling and administrative expenses	$ 301,284	$ (3,948)	$ 297,336
Operating loss	$ (130,959)	$ 3,948	$ (127,011)
Loss before income taxes	$ (177,549)	$ 3,948	$ (173,601)
Provision for income taxes	$ 6,169	$ (3,474)	$ 2,695
Net loss	$ (183,718)	$ 7,422	$ (176,296)
Comprehensive loss	$ (162,426)	$ 7,422	$ (155,004)
Net loss per common share - basic	$ (0.53)	$ 0.02	$ (0.51)
Net loss per common share - diluted	$ (0.53)	$ 0.02	$ (0.51)

	Three Months Ended March 31, 2019		
	As Previously Reported	Adjustments	As Revised
	(In thousands)		
Consolidated Statement of Cash Flows			
Net loss	$ (183,718)	$ 7,422	$ (176,296)
Increase (decrease) from changes in assets and liabilities:			
Accounts receivable	$ 351,450	$ (5,069)	$ 346,381
Prepaid expenses and other current assets	$ (28,417)	$ (8,300)	$ (36,717)
Accounts payable, accrued liabilities, and income taxes payable	$ (327,821)	$ 5,947	$ (321,874)
Net cash flows used for operating activities	$ (192,810)	$ —	$ (192,810)

The revisions to Mattel's unaudited consolidated balance sheet, statements of operations and comprehensive loss, and cash flows as of and for the period ended September 30, 2018 were as follows:

	September 30, 2018		
	As Previously Reported	Adjustments	As Revised
	(In thousands)		
Consolidated Balance Sheet			
Accrued liabilities	$ 683,470	$ 7,388	$ 690,858
Total current liabilities	$ 1,494,003	$ 7,388	$ 1,501,391
Retained earnings	$ 1,614,343	$ (7,388)	$ 1,606,955
Total stockholders' equity	$ 666,410	$ (7,388)	$ 659,022

	Nine Months Ended September 30, 2018		
	As Previously Reported	Adjustments	As Revised
	(In thousands, except per share amounts)		
Consolidated Statement of Operations and Comprehensive Loss			
Net sales	$ 2,986,571	$ 3,958	$ 2,990,529
Cost of sales	$ 1,901,440	$ —	$ 1,901,440
Gross profit	$ 1,085,131	$ 3,958	$ 1,089,089
Advertising and promotion expenses	$ 318,538	$ —	$ 318,538
Other selling and administrative expenses	$ 1,110,491	$ —	$ 1,110,491
Operating loss	$ (343,898)	$ 3,958	$ (339,940)
Loss before income taxes	$ (475,335)	$ 3,958	$ (471,377)
Provision for income taxes	$ 70,571	$ 990	$ 71,561
Net loss	$ (545,906)	$ 2,968	$ (542,938)
Comprehensive loss	$ (599,142)	$ 2,968	$ (596,174)
Net loss per common share - basic	$ (1.58)	$ 0.01	$ (1.57)
Net loss per common share - diluted	$ (1.58)	$ 0.01	$ (1.57)

	Nine Months Ended September 30, 2018		
	As Previously Reported	Adjustments	As Revised
	(In thousands)		
Consolidated Statement of Cash Flows			
Net loss	$ (545,906)	$ 2,968	$ (542,938)
Adjustments to reconcile net loss to net cash flows used for operating activities:			
Deferred income taxes	$ 1,435	$ 990	$ 2,425
(Decrease) increase from changes in assets and liabilities, net of acquired assets and liabilities:			
Accounts receivable	$ (255,781)	$ (3,958)	$ (259,739)
Prepaid expenses and other current assets	$ 9,250	$ (7,388)	$ 1,862
Accounts payable, accrued liabilities, and income taxes payable	$ (107,601)	$ 7,388	$ (100,213)
Net cash flows used for operating activities	$ (731,452)	$ —	$ (731,452)

The revisions to Mattel's unaudited consolidated balance sheet, statements of operations and comprehensive loss, and cash flows as of and for the periods ended June 30, 2018 were as follows:

	June 30, 2018		
	As Previously Reported	Adjustments	As Revised
	(In thousands)		
Consolidated Balance Sheet			
Accrued liabilities	$ 585,585	$ 7,388	$ 592,973
Total current liabilities	$ 1,097,445	$ 7,388	$ 1,104,833
Retained earnings	$ 1,608,026	$ (7,388)	$ 1,600,638
Total stockholders' equity	$ 663,971	$ (7,388)	$ 656,583

	Three Months Ended June 30, 2018		
	As Previously Reported	Adjustments	As Revised
	(In thousands, except per share amounts)		
Consolidated Statement of Operations and Comprehensive Loss			
Net sales	$ 840,748	$ 3,958	$ 844,706
Cost of sales	$ 587,546	$ —	$ 587,546
Gross profit	$ 253,202	$ 3,958	$ 257,160
Advertising and promotion expenses	$ 82,393	$ —	$ 82,393
Other selling and administrative expenses	$ 360,000	$ —	$ 360,000
Operating loss	$ (189,191)	$ 3,958	$ (185,233)
Loss before income taxes	$ (234,022)	$ 3,958	$ (230,064)
Provision for income taxes	$ 6,909	$ 990	$ 7,899
Net loss	$ (240,931)	$ 2,968	$ (237,963)
Comprehensive loss	$ (325,860)	$ 2,968	$ (322,892)
Net loss per common share - basic	$ (0.70)	$ 0.01	$ (0.69)
Net loss per common share - diluted	$ (0.70)	$ 0.01	$ (0.69)

	Six Months Ended June 30, 2018		
	As Previously Reported	Adjustments	As Revised
	(In thousands, except per share amounts)		
Consolidated Statement of Operations and Comprehensive Loss			
Net sales	$ 1,549,120	$ 3,958	$ 1,553,078
Cost of sales	$ 1,077,045	$ —	$ 1,077,045
Gross profit	$ 472,075	$ 3,958	$ 476,033
Advertising and promotion expenses	$ 153,230	$ —	$ 153,230
Other selling and administrative expenses	$ 784,617	$ —	$ 784,617
Operating loss	$ (465,772)	$ 3,958	$ (461,814)
Loss before income taxes	$ (547,927)	$ 3,958	$ (543,969)
Provision for income taxes	$ 4,257	$ 990	$ 5,247
Net loss	$ (552,184)	$ 2,968	$ (549,216)
Comprehensive loss	$ (594,476)	$ 2,968	$ (591,508)
Net loss per common share - basic	$ (1.60)	$ 0.01	$ (1.59)
Net loss per common share - diluted	$ (1.60)	$ 0.01	$ (1.59)

	Six Months Ended June 30, 2018		
	As Previously Reported	Adjustments	As Revised
		(In thousands)	
Consolidated Statement of Cash Flows			
Net loss	$ (552,184)	$ 2,968	$ (549,216)
Adjustments to reconcile net loss to net cash flows used for operating activities:			
Deferred income taxes	$ (827)	$ 990	$ 163
Increase (decrease) from changes in assets and liabilities, net of acquired assets and liabilities:			
Accounts receivable	$ 274,306	$ (3,958)	$ 270,348
Prepaid expenses and other current assets	$ (27,784)	$ (7,388)	$ (35,172)
Accounts payable, accrued liabilities, and income taxes payable	$ (328,998)	$ 7,388	$ (321,610)
Net cash flows used for operating activities	$ (556,609)	$ —	$ (556,609)

The revisions to Mattel's unaudited consolidated balance sheet and statement of cash flows as of and for the period ended March 31, 2018 were as follows:

	March 31, 2018		
	As Previously Reported	Adjustments	As Revised
		(In thousands)	
Consolidated Balance Sheet			
Accounts receivable, net	$ 676,119	$ (3,958)	$ 672,161
Total current assets	$ 2,221,670	$ (3,958)	$ 2,217,712
Other noncurrent assets	$ 928,519	$ 990	$ 929,509
Total assets	$ 5,304,090	$ (2,968)	$ 5,301,122
Accrued liabilities	$ 578,909	$ 7,388	$ 586,297
Total current liabilities	$ 987,179	$ 7,388	$ 994,567
Retained earnings	$ 1,848,957	$ (10,356)	$ 1,838,601
Total stockholders' equity	$ 982,466	$ (10,356)	$ 972,110

	Three Months Ended March 31, 2018		
	As Previously Reported	Adjustments	As Revised
		(In thousands)	
Consolidated Statement of Cash Flows			
Net loss	$ (311,253)	$ —	$ (311,253)
Decrease from changes in assets and liabilities, net of acquired assets and liabilities:			
Prepaid expenses and other current assets	$ (40,052)	$ (7,388)	$ (47,440)
Accounts payable, accrued liabilities, and income taxes payable	$ (367,298)	$ 7,388	$ (359,910)
Net cash flows used for operating activities	$ (273,732)	$ —	$ (273,732)

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

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

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

The following discussion also includes gross sales and currency exchange rate impact, non-GAAP financial measures within the meaning of Regulation G promulgated by the Securities and Exchange Commission ("Regulation G"), to supplement the financial results as reported in accordance with GAAP. Gross sales represent sales to customers, excluding the impact of sales adjustments, such as trade discounts and other allowances. 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 these non-GAAP financial measures 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 non-GAAP financial measures provides useful supplemental information to investors to allow them to better evaluate ongoing business performance and certain components of Mattel's results. These measures are not, and should not be viewed as, a substitute for GAAP financial measures. Refer to "Non-GAAP Financial Measures" in this Quarterly Report on Form 10-Q for a more detailed discussion, including a reconciliation of gross sales, a non-GAAP financial measure, to net sales, its most directly comparable GAAP financial measure.

The following discussions have been amended to reflect Mattel’s revision of previously issued consolidated financial statements to correct for prior period misstatements, which Mattel has determined did not, either individually or in the aggregate, materially misstate its previously issued consolidated financial statements. These misstatements related to the improper capitalization of certain advertising costs, the under-accrual of sales adjustments and employee related costs, an increase to the provision for income taxes, and an adjustment for the misclassification between amounts within operating cash flows. Further information illustrating the effect of these immaterial revisions on Mattel’s unaudited consolidated financial statements is presented in “Note 25 to the Consolidated Financial Statements - Revision of Quarterly Information.”

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

Overview

Mattel is a leading global children's entertainment company that specializes in the design and production of quality toys and consumer products. Mattel's products are among the most widely recognized toy products in the world. Mattel's mission is to "create innovative products and experiences that inspire, entertain, and develop children through play." In order to deliver on this mission, Mattel is focused on the following two-part strategy to transform Mattel from a toy manufacturing company into an intellectual property ("IP") driven, high-performing toy company:

- In the short- to mid-term, restore profitability by reshaping operations and regain topline growth by growing Mattel's Power Brands (*Barbie*, *Hot Wheels*, *Fisher-Price* and *Thomas & Friends*, and *American Girl*) and expanding Mattel's brand portfolio.
- In the mid- to long-term, capture the full value of Mattel's IP through franchise management and the development of Mattel's online retail and e-commerce capabilities.

Mattel is the owner of a portfolio of global brands with vast intellectual property potential. Mattel's portfolio of brands and products are organized into the following categories:

Dolls—including brands such as *Barbie*, *American Girl*, *Enchantimals*, and *Polly Pocket*. 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, *Barbie* is the premier fashion doll for children around the world. *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*, *Fireman Sam*, and *Shimmer and Shine* (*Nickelodeon*). An institution in learning and child development for over 85 years, *Fisher-Price* is driven to enrich children's lives from birth to school readiness, helping families provide their children with 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*, and *CARS* (*Disney Pixar*). 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 diecast cars, to tracks, playsets, and advanced play products, the *Hot Wheels* portfolio has broad appeal that engages and excites kids.

Action Figures, Building Sets, and Games—including brands such as *MEGA*, *UNO*, *Toy Story* (*Disney Pixar*), *Jurassic World* (*Universal*), and *WWE*. From big blocks to small bricks, first builders to advanced collectors, *MEGA* creates products that spark purposeful play and encourage kids and adults to "build beyond." America's number one game, *UNO* is the classic matching card game that is easy to pick up and fast fun for everyone.

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.

Results of Operations—Third Quarter

Consolidated Results

Net sales for the third quarter of 2019 were $1.48 billion, a 3% increase, as compared to $1.44 billion in the third quarter of 2018, with an unfavorable impact from changes in currency exchange rates of 1 percentage point. Net income for the third quarter of 2019 was $70.6 million, or $0.20 per share, as compared to a net income of $6.3 million, or $0.02 per share, in the third quarter of 2018, primarily due to higher gross profit and lower income tax expense, partially offset by higher other selling and administrative expenses as a result of higher incentive compensation expense.

The following table provides a summary of Mattel's consolidated results for the third quarter of 2019 and 2018:

	For the Three Months Ended				Year/Year Change	
	September 30, 2019		September 30, 2018			
	Amount	% of Net Sales	Amount	% of Net Sales	%	Basis Points of Net Sales
	(In millions, except percentage and basis point information)					
Net sales	$ 1,481.6	100.0 %	$ 1,437.5	100.0 %	3 %	—
Gross profit	$ 686.4	46.3 %	$ 613.1	42.6 %	12 %	370
Advertising and promotion expenses	170.4	11.5 %	165.3	11.5 %	3 %	—
Other selling and administrative expenses	366.0	24.7 %	325.9	22.7 %	12 %	200
Operating income	150.1	10.1 %	121.9	8.5 %	23 %	160
Interest expense	47.7	3.2 %	48.2	3.4 %	-1 %	-20
Interest (income)	(0.8)	-0.1 %	(0.8)	-0.1 %	4 %	—
Other non-operating expense, net	1.3		1.9			
Income before income taxes	102.0	6.9 %	72.6	5.1 %	40 %	180
Provision for income taxes	31.4		66.3			
Net income (loss)	$ 70.6	4.8 %	$ 6.3	0.4 %	n/m	440

n/m - Not Meaningful

Sales

Net sales for the third quarter of 2019 were $1.48 billion, an increase of $44.1 million or 3%, as compared to $1.44 billion in the third quarter of 2018, with an unfavorable impact from changes in currency exchange rates of 1 percentage point.

The following table provides a summary of Mattel's consolidated gross sales by categories, along with supplemental information by brand, for the third quarter of 2019 and 2018:

	For the Three Months Ended			
	September 30, 2019	September 30, 2018	% Change as Reported	Currency Exchange Rate Impact
	(In millions, except percentage information)			
Revenues by Categories (a)				
Dolls	$ 567.6	$ 538.4	5 %	-2 %
Infant, Toddler, and Preschool	431.0	483.4	-11 %	-1 %
Vehicles	346.9	306.5	13 %	-2 %
Action Figures, Building Sets, and Games	311.4	278.4	12 %	-1 %
Gross Sales	$ 1,656.9	$ 1,606.6	3 %	-1 %
Sales Adjustments	(175.4)	(169.2)		
Net Sales	$ 1,481.6	$ 1,437.5	3 %	-1 %
Supplemental Revenue Disclosure				
Revenues by Top 3 Power Brands				
Barbie	$ 412.8	$ 374.7	10 %	-2 %
Hot Wheels	293.3	235.0	25 %	-2 %
Fisher-Price and Thomas & Friends	396.3	409.5	-3 %	-1 %
Other	554.4	587.4	-6 %	-2 %
Gross Sales	$ 1,656.9	$ 1,606.6	3 %	-1 %

(a) Mattel modified its reporting structure for revenues in the first quarter of 2019 to disclose revenues by categories.

Gross sales were $1.66 billion in the third quarter of 2019, an increase of $50.3 million or 3%, as compared to $1.61 billion in the third quarter of 2018, with an unfavorable impact from changes in currency exchange rates of 1 percentage point. The increase in third quarter of 2019 gross sales was primarily due to higher sales of Vehicles and Action Figures, Building Sets, and Games, partially offset by lower sales of Infant, Toddler, and Preschool.

Of the 5% increase in Dolls gross sales, 7% was due to higher sales of *Barbie* products, partially offset by lower sales of *American Girl* products of 2%.

Of the 11% decrease in Infant, Toddler, and Preschool gross sales, 6% was due to lower sales of Fisher-Price Friends products, 3% was due to lower sales of *Fisher-Price* and *Thomas & Friends* products, and 2% was due to lower sales of *Power Wheels* products.

Of the 13% increase in Vehicles gross sales, 19% was due to higher sales of *Hot Wheels* products, primarily due to higher sales of diecast cars and tracks and playsets products, partially offset by lower sales of CARS products of 3% and lower sales of *Jurassic World* products of 2% following their movie launches in prior years.

Of the 12% increase in Action Figures, Building Sets, and Games gross sales, 22% was due to initial sales of *Toy Story 4* products as a result of its 2019 theatrical release, partially offset by lower sales of *Jurassic World* products of 10% following the movie launch in prior year.

Cost of Sales

Cost of sales as a percentage of net sales was 53.7% in the third quarter of 2019, as compared to 57.4% in the third quarter of 2018. Cost of sales decreased by $29.3 million, or 4%, to $795.1 million in the third quarter of 2019 from $824.4 million in the third quarter of 2018, as compared to a 3% increase in net sales. Within cost of sales, product and other costs decreased by $19.2 million, or 3%, to $645.7 million in the third quarter of 2019 from $664.9 million in the third quarter of 2018; freight and logistics expenses decreased by $8.1 million, or 9%, to $79.8 million in the third quarter of 2019 from $87.9 million in the third quarter of 2018; and royalty expense decreased by $2.0 million, or 3%, to $69.6 million in the third quarter of 2019 from $71.6 million in the third quarter of 2018.

Gross Margin

Gross margin increased to 46.3% in the third quarter of 2019 from 42.6% in the third quarter of 2018. The increase in gross margin was primarily driven by incremental Structural Simplification savings, partially offset by unfavorable product mix and input cost inflation of raw materials and plant labor.

Advertising and Promotion Expenses

Advertising and promotion expenses primarily consist of: (i) media costs, which primarily include the media, planning, and buying fees for television, print, and online advertisements; (ii) non-media costs, which primarily include commercial and website production, merchandising, and promotional costs; (iii) retail advertising costs, which primarily include consumer direct catalogs, newspaper inserts, fliers, and mailers; and (iv) generic advertising costs, which primarily include trade show costs. Advertising and promotion expenses as a percentage of net sales in the third quarter of 2019 was 11.5%, which was flat as compared to the third quarter of 2018.

Other Selling and Administrative Expenses

Other selling and administrative expenses were $366.0 million, or 24.7% of net sales, in the third quarter of 2019, as compared to $325.9 million, or 22.7% of net sales, in the third quarter of 2018. The increase in other selling and administrative expenses was primarily driven by higher incentive compensation expense due to improved business performance.

Interest expense

Interest expense was $47.7 million in third quarter of 2019, as compared to $48.2 million in third quarter of 2018. The decrease in interest expense was due to lower short-term borrowings during the three months ended September 30, 2019.

Provision for Income Taxes

Mattel's provision for income taxes was $31.4 million and $66.3 million for the three months ended September 30, 2019 and 2018, respectively. For the three months ended September 30, 2019, Mattel recognized discrete tax expense of $13.5 million related to reassessments of prior years' tax liabilities and income taxes recorded on a discrete basis in various jurisdictions, offset by a $13.4 million tax benefit related to the reassessment of the future realizability of certain foreign deferred tax assets. For the three months ended September 30, 2018, Mattel recognized discrete tax expense primarily related to the provisional tax expense of $9.3 million for deemed repatriation of accumulated foreign earnings (net of related valuation allowance change), $14.6 million related to changes to the indefinite reinvestment assertion, and $17.8 million net tax expense related to reassessments of prior years' tax liabilities and income taxes recorded on a discrete basis in various jurisdictions.

Segment Results

North America Segment

The following table provides a summary of Mattel's gross sales for the North America segment by categories, along with supplemental information by brand, for the third quarter of 2019 and 2018:

	For the Three Months Ended			
	September 30, 2019	September 30, 2018	% Change as Reported	Currency Exchange Rate Impact
	(In millions, except percentage information)			
Revenues by Categories (a)				
Dolls	$ 250.6	$ 241.5	4 %	—%
Infant, Toddler, and Preschool	274.6	306.2	-10 %	—%
Vehicles	170.8	159.2	7 %	—%
Action Figures, Building Sets, and Games	184.4	179.4	3 %	—%
Gross Sales	$ 880.4	$ 886.3	-1 %	—%
Sales Adjustments	(58.6)	(60.7)		
Net Sales	$ 821.9	$ 825.6	— %	—%
Supplemental Revenue Disclosure				
Revenues by Top 3 Power Brands				
Barbie	$ 221.2	$ 208.8	6 %	—%
Hot Wheels	140.8	120.7	17 %	—%
Fisher-Price and Thomas & Friends	250.9	255.2	-2 %	—%
Other	267.5	301.6	-11 %	—%
Gross Sales	$ 880.4	$ 886.3	-1 %	—%

(a) Mattel modified its reporting structure for revenues in the first quarter of 2019 to disclose revenues by categories.

Gross sales for the North America segment were $880.4 million in the third quarter of 2019, a decrease of $5.9 million, or 1%, as compared to $886.3 million in the third quarter of 2018. The decrease in the North America segment gross sales was primarily due to lower sales of Infant, Toddler, and Preschool, partially offset by higher sales of Vehicles and Dolls.

Of the 4% increase in Dolls gross sales, 5% was due to higher sales of *Barbie* products, primarily driven by positive point-of-sale ("POS") brand momentum.

Of the 10% decrease in Infant, Toddler, and Preschool gross sales, 5% was due to lower sales of Fisher-Price Friends products and 3% was due to lower sales of *Power Wheels* products.

Of the 7% increase in Vehicles gross sales, 12% was due to higher sales of *Hot Wheels* products, partially offset by lower sales of *CARS* products of 2% and lower sales of *Jurassic World* products of 2% following their movie launches in prior years.

Of the 3% increase in Action Figures, Building Sets, and Games gross sales, 19% was due to initial sales of *Toy Story 4* products as a result of its 2019 theatrical release, partially offset by lower sales of *Jurassic World* products of 16% following the movie launch in prior year.

Cost of sales decreased 6% in the third quarter of 2019, as compared to flat net sales, primarily due to lower product and other costs and lower freight and logistics expenses. Gross margin in the third quarter of 2019 increased primarily due to incremental Structural Simplification savings, partially offset by unfavorable product mix and input cost inflation of raw materials and plant labor.

North America segment income was $194.4 million in the third quarter of 2019, as compared to segment income of $186.7 million in the third quarter of 2018, primarily due to higher gross profit, partially offset by higher advertising and promotion expenses and higher other selling and administrative expenses. North America segment income for the third quarter of 2018 included Toys "R" Us bad debt recoveries of approximately $11 million.

International Segment

The following table provides a summary of percentage changes in net sales within the International segment in the third quarter of 2019 versus 2018:

	% Change in Net Sales as Reported	Currency Exchange Rate Impact
Total International (a)	10%	-4 %
EMEA	10%	-4 %
Latin America	9%	-2 %
Asia Pacific	14%	-1 %

The following table provides a summary of percentage changes in gross sales within the International segment in the third quarter of 2019 versus 2018:

	% Change in Gross Sales as Reported	Currency Exchange Rate Impact
Total International (a)	10%	-3 %
EMEA	10%	-5 %
Latin America	7%	-3 %
Asia Pacific	14%	-1 %

(a) Mattel reorganized its regional sales reporting structure in the first quarter of 2019. As a result, the new regions are Europe, the Middle East, and Africa ("EMEA"), Latin America, and Asia Pacific. The Middle East, Africa, Russia, and Turkey were previously included in the Asia Pacific region (previously Global Emerging Markets) and are now included in EMEA (previously Europe). Prior period amounts have been reclassified to conform to the current period presentation. Refer to "Note 23 to the Consolidated Financial Statements—Segment Information" of this Quarterly Report on Form 10-Q for additional information.

The following table provides a summary of Mattel's gross sales for the International segment by categories, along with supplemental brand information, for the third quarter of 2019 and 2018:

	For the Three Months Ended			
	September 30, 2019	September 30, 2018	% Change as Reported	Currency Exchange Rate Impact
	(In millions, except percentage information)			
Revenues by Categories (a)				
Dolls	$ 262.2	$ 233.1	12 %	-4 %
Infant, Toddler, and Preschool	156.4	177.3	-12 %	-3 %
Vehicles	176.2	147.3	20 %	-3 %
Action Figures, Building Sets, and Games	127.0	98.8	28 %	-4 %
Gross Sales	$ 721.7	$ 656.5	10 %	-3 %
Sales Adjustments	(113.8)	(105.4)		
Net Sales	$ 607.9	$ 551.1	10 %	-4 %
Supplemental Revenue Disclosure				
Revenues by Top 3 Power Brands				
Barbie	$ 191.6	$ 165.9	16 %	-3 %
Hot Wheels	152.5	114.2	33 %	-4 %
Fisher-Price and Thomas & Friends	145.4	154.3	-6 %	-3 %
Other	232.1	222.0	5 %	-3 %
Gross Sales	$ 721.7	$ 656.5	10 %	-3 %

(a) Mattel modified its reporting structure for revenues in the first quarter of 2019 to disclose revenues by categories.

Gross sales for the International segment were $721.7 million in the third quarter of 2019, an increase of $65.2 million, or 10%, as compared to $656.5 million in the third quarter of 2018, with an unfavorable impact from changes in currency exchange rates of 3 percentage points. The increase in the International segment gross sales was primarily due to higher sales of Dolls, Vehicles, and Action Figures, Building Sets, and Games, partially offset by lower sales of Infant, Toddler, and Preschool.

Of the 12% increase in Dolls gross sales, 11% was due to higher sales of *Barbie* products, primarily driven by positive POS brand momentum.

Of the 12% decrease in Infant, Toddler, and Preschool gross sales, 6% was due to lower sales of Fisher-Price Friends products and 5% was due to lower sales of *Fisher Price* and *Thomas & Friends* products.

Of the 20% increase in Vehicles gross sales, 26% was due to higher sales of *Hot Wheels* products, partially offset by lower sales of *CARS* products of 5%.

Of the 28% increase in Action Figures, Building Sets, and Games gross sales, 29% was due to initial sales of *Toy Story 4* products as a result of its 2019 theatrical release.

Cost of sales increased 2% in the third quarter of 2019, as compared to a 10% increase in net sales, primarily due to higher product and other costs. Gross margin in the third quarter of 2019 increased primarily due to incremental Structural Simplification savings and price increases, partially offset by unfavorable product mix, higher obsolescence expense, higher freight and distribution expenses, and input cost inflation of raw materials and plant labor.

International segment income was $89.2 million in the third quarter of 2019, as compared to segment income of $46.5 million in the third quarter of 2018, primarily due to higher gross profit and lower other selling and administrative expenses, partially offset by higher advertising and promotion expenses.

American Girl Segment

The following table provides a summary of Mattel's gross sales for the American Girl segment for the third quarter of 2019 and 2018:

	For the Three Months Ended			
	September 30, 2019	September 30, 2018	% Change as Reported	Currency Exchange Rate Impact
	(In millions, except percentage information)			
American Girl Segment				
Total Gross Sales	$ 54.8	$ 63.9	-14 %	—%
Sales Adjustments	(3.0)	(3.0)		
Total Net Sales	$ 51.8	$ 60.8	-15 %	—%

Gross sales for the American Girl segment were $54.8 million in the third quarter of 2019, a decrease of $9.1 million, or 14%, as compared to $63.9 million in the third quarter of 2018. The decrease in *American Girl* gross sales was primarily due to lower sales in retail stores.

Cost of sales decreased 21% in the third quarter of 2019, as compared to a 15% decrease in net sales, primarily due to lower product and other costs. Gross margin in the third quarter of 2019 increased primarily due to incremental Structural Simplification savings and favorable product mix, and partially offset by higher freight and distribution expenses.

American Girl segment loss was $11.1 million in the third quarter of 2019, as compared to segment loss of $9.6 million in the third quarter of 2018, driven primarily by lower net sales, partially offset by lower other selling and administrative expenses.

Results of Operations—First Nine Months

Consolidated Results

Net sales for the first nine months of 2019 were $3.03 billion, a 1% increase, as compared to $2.99 billion for the first nine months of 2018, with an unfavorable impact from the changes in currency exchange rates of 3 percentage points. Net loss for the first nine months of 2019 was $213.7 million, or $0.62 per share, as compared to a net loss of $542.9 million, or $1.57 per share, in the first nine months of 2018, primarily due to higher gross profit and lower other selling and administrative expenses. Net loss for the first nine months of 2019 includes the impact of approximately $34 million related to the inclined sleeper product recalls. Net loss for the first nine months of 2018 includes a sales reversal of approximately $30 million and bad debt expense, net of approximately $37 million as a result of the Toys "R" Us liquidation.

The following table provides a summary of Mattel's consolidated results for the first nine months of 2019 and 2018:

	For the Nine Months Ended					
	September 30, 2019		September 30, 2018		Year/Year Change	
	Amount	% of Net Sales	Amount	% of Net Sales	%	Basis Points of Net Sales
	(In millions, except percentage and basis point information)					
Net sales	$ 3,030.9	100.0 %	$ 2,990.5	100.0 %	1 %	—
Gross profit	$ 1,267.6	41.8 %	$ 1,089.1	36.4 %	16 %	540
Advertising and promotion expenses	324.3	10.7 %	318.5	10.7 %	2 %	—
Other selling and administrative expenses	971.6	32.1 %	1,110.5	37.1 %	-13 %	-500
Operating loss	(28.3)	-0.9 %	(339.9)	-11.4 %	-92 %	1,050
Interest expense	140.9	4.6 %	132.7	4.4 %	6 %	20
Interest (income)	(4.6)	-0.2 %	(5.6)	-0.2 %	-18 %	—
Other non-operating expense, net	2.9		4.4			
Loss before income taxes	(167.5)	-5.5 %	(471.4)	-15.8 %	-64 %	1,030
Provision for income taxes	46.2		71.6			
Net loss	$ (213.7)	-7.1 %	$ (542.9)	-18.2 %	-61 %	1,110

Sales

Net sales for the first nine months of 2019 were $3.03 billion, a 1% increase, as compared to $2.99 billion for the first nine months of 2018.

The following table provides a summary of Mattel's consolidated gross sales by categories, along with supplemental information by brand, for the first nine months of 2019 and 2018:

	For the Nine Months Ended			
	September 30, 2019	September 30, 2018	% Change as Reported	Currency Exchange Rate Impact
	(In millions, except percentage information)			
Revenues by Categories (a)				
Dolls	$ 1,093.9	$ 1,062.4	3 %	-3 %
Infant, Toddler, and Preschool	876.6	998.1	-12 %	-2 %
Vehicles	744.4	710.5	5 %	-3 %
Action Figures, Building Sets, and Games	684.4	589.9	16 %	-2 %
Gross Sales	$ 3,399.3	$ 3,360.8	1 %	-3 %
Sales Adjustments	(368.4)	(370.2)		
Net Sales	$ 3,030.9	$ 2,990.5	1 %	-3 %
Supplemental Revenue Disclosure				
Revenues by Top 3 Power Brands				
Barbie	$ 762.8	$ 698.1	9 %	-3 %
Hot Wheels	619.0	547.2	13 %	-4 %
Fisher-Price and Thomas & Friends	791.1	833.5	-5 %	-2 %
Other	1,226.3	1,281.9	-4 %	-2 %
Gross Sales	$ 3,399.3	$ 3,360.8	1 %	-3 %

(a) Mattel modified its reporting structure for revenues in the first quarter of 2019 to disclose revenues by categories.

Gross sales were $3.40 billion in the first nine months of 2019, an increase of $38.5 million or 1%, as compared to $3.36 billion in the first nine months of 2018, with an unfavorable impact from changes in currency exchange rates of 3 percentage points. Gross sales in the first nine months of 2018 included the Toys "R" Us sales reversal of approximately $30 million. The increase in gross sales for the first nine months of 2019 was primarily due to higher sales of Action Figures, Building Sets, and Games, Vehicles, and Dolls, substantially offset by lower sales of Infant, Toddler, and Preschool.

Of the 3% increase in Dolls gross sales, 6% was due to higher sales of *Barbie* products, partially offset by lower sales of *American Girl* products of 4%.

Of the 12% decrease in Infant, Toddler, and Preschool gross sales, 5% was due to lower sales of Fisher-Price Friends products, 4% was due to lower sales of *Fisher-Price* and *Thomas & Friends* products, and 2% was due to lower sales of *Power Wheels* products.

Of the 5% increase in Vehicles gross sales, 11% was due to higher sales of *Hot Wheels* products, primarily due to higher sales of diecast cars and tracks and playsets products, partially offset by lower sales of *CARS* products of 3% and lower sales of *Jurassic World* products of 2% following their movie launches in prior years.

Of the 16% increase in Action Figures, Building Sets, and Games gross sales, 24% was due to initial sales of *Toy Story 4* products as a result of its 2019 theatrical release, partially offset by lower sales of *Jurassic World* products of 8% following the movie launch in prior year.

Cost of Sales

Cost of sales as a percentage of net sales was 58.2% in the first nine months of 2019, as compared to 63.6% in the first nine months of 2018. Cost of sales decreased by $138.1 million, or 7%, to $1.76 billion in the first nine months of 2019 from $1.90 billion in the first nine months of 2018, as compared to a 1% increase in net sales. Within cost of sales, product and other costs decreased by $105.9 million, or 7%, to $1.40 billion in the first nine months of 2019 from $1.50 billion in the first nine months of 2018; freight and logistics expenses decreased by $30.2 million, or 13%, to $208.9 million in the first nine months of 2019 from $239.1 million in the first nine months of 2018; and royalty expense decreased by $2.0 million, or 1%, to $158.4 million in the first nine months of 2019 from $160.4 million in the first nine months of 2018.

Gross Margin

Gross margin increased to 41.8% in the first nine months of 2019 from 36.4% in the first nine months of 2018. The increase in gross margin was primarily driven by incremental Structural Simplification savings and favorable product mix, partially offset by input cost inflation of raw materials and plant labor.

Advertising and Promotion Expenses

Advertising and promotion expenses primarily consist of: (i) media costs, which primarily include the media, planning, and buying fees for television, print, and online advertisements; (ii) non-media costs, which primarily include commercial and website production, merchandising, and promotional costs; (iii) retail advertising costs, which primarily include consumer direct catalogs, newspaper inserts, fliers, and mailers; and (iv) generic advertising costs, which primarily include trade show costs. Advertising and promotion expenses as a percentage of net sales in the first nine months of 2019 was 10.7%, which was flat as compared to the first nine months of 2018.

Other Selling and Administrative Expenses

Other selling and administrative expenses were $971.6 million, or 32.1% of net sales, in the first nine months of 2019, as compared to $1.11 billion, or 37.1% of net sales, in the first nine months of 2018. The decrease in other selling and administrative expenses was primarily driven by incremental Structural Simplification savings, lower severance and other restructuring charges, and a benefit from the absence of the first nine months of 2018 Toys "R" Us bad debt expense of approximately $37 million, partially offset by higher incentive compensation expense due to improved year-to-date business performance.

Interest Expense

Interest expense was $140.9 million in the first nine months of 2019, as compared to $132.7 million in the first nine months of 2018. The increase in interest expense was due to higher interest rates on refinanced debt.

Provision for Income Taxes

Mattel's provision for income taxes was $46.2 million and $71.6 million for the nine months ended September 30, 2019 and 2018, respectively. For the nine months ended September 30, 2019, Mattel recognized discrete tax expense of $12.3 million related to reassessments of prior years' tax liabilities and income taxes recorded on a discrete basis in various jurisdictions, offset by a net discrete tax benefit of $13.4 million related to the reassessment of the future realizability of certain foreign deferred tax assets. For the nine months ended September 30, 2018, Mattel recognized provisional tax expense of $9.3 million for deemed repatriation of accumulated foreign earnings (net of related valuation allowance change), discrete tax expense from changes to the indefinite reinvestment assertion of $14.6 million, and net discrete tax expense from reassessments of prior years' tax liabilities and income taxes recorded on a discrete basis in various jurisdictions of $20.4 million. 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 and nine months ended September 30, 2019 and 2018.

Segment Results

North America Segment

The following table provides a summary of Mattel's gross sales for the North America segment by categories, along with supplemental information by brand, for the first nine months of 2019 and 2018:

	For the Nine Months Ended			
	September 30, 2019	September 30, 2018	% Change as Reported	Currency Exchange Rate Impact
	(In millions, except percentage information)			
Revenues by Categories (a)				
Dolls	$ 424.2	$ 394.9	7 %	-1 %
Infant, Toddler, and Preschool	525.3	586.2	-10 %	— %
Vehicles	344.3	334.6	3 %	— %
Action Figures, Building Sets, and Games	403.4	361.8	11 %	-1 %
Gross Sales	$ 1,697.2	$ 1,677.6	1 %	— %
Sales Adjustments	(111.0)	(113.1)		
Net Sales	$ 1,586.2	$ 1,564.5	1 %	-1 %
Supplemental Revenue Disclosure				
Revenues by Top 3 Power Brands				
Barbie	$ 369.0	$ 338.4	9 %	— %
Hot Wheels	276.4	255.0	8 %	-1 %
Fisher-Price and Thomas & Friends	472.1	483.5	-2 %	— %
Other	579.7	600.6	-3 %	— %
Gross Sales	$ 1,697.2	$ 1,677.6	1 %	— %

(a) Mattel modified its reporting structure for revenues in the first quarter of 2019 to disclose revenues by categories.

Gross sales for the North America segment were $1.70 billion in the first nine months of 2019, an increase of $19.6 million, or 1%, as compared to $1.68 billion in the first nine months of 2018. Gross sales in the first nine months of 2018 included the Toys "R" Us sales reversal of approximately $27 million. The increase in the North America segment gross sales was primarily due to higher sales of Action Figures, Building Sets, and Games, and Dolls, substantially offset by lower sales of Infant, Toddler, and Preschool.

Of the 7% increase in Dolls gross sales, 7% was due to higher sales of *Barbie* products, primarily driven by positive POS brand momentum.

Of the 10% decrease in Infant, Toddler, and Preschool gross sales, 5% was due to lower sales of Fisher-Price Friends products and 3% was due to lower sales of *Power Wheels* products.

Of the 3% increase in Vehicles gross sales, 7% was due to higher sales of *Hot Wheels* products, partially offset by lower sales of *Jurassic World* products of 2% and lower sales of *CARS* products of 1% following their movie launches in prior years.

Of the 11% increase in Action Figures, Building Sets, and Games gross sales, 21% was due to initial sales of *Toy Story 4* products as a result of its 2019 theatrical release, partially offset by lower sales of *Jurassic World* products of 9% following the movie launch in prior year.

Cost of sales decreased 8% during the first nine months of 2019, as compared to a 1% increase in net sales, primarily due to lower product and other costs and lower freight and logistics expense. Gross margin in the first nine months of 2019 increased primarily due to incremental Structural Simplification savings, favorable product mix, a benefit from the absence of the first quarter of 2018 Toys "R" Us sales reversal of approximately $27 million, partially offset by the impact of the inclined sleeper product recalls of approximately $26 million and input cost inflation of raw materials and plant labor.

North America segment income was $202.9 million in the first nine months of 2019, as compared to segment income of $54.0 million in the first nine months of 2018, primarily due to higher gross profit and lower other selling and administrative expenses, partially offset by higher advertising and promotion expenses. North America segment income for the first nine months of 2019 included the impact of the inclined sleeper product recalls of approximately $31 million. North America segment income for the first nine months of 2018 included the net sales reversal and bad debt expense, net attributable to the Toy "R" Us liquidation of approximately $57 million.

International Segment

The following table provides a summary of percentage changes in net sales within the International segment in the first nine months of 2019 versus 2018:

	% Change in Net Sales as Reported	**Currency Exchange Rate Impact**
Total International Segment (a)	5%	-5 %
EMEA	5%	-6 %
Latin America	6%	-4 %
Asia Pacific	3%	-4 %

The following table provides a summary of percentage changes in gross sales within the International segment in the first nine months of 2019 versus 2018:

	% Change in Gross Sales as Reported	**Currency Exchange Rate Impact**
Total International Segment (a)	4%	-6 %
EMEA	5%	-7 %
Latin America	4%	-5 %
Asia Pacific	1%	-4 %

(a) Mattel reorganized its regional sales reporting structure in the first quarter of 2019. As a result, the new regions are Europe, the Middle East, and Africa ("EMEA"), Latin America, and Asia Pacific. The Middle East, Africa, Russia, and Turkey were previously included in the Asia Pacific region (previously Global Emerging Markets) and are now included in EMEA (previously Europe). Prior period amounts have been reclassified to conform to the current period presentation. Refer to "Note 23 to the Consolidated Financial Statements—Segment Information" of this Quarterly Report on Form 10-Q for additional information.

The following table provides a summary of Mattel's gross sales for the International segment by categories, along with supplemental brand information, for the first nine months of 2019 and 2018:

	For the Nine Months Ended					
	September 30, 2019		September 30, 2018		% Change as Reported	Currency Exchange Rate Impact
	(In millions, except percentage information)					
Revenues by Categories (a)						
Dolls	$	535.0	$	491.9	9 %	-6 %
Infant, Toddler, and Preschool		351.3		411.8	-15 %	-5 %
Vehicles		400.1		375.9	6 %	-7 %
Action Figures, Building Sets, and Games		281.0		227.7	23 %	-6 %
Gross Sales	$	1,567.4	$	1,507.3	4 %	-6 %
Sales Adjustments		(252.4)		(250.2)		
Net Sales	$	1,315.0	$	1,257.0	5 %	-5 %
Supplemental Revenue Disclosure						
Revenues by Top 3 Power Brands						
Barbie	$	393.9	$	359.7	10 %	-6 %
Hot Wheels		342.6		292.2	17 %	-7 %
Fisher-Price and Thomas & Friends		319.1		349.9	-9 %	-5 %
Other		511.9		505.4	1 %	-5 %
Gross Sales	$	1,567.4	$	1,507.3	4 %	-6 %

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(a) Mattel modified its reporting structure for revenues in the first quarter of 2019 to disclose revenues by categories.

Gross sales for the International segment were $1.57 billion in the first nine months of 2019, an increase of $60.1 million, or 4%, as compared to $1.51 billion in the first nine months of 2018, with an unfavorable impact from changes in currency exchange rates of 6 percentage points. The increase in the International segment gross sales was primarily as a result of higher sales of Action Figures, Building Sets, and Games, and Dolls, partially offset by lower sales of Infant, Toddler, and Preschool.

Of the 9% increase in Dolls gross sales, 7% was due to higher sales of *Barbie* products, primarily driven by positive POS brand momentum.

Of the 15% decrease in Infant, Toddler, and Preschool gross sales, 8% was due to lower sales of *Fisher-Price* and *Thomas & Friends* products and 5% was due to lower sales of Fisher-Price Friends products.

Of the 6% increase in Vehicles gross sales, 12% was due to higher sales of *Hot Wheels* products, partially offset by lower sales of *CARS* products of 5% and lower sales of *Jurassic World* products of 1% following their movie launches in prior years.

Of the 23% increase in Action Figures, Building Sets, and Games gross sales, 28% was due to initial sales of *Toy Story 4* products as a result of its 2019 theatrical release, partially offset by lower sales of *Jurassic World* products of 5% following the movie launch in prior year.

Cost of sales decreased 5% in the first nine months of 2019, as compared to a 5% increase in net sales, primarily due to lower product and other costs. Gross margin in the first nine months of 2019 increased primarily due to incremental Structural Simplification savings and price increases, partially offset by input cost inflation of raw materials and plant labor.

International segment income was $61.4 million in the first nine months of 2019, as compared to a segment loss of $71.6 million in the first nine months of 2018, primarily due to higher gross profit and lower other selling and administrative expenses, partially offset by higher advertising and promotion expenses.

American Girl Segment

The following table provides a summary of Mattel's gross sales for the American Girl segment for the first nine months of 2019 and 2018:

	For the Nine Months Ended			
	September 30, 2019	September 30, 2018	% Change as Reported	Currency Exchange Rate Impact
	(In millions, except percentage information)			
American Girl Segment				
Total Gross Sales	$ 134.7	$ 175.9	-23 %	—%
Sales Adjustments	(5.0)	(6.9)		
Total Net Sales	$ 129.7	$ 169.0	-23 %	—%

Gross sales for the American Girl segment were $134.7 million in the first nine months of 2019, a decrease of $41.2 million, or 23%, as compared to $175.9 million in the first nine months of 2018. The decrease in *American Girl* gross sales was primarily due to lower sales in retail stores.

Cost of sales decreased 28% in the first nine months of 2019, as compared to a 23% decrease in net sales, primarily due to lower product and other costs. Gross margin in the first nine months of 2019 increased primarily due to incremental Structural Simplification savings and favorable product mix, partially offset by the unfavorable impact of fixed cost absorption due to lower sales, higher freight and distribution expenses and input cost inflation of raw materials and plant labor.

American Girl segment loss was $41.4 million in the first nine months of 2019, as compared to segment loss of $40.7 million in the first nine months of 2018, driven primarily by lower net sales, partially offset by lower other selling and administrative expenses.

Cost Savings Programs

Structural Simplification Cost Savings Program

During the third quarter of 2017, Mattel initiated its Structural Simplification cost savings program. As of September 30, 2019, Mattel successfully achieved $826 million of run-rate savings, exceeding its two-year target of $650 million. Mattel expects to achieve more than $854 million of run-rate savings by the end of 2019, the majority of which is expected to be realized in 2020.

The major initiatives of the Structural Simplification cost savings program include:

- Reducing manufacturing complexity, including SKU reduction, and implementing process improvement initiatives at owned and co-manufacturing facilities;
- Streamlining the organizational structure and reducing headcount expense to better align with the revenue base; and
- Optimizing advertising spend.

To date, Mattel has recorded cumulative severance and other restructuring charges of $173.5 million. Mattel realized cost savings (before severance, investments, and cost inflation) relating to the Structural Simplification cost savings program of approximately $246 million (approximately $151 million within gross profit, approximately $88 million within other selling and administrative expenses, and approximately $7 million within advertising and promotion expenses) during the first nine months of 2019.

In connection with the Structural Simplification cost savings program, Mattel recorded severance and other restructuring charges of $18.6 million and $103.9 million during the first nine months of 2019 and 2018, respectively. Of the total charges recorded during the first nine months of 2019, $10.2 million related to severance charges and $8.4 million related to other restructuring costs, which consisted primarily of consulting fees and contract termination costs. Of the total charges recorded during the first nine months of 2018, $61.7 million related to severance charges and $42.2 million related to other restructuring costs, which consisted primarily of consulting fees. To date, Mattel has recorded cumulative severance and other restructuring charges of $173.5 million and expects to incur total severance and restructuring charges of approximately $179 million related to the Structural Simplification cost savings program.

Capital Light Initiative

During the first quarter of 2019, Mattel announced the commencement of its Capital Light initiative to optimize Mattel's manufacturing footprint (including the sale or consolidation of manufacturing facilities), increase the productivity of its plant infrastructure, and achieve additional efficiencies across its entire supply chain. Mattel expects that this initiative will result in incremental savings, costs, and non-cash charges. In connection with the Capital Light initiative, Mattel recorded severance and other restructuring charges of $16.3 million and $27.8 million during the three and nine months ended September 30, 2019, respectively. Of the total charges recorded during the three months ended September 30, 2019, $7.9 million was recorded within other selling and administrative expenses and $8.4 million was recorded within cost of sales in the consolidated statements of operations. Of the total charges recorded during the nine months ended September 30, 2019, $15.9 million was recorded within other selling and administrative expenses and $11.9 million was recorded within cost of sales in the consolidated statements of operations.

To date, Mattel has recorded cumulative severance and other restructuring charges of $27.8 million and currently expects to incur total severance and restructuring charges, including non-cash charges, of approximately $34 million. Mattel expects to realize run-rate cost savings of approximately $50 million related to such costs exiting 2021. Mattel is currently evaluating other cost saving measures including the optimization of owned and operated manufacturing facilities and the geographical footprint of co-manufacturing facilities, which may result in incremental cost savings.

Income Taxes

Mattel's provision for income taxes was $31.4 million and $46.2 million for the three and nine months ended September 30, 2019, respectively, as compared to a provision for income taxes of $66.3 million and $71.6 million for the three and nine months ended September 30, 2018, respectively. During the three and nine months ended September 30, 2019, Mattel recognized a net discrete tax expense of $0.1 million and a net discrete tax benefit of $1.1 million, respectively, as compared to a net discrete tax expense of $42.1 million and $44.3 million for the three and nine months ended September 30, 2018, respectively.

For the three months ended September 30, 2019, Mattel recognized discrete tax expense of $13.5 million related to reassessments of prior years' tax liabilities and income taxes recorded on a discrete basis in various jurisdictions, offset by a $13.4 million tax benefit related to the reassessment of the future realizability of certain foreign deferred tax assets. For the three months ended September 30, 2018, Mattel recognized discrete tax expense primarily related to the provisional tax expense of $9.3 million for deemed repatriation of accumulated foreign earnings (net of related valuation allowance change), $14.6 million related to changes to the indefinite reinvestment assertion, and $17.8 million net tax expense related to reassessments of prior years' tax liabilities and income taxes recorded on a discrete basis in various jurisdictions.

For the nine months ended September 30, 2019, Mattel recognized discrete tax expense of $12.3 million related to reassessments of prior years' tax liabilities and income taxes recorded on a discrete basis in various jurisdictions, offset by a discrete tax benefit of $13.4 million related to the reassessment of the future realizability of certain foreign deferred tax assets. For the nine months ended September 30, 2018, Mattel recognized provisional tax expense of $9.3 million for deemed repatriation of accumulated foreign earnings (net of related valuation allowance change), discrete tax expense from changes to the indefinite reinvestment assertion of $14.6 million, and net discrete tax expense from reassessments of prior years' tax liabilities and income taxes recorded on a discrete basis in various jurisdictions of $20.4 million. 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 and nine months ended September 30, 2019 and 2018.

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 $8 million related to the settlement of tax audits and/or the expiration of statutes of limitations. The ultimate settlement of any particular issue with the applicable taxing authority could have a material impact on Mattel's consolidated financial statements.

Liquidity and Capital Resources

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

Of Mattel's $218.3 million in cash and equivalents as of September 30, 2019, approximately $149 million were held by foreign subsidiaries. Mattel has several liquidity options to fund its operations and obligations; such obligations may include investing and financing activities such as debt service, dividends, and share repurchases. Cash flows generated by its worldwide operations, the senior secured revolving credit facilities, alternative forms of financing, and access to capital markets are available to fund Mattel's operations and obligations. Mattel's 2010 Senior Notes of $250.0 million aggregate principal amount is due October 2020. Mattel intends to refinance the 2010 Senior Notes due October 2020 prior to its maturity. If Mattel is unable to refinance, Mattel believes it will have sufficient liquidity through its cash on hand and excess capacity available under the senior secured revolving credit facilities to repay the maturing 2010 Senior Notes.

Current Market Conditions

Mattel is exposed to financial market risk resulting from changes in interest and foreign currency exchange rates. Mattel continues to actively manage its capital structure and believes that it has sufficient liquidity to run its business.

Subject to market conditions, Mattel intends to utilize its senior secured revolving credit facilities or alternative forms of financing to meet its short-term liquidity needs. As of September 30, 2019, there were borrowings of approximately $230 million outstanding under the senior secured revolving credit facilities and approximately $65 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 collectibility risks, and customer terms and credit limits are adjusted, if necessary. Additionally, Mattel uses a variety of financial arrangements to ensure collectibility of accounts receivable of customers deemed to be a credit risk, including requiring letters of credit, factoring, purchasing various forms of credit insurance with unrelated third parties, or requiring cash in advance of shipment. As a result of the Toys "R" Us liquidation in the first quarter of 2018, Mattel reversed net sales which occurred during the first quarter of 2018 and related accounts receivable of approximately $30 million. For the three and nine months ended September 30, 2019, Mattel recorded bad debt expense, net of approximately $(1) million related to outstanding Toys "R" Us receivables. In addition, for the three and nine months ended September 30, 2018, Mattel recorded bad debt expense, net of approximately $(13) million and $37 million, respectively, related to outstanding Toys "R" Us receivables.

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.

Operating Activities

Cash flows used for operating activities were $513.7 million in the first nine months of 2019, as compared to $731.5 million in the first nine months of 2018. The decrease in cash flows used for operating activities was primarily due to a lower net loss, excluding the impact of non-cash charges.

Investing Activities

Cash flows used for investing activities were $78.4 million in the first nine months of 2019, as compared to $114.6 million in the first nine months of 2018. The decrease in cash flows used for investing activities was primarily driven by lower capital spending and lower payments made for foreign currency forward exchange contracts in the first nine months of 2019.

Financing Activities

Cash flows provided by financing activities were $218.3 million in the first nine months of 2019, as compared to cash flows used for financing activities of $10.7 million in the first nine months of 2018. The increase in cash flows provided by financing activities was primarily driven by net repayments of long-term borrowings of $274.5 million during the first nine months of 2018, partially offset by lower net proceeds from short-term borrowings of $49.2 million in the first nine months of 2019.

Seasonal Financing

See Item 1 "Financial Statements—Note 9 to the Consolidated Financial Statements—Seasonal Financing" of this Quarterly Report on Form 10-Q.

Financial Position

Mattel's cash and equivalents decreased $376.2 million to $218.3 million at September 30, 2019, as compared to $594.5 million at December 31, 2018. The decrease was primarily due to seasonal working capital usage during the first nine months of 2019.

Accounts receivable increased $321.2 million to $1.29 billion at September 30, 2019, as compared to $970.1 million at December 31, 2018, primarily due to the seasonality of Mattel's business. Inventory increased $158.7 million to $701.6 million at September 30, 2019, as compared to $542.9 million at December 31, 2018, primarily due to seasonal inventory build.

Accounts payable and accrued liabilities remained flat at $1.24 billion as of September 30, 2019 and December 31, 2018.

As of September 30, 2019 and December 31, 2018, Mattel had $230.0 million and $4.2 million, respectively, of short-term borrowings outstanding.

A summary of Mattel's capitalization is as follows:

	September 30, 2019		September 30, 2018		December 31, 2018	
	(In millions, except percentage information)					
Cash and equivalents	$ 218.3		$ 209.2		$ 594.5	
Short-term borrowings	230.0		275.0		4.2	
2010 Senior Notes due October 2020 and October 2040	500.0		500.0		500.0	
2011 Senior Notes due November 2041	300.0		300.0		300.0	
2013 Senior Notes due March 2023	250.0		250.0		250.0	
2016 Senior Notes due August 2021	350.0		350.0		350.0	
2017/2018 Senior Notes due December 2025	1,500.0		1,500.0		1,500.0	
Debt issuance costs and debt discount	(43.2)		(50.1)		(48.3)	
Total debt	3,086.8	87%	3,124.9	83%	2,855.9	81%
Stockholders' equity	453.7	13	659.0	17	656.8	19
Total capitalization (debt plus equity)	$ 3,540.5	100%	$ 3,783.9	100%	$ 3,512.7	100%

Total debt was $3.09 billion at September 30, 2019, as compared to $2.86 billion at December 31, 2018. There were no borrowings or repayments on long-term debt during the first nine months of 2019.

Stockholders' equity decreased $203.1 million to $453.7 million at September 30, 2019, as compared to $656.8 million at December 31, 2018, primarily due to the net loss for the first nine months of 2019.

Litigation

See Item 1 "Financial Statements—Note 22 to the Consolidated Financial Statements—Contingencies" of this Quarterly Report on Form 10-Q.

Application of Critical Accounting Policies and Estimates

In the third quarter of 2019, Mattel performed its annual impairment test and determined that goodwill was not impaired since each reporting unit's fair value exceeded its carrying value.

When performing the quantitative goodwill impairment test, Mattel utilizes the fair value based upon both the discounted cash flows that the business can be expected to generate in the future (the "Income Approach") and the Market Approach. The Income Approach valuation method requires Mattel to make projections of revenue, operating costs, and working capital investment for the reporting unit over a multi-year period. Additionally, management must make an estimate of a weighted-average cost of capital that a market participant would use as a discount rate. Changes in these projections or estimates would impact the estimated fair value, which could significantly change the amount of any impairment ultimately recorded. The Market Approach utilizes earnings multiples of comparable public companies, which are reflective of the market in which each respective reporting unit operates, and recent comparable market transactions.

Based upon the results of the annual impairment test, the fair value of the North America reporting unit was substantially in excess of its carrying value.

The estimated fair value of the American Girl reporting unit had approximately 30% excess fair value over its carrying value. The fair value of the American Girl reporting unit is impacted by expected sales growth, gross margin, operating costs, working capital investments, and discount rate. The estimates of gross margin, operating costs and working capital investments tend to be fairly predictable in relation to gross sales. The estimates of future sales growth tend to be one of the more significant estimates in determining the overall fair value of the American Girl reporting unit. The current forecast includes significant moderation in the decline of sales in the near term resulting from recently launched growth initiatives, followed by significant growth in sales from current levels as it continues to increase consumer engagement in the brand. In addition, the fair value of the American Girl reporting unit decreased significantly from the prior year as a result of the increase in discount rate from 9.5% to 12%, due to a specific risk premium. If American Girl is unable to successfully execute its plan to increase sales through the renewal of consumer interest in the brand and its products, goodwill may be impaired.

The estimated fair value of the International reporting unit had more than 30% excess fair value over its carrying value. The fair value of the International reporting unit is impacted by expected sales growth, gross margin, operating costs, working capital investments, and discount rate. The valuation of the International reporting unit decreased as a result of the increase in discount rate from the prior year, from 11% to 12.5%. The valuation model assumes incremental growth in sales and gross margin from current levels. If Mattel is unable to successfully execute its plans in international markets to achieve further growth in emerging markets, improve gross margin, or has lower-than-expected market demand, goodwill may be impaired.

Mattel’s critical accounting policies and estimates are included in its 2018 Annual Report on Form 10-K/A and did not materially change during the first nine months of 2019.

New Accounting Pronouncements

See Item 1 "Financial Statements—Note 24 to the Consolidated Financial Statements—New Accounting Pronouncements" of this Quarterly Report on Form 10-Q.

Non-GAAP Financial Measures

To supplement the financial results presented in accordance with U.S. GAAP, Mattel presents certain non-GAAP financial measures within the meaning of Regulation G promulgated by the Securities and Exchange Commission. The non-GAAP financial measures that Mattel presents include currency exchange rate impact and gross sales. Mattel uses these metrics 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 non-GAAP financial measures provides useful supplemental information to investors to be able to better evaluate ongoing business performance and certain components of Mattel's results. These measures are not, and should not be viewed as, substitutes 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.

Gross Sales

Gross sales represent sales to customers, excluding the impact of sales adjustments. Net sales, as reported, include the impact of sales adjustments, such as trade discounts and other allowances. Mattel presents changes in gross sales as a metric for comparing its aggregate, categorical, brand, and geographic results to highlight significant trends in Mattel's business. Changes in gross sales are discussed because, while Mattel records the details of such sales adjustments in its financial accounting systems at the time of sale, such sales adjustments are generally not associated with brands and individual products, making net sales less meaningful. Because sales adjustments are not allocated to individual products, net sales are only presented on a consolidated and segment basis and not on a categories or brand level.

Since sales adjustments are determined by customer rather than at the categories or brand level, Mattel believes that the disclosure of gross sales by categories and brand is useful supplemental information for investors to be able to assess the performance of its underlying categories and brands (e.g., Dolls, *Barbie*) and also enhances their ability to compare sales trends over time.

A reconciliation from Mattel's consolidated net sales to its consolidated gross sales is as follows:

	For the Three Months Ended			
	September 30, 2019	September 30, 2018	% Change as Reported	Currency Exchange Rate Impact
	(In millions, except percentage information)			
Net sales	$ 1,481.6	$ 1,437.5	3%	-1 %
Sales adjustments	175.4	169.2		
Gross sales	$ 1,656.9	$ 1,606.6	3%	-1 %

	For the Nine Months Ended			
	September 30, 2019	September 30, 2018	% Change as Reported	Currency Exchange Rate Impact
	(In millions, except percentage information)			
Net sales	$ 3,030.9	$ 2,990.5	1%	-3 %
Sales adjustments	368.4	370.2		
Gross sales	$ 3,399.3	$ 3,360.8	1%	-3 %

A reconciliation from net sales to gross sales for the North America segment is as follows:

	For the Three Months Ended			
	September 30, 2019	September 30, 2018	% Change as Reported	Currency Exchange Rate Impact
	(In millions, except percentage information)			
Net sales	$ 821.9	$ 825.6	— %	— %
Sales adjustments	58.6	60.7		
Gross sales	$ 880.4	$ 886.3	-1 %	— %

	For the Nine Months Ended			
	September 30, 2019	September 30, 2018	% Change as Reported	Currency Exchange Rate Impact
	(In millions, except percentage information)			
Net sales	$ 1,586.2	$ 1,564.5	1 %	-1 %
Sales adjustments	111.0	113.1		
Gross sales	$ 1,697.2	$ 1,677.6	1 %	— %

A reconciliation from net sales to gross sales for the International segment is as follows:

	For the Three Months Ended			
	September 30, 2019	September 30, 2018	% Change as Reported	Currency Exchange Rate Impact
	(In millions, except percentage information)			
Net sales	$ 607.9	$ 551.1	10%	-4 %
Sales adjustments	113.8	105.4		
Gross sales	$ 721.7	$ 656.5	10%	-3 %

	For the Nine Months Ended			
	September 30, 2019	September 30, 2018	% Change as Reported	Currency Exchange Rate Impact
	(In millions, except percentage information)			
Net sales	$ 1,315.0	$ 1,257.0	5%	-5 %
Sales adjustments	252.4	250.2		
Gross sales	$ 1,567.4	$ 1,507.3	4%	-6 %

A reconciliation from net sales to gross sales for the American Girl segment is as follows:

	For the Three Months Ended			
	September 30, 2019	September 30, 2018	% Change as Reported	Currency Exchange Rate Impact
	(In millions, except percentage information)			
Net sales	$ 51.8	$ 60.8	-15 %	—%
Sales adjustments	3.0	3.0		
Gross sales	$ 54.8	$ 63.9	-14 %	—%

	For the Nine Months Ended			
	September 30, 2019	September 30, 2018	% Change as Reported	Currency Exchange Rate Impact
	(In millions, except percentage information)			
Net sales	$ 129.7	$ 169.0	-23 %	—%
Sales adjustments	5.0	6.9		
Gross sales	$ 134.7	$ 175.9	-23 %	—%

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, British pound sterling, Canadian dollar, Russian ruble, and Brazilian real were the primary transactions that caused foreign currency transaction exposure for Mattel during the nine months ended September 30, 2019. 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 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. Net income (loss) 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 nine months ended September 30, 2019 were related to its net investments in entities having functional currencies denominated in the British pound sterling, Euro, Brazilian real, and Russian ruble.

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 impact Mattel's net sales by approximately 0.4% and have no impact to Mattel's net income per share.

United Kingdom Operations

During June 2016, the referendum by British voters to exit the European Union ("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 European Union ("EU") began in March 2017. The United Kingdom ("U.K.") was scheduled to exit from the EU on March 29, 2019, however, on March 21, 2019, the leaders of the member countries of the EU agreed to extend the deadline for Brexit until April 12, 2019. On April 10, 2019, the U.K. and the EU agreed to a second extension of the deadline for Brexit until October 31, 2019. On October 25, 2019, the U.K. and EU agreed to a third extension of the deadline for Brexit until January 31, 2020.

In the short term, volatility in the British pound sterling could continue as the U.K. negotiates its anticipated exit from the EU. If the U.K. and the EU are unable to reach an agreement and the U.K. exits the EU without an agreement in place, it will likely create further short-term uncertainty and currency volatility, which may increase the cost of goods imported into Mattel's U.K. operations or decrease the profitability of Mattel's U.K. operations. In the longer term, any impact from Brexit on Mattel's U.K. operations will depend, in part, on the outcome of tariff, trade, regulatory, and other negotiations. Mattel's U.K. operations represented less than 5% of Mattel's consolidated net sales for the nine months ended September 30, 2019.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of September 30, 2019, 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 Mattel's 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 Joseph J. Euteneuer, Mattel's principal financial officer, concluded that Mattel's disclosure controls and procedures were not effective as of September 30, 2019, due to the material weakness in Mattel’s internal control over financial reporting, as further described in Item 8 of its 2018 Annual Report on Form 10-K/A.

Remediation Plan

Management developed and is executing a remediation plan to address the material weakness. Management developed and designed, for the three months ended September 30, 2019, more robust procedures relating to disclosure committee controls and procedures. Management is also developing a policy and more robust procedures relating to the assessment, documentation, and disclosure of accounting errors. Mattel is also supplementing its policy and training with respect to auditor independence.

To remediate the existing material weakness, additional time is required to demonstrate the effectiveness of the remediation efforts. The material weakness cannot be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Changes in Internal Control over Financial Reporting

The remediation activities described above are changes to internal control over financial reporting during the quarter ended September 30, 2019 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 22 to the Consolidated Financial Statements—Contingencies" of this Quarterly Report on Form 10-Q is hereby incorporated by reference in its entirety in this Item 1.

Item 1A. Risk Factors.

There have been no material changes to the risk factors disclosed under Part I, Item 1A "Risk Factors" in Mattel's 2018 Annual Report on Form 10-K/A.

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

Recent Sales of Unregistered Equity Securities

During the third quarter of 2019, 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 third quarter of 2019:

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)
July 1—31	7,901	$	14.39	—	$	203,016,273
August 1—31	440,054		13.57	—		203,016,273
September 1—30	55,540		11.26	—		203,016,273
Total	503,495	$	13.33	—	$	203,016,273

(a) *The total number of shares purchased relates to 503,495 shares withheld from employees to satisfy minimum tax withholding obligations that occur upon vesting of restricted stock units. These shares were not purchased as part of a publicly announced repurchase plan or program.*

(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 September 30, 2019, 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
31.0*	Certification of Principal Executive Officer dated November 12, 2019 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
31.1*	Certification of Principal Financial Officer dated November 12, 2019 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
32.0**	Certifications of Principal Executive Officer and Principal Financial Officer dated November 12, 2019 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 September 30, 2019, formatted in Inline XBRL.				

\+ *Management contract or compensatory plan or arrangement.*

* *Filed herewith.*

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

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: November 12, 2019

EXHIBIT 31.0

CERTIFICATION

I, Ynon Kreiz, 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:	November 12, 2019	By:	/s/ Ynon Kreiz

Ynon Kreiz
Chairman and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.1

CERTIFICATION

I, Joseph J. Euteneuer, 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:	November 12, 2019	By:	/s/ Joseph J. Euteneuer
			Joseph J. Euteneuer **Chief Financial Officer** **(Principal Financial Officer)**

EXHIBIT 32.0

CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Mattel, Inc. a Delaware corporation (the “Company”), on Form 10-Q for the quarter ended September 30, 2019 as filed with the Securities and Exchange Commission (the “Report”), Ynon Kreiz, Chief Executive Officer, and Joseph J. Euteneuer, Chief Financial Officer, of the Company, do each hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) that, to his knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 12, 2019

By: /s/ Ynon Kreiz

Ynon Kreiz
Chairman and Chief Executive Officer

/s/ Joseph J. Euteneuer

Joseph J. Euteneuer
Chief Financial Officer