MATTEL INC /DE/
Form 10-Q
April 29, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

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

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

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes x No ¨

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

Number of shares outstanding of registrant s common stock, $1.00 par value, as of April 18, 2014:

339,251,876 shares

MATTEL, INC. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

MATTEL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	March 31, 2014	March 31, 2013	December 31, 2013
	(Unaudited; in thousands, except share data)		
ASSETS			
Current Assets			
Cash and equivalents	$ 897,254	$ 1,259,512	$ 1,039,216
Accounts receivable, net	762,612	750,793	1,260,105
Inventories	650,777	599,901	568,843
Prepaid expenses and other current assets	507,936	545,312	509,829
Total current assets	2,818,579	3,155,518	3,377,993
Noncurrent Assets			
Property, plant, and equipment, net	658,757	605,054	659,333
Goodwill	1,084,118	1,072,345	1,083,239
Other noncurrent assets	1,310,515	1,360,754	1,319,061
Total Assets	$ 5,871,969	$ 6,193,671	$ 6,439,626
LIABILITIES AND STOCKHOLDERS EQUITY			
Current Liabilities			
Short-term borrowings	$	$ 4,996	$ 4,278
Current portion of long-term debt		50,000	
Accounts payable	248,183	257,926	375,328
Accrued liabilities	412,858	567,524	640,155
Income taxes payable	13,901	18,014	27,679
Total current liabilities	674,942	898,460	1,047,440
Noncurrent Liabilities			
Long-term debt	1,600,000	1,600,000	1,600,000
Other noncurrent liabilities	499,490	647,023	540,627
Total noncurrent liabilities	2,099,490	2,247,023	2,140,627

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	1,761,035	1,752,662	1,784,445
Treasury stock at cost; 101.7 million shares, 96.2 million shares, and 102.1 million shares, respectively	(2,447,091)	(2,092,226)	(2,448,701)
Retained earnings	3,775,945	3,427,808	3,918,122
Accumulated other comprehensive loss	(433,721)	(481,425)	(443,676)
Total stockholders equity	3,097,537	3,048,188	3,251,559
Total Liabilities and Stockholders Equity	$ 5,871,969	$ 6,193,671	$ 6,439,626

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

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MATTEL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended March 31, 2014	March 31, 2013
	(Unaudited; in thousands, except per share amounts)	
Net Sales	$ 946,177	$ 995,606
Cost of sales	464,646	455,555
Gross Profit	481,531	540,051
Advertising and promotion expenses	90,834	104,540
Other selling and administrative expenses	384,479	369,680
Operating Income	6,218	65,831
Interest expense	17,246	20,337
Interest (income)	(1,279)	(1,400)
Other non-operating (income) expense, net	(328)	2,729
(Loss) Income Before Income Taxes	(9,421)	44,165
Provision for income taxes	1,797	5,654
Net (Loss) Income	$ (11,218)	$ 38,511
Net (Loss) Income Per Common Share Basic	$ (0.03)	$ 0.11
Weighted average number of common shares	340,226	344,315
Net (Loss) Income Per Common Share Diluted	$ (0.03)	$ 0.11
Weighted average number of common and potential common shares	340,226	348,795
Dividends Declared Per Common Share	$ 0.38	$ 0.36

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

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MATTEL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

	For the Three Months Ended March 31, 2014	March 31, 2013
	(Unaudited; in thousands)	
Net (Loss) Income	$ (11,218)	$ 38,511
Other Comprehensive Income (Loss), Net of Tax:		
Currency translation adjustments	3,872	(27,379)
Defined benefit pension plans net prior service credit (cost) and net actuarial gain (loss)	2,088	3,431
Net unrealized gains (losses) on derivative instruments:		
Unrealized holding gains	1,228	8,138
Reclassification adjustment for realized losses (gains) included in net income	2,767	(1,129)
	3,995	7,009
Other Comprehensive Income (Loss), Net of Tax	9,955	(16,939)
Comprehensive (Loss) Income	$ (1,263)	$ 21,572

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

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MATTEL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended March 31, 2014	March 31, 2013
	(Unaudited; in thousands)	
Cash Flows From Operating Activities:		
Net (loss) income	$ (11,218)	$ 38,511
Adjustments to reconcile net (loss) income to net cash flows provided by (used for) operating activities:		
Depreciation	48,006	41,822
Amortization	3,508	4,410
Deferred income taxes	24,220	(16,350)
Tax benefits from share-based payment arrangements	(14,243)	(21,759)
Share-based compensation	12,693	13,862
Increase (decrease) from changes in assets and liabilities:		
Accounts receivable	494,496	472,404
Inventories	(82,203)	(140,840)
Prepaid expenses and other current assets	4,346	(9,458)
Accounts payable, accrued liabilities, and income taxes payable	(409,648)	(442,654)
Other, net	(9,379)	(2,395)
Net cash flows provided by (used for) operating activities	60,578	(62,447)
Cash Flows From Investing Activities:		
Purchases of tools, dies, and molds	(30,262)	(29,178)
Purchases of other property, plant, and equipment	(13,570)	(23,936)
Proceeds (payments) from foreign currency forward exchange contracts	13,985	(12,619)
Other, net	201	133
Net cash flows used for investing activities	(29,646)	(65,600)
Cash Flows From Financing Activities:		
Payments of short-term borrowings, net	(4,278)	(9,844)
Proceeds from short-term borrowings, net		4,996
Payments of credit facility renewal costs		(4,015)
Payments of long-term borrowings		(350,000)
Proceeds from long-term borrowings, net		495,260
Share repurchases	(27,688)	(32,240)
Payments of dividends on common stock	(129,327)	(124,077)
Proceeds from exercise of stock options	5,138	57,311
Tax benefits from share-based payment arrangements	14,243	21,759
Other, net	(26,954)	(1,890)

Net cash flows (used for) provided by financing activities	(168,866)	57,260
Effect of Currency Exchange Rate Changes on Cash	(4,028)	(5,412)
Decrease in Cash and Equivalents	(141,962)	(76,199)
Cash and Equivalents at Beginning of Period	1,039,216	1,335,711
Cash and Equivalents at End of Period	$ 897,254	$ 1,259,512

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

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MATTEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements and related disclosures have been prepared in accordance with accounting principles generally accepted in the United States of America 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 presentation of the financial position and interim results of Mattel, Inc. and its subsidiaries (Mattel) as of and for the periods presented have been included. 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 year-end balance sheet data was derived from audited financial statements; however, the accompanying interim notes to the consolidated financial statements do not include all disclosures required by accounting principles generally accepted in the United States of America.

The financial information included herein should be read in conjunction with Mattel s consolidated financial statements and related notes in its 2013 Annual Report on Form 10-K.

2. Accounts Receivable

Accounts receivable are net of allowances for doubtful accounts of $19.5 million, $35.4 million, and $20.4 million as of March 31, 2014, March 31, 2013, and December 31, 2013, respectively.

3. Inventories

Inventories include the following:

	March 31, 2014	March 31, 2013	December 31, 2013
		(In thousands)	
Raw materials and work in process	$ 111,871	$ 107,166	$ 89,863
Finished goods	538,906	492,735	478,980
	$ 650,777	$ 599,901	$ 568,843

4. Property, Plant, and Equipment

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

	March 31, 2014	March 31, 2013 (In thousands)	December 31, 2013
Land	$ 27,682	$ 26,733	$ 27,555
Buildings	270,951	273,479	269,874
Machinery and equipment	680,901	682,866	673,546
Software	310,264	263,484	301,284
Tools, dies, and molds	728,931	692,215	713,749
Capital leases	23,271	23,271	23,271
Leasehold improvements	229,967	211,038	230,271
	2,271,967	2,173,086	2,239,550
Less: accumulated depreciation	(1,613,210)	(1,568,032)	(1,580,217)
	$ 658,757	$ 605,054	$ 659,333

Property, plant, and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over estimated useful lives of 10 to 30 years for buildings, 3 to 10 years for machinery and equipment, 3 to 7 years for software, and 10 to 20 years, not to exceed the lease term, for leasehold improvements. Tools, dies, and molds are depreciated using the straight-line method over 3 years. Estimated useful lives are periodically reviewed and, where appropriate, changes are made prospectively. The carrying value of property, plant, and equipment is reviewed when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Any potential impairment identified is assessed by evaluating the operating performance and future undiscounted cash flows of the underlying assets. When property is sold or retired, the cost of the property and the related accumulated depreciation are removed from the consolidated balance sheet, and any resulting gain or loss is included in the results of operations.

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5. Goodwill

Goodwill is allocated to various reporting units, which are at the operating segment level, for purposes of evaluating whether goodwill is impaired. Mattel s reporting units are: (i) North America, (ii) International, and (iii) American Girl. Mattel tests its goodwill for impairment annually in the third quarter and whenever events or changes in circumstances indicate that the carrying value of a reporting unit may exceed its fair value.

The change in the carrying amount of goodwill by operating segment for the three months ended March 31, 2014 is shown below. Brand-specific goodwill held by foreign subsidiaries is allocated to the North America and American Girl operating segments selling those brands, thereby causing a foreign currency translation impact for these operating segments.

	December 31, 2013	Currency Exchange Rate Impact	March 31, 2014
		(In thousands)	
North America	$ 547,595	$ 242	$ 547,837
International	321,656	625	322,281
American Girl	213,988	12	214,000
Total goodwill	$ 1,083,239	$ 879	$ 1,084,118

6. Other Noncurrent Assets

Other noncurrent assets include the following:

	March 31, 2014	March 31, 2013	December 31, 2013
		(In thousands)	
Nonamortizable identifiable intangibles	$ 504,241	$ 617,223	$ 504,241
Deferred income taxes	364,605	411,298	373,638
Identifiable intangibles (net of amortization of $69.5 million, $67.7 million, and $68.3 million, respectively)	173,853	85,983	176,579
Other	267,816	246,250	264,603
	$ 1,310,515	$ 1,360,754	$ 1,319,061

Mattel tests nonamortizable intangible assets, including trademarks and trade names, for impairment annually in the third quarter and whenever events or changes in circumstances indicate that the carrying values may exceed the fair values. Mattel also 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.

During the second quarter of 2013, Mattel changed its brand strategy for Polly Pocket®, which includes a more focused allocation of resources to support the Polly Pocket brand in specific markets, resulting in a reduction of the forecasted future cash flows of the brand. As a result of the change, Mattel tested the Polly Pocket trade name for impairment. The Polly Pocket trade name, which had a carrying value of approximately $113 million, was previously determined to be a nonamortizable intangible asset. Its fair value was determined to be approximately $99 million based on a discounted cash flow analysis using the multi-period excess earnings method. Level 3 inputs, including forecasted future cash flows, an estimated useful life, and a discount rate, were used in the valuation. As the fair value of the asset was below the carrying value, Mattel recorded an impairment charge of approximately $14 million, which was reflected within other selling and administrative expenses in the consolidated statement of operations for the North America and International operating segments during the second quarter of 2013.

In conjunction with the Polly Pocket trade name impairment test, Mattel reassessed the intangible asset s nonamortizable classification and determined that the nonamortizable classification could no longer be supported. During the second quarter of 2013, the Polly Pocket trade name was reclassified as an amortizable intangible asset, and the remaining fair value of the asset is being amortized over its estimated remaining useful life.

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7. Accrued Liabilities

Accrued liabilities include the following:

	March 31, 2014	March 31, 2013 (In thousands)	December 31, 2013
Royalties	$ 42,681	$ 37,903	$ 100,542
Taxes other than income taxes	28,793	35,994	70,121
Advertising and promotion	12,029	26,060	76,453
Litigation accrual		137,800	
Other	329,355	329,767	393,039
	$ 412,858	$ 567,524	$ 640,155

8. Seasonal Financing

Mattel maintains and periodically amends or replaces its domestic unsecured committed revolving credit facility with a commercial bank group. The facility is used as a back-up to Mattel s commercial paper program, which is used as the primary source of financing for the seasonal working capital requirements of its domestic subsidiaries. The agreement governing the credit facility was amended and restated on March 11, 2013 to, among other things, (i) extend the maturity date of the credit facility to March 12, 2018, (ii) increase aggregate commitments under the credit facility to $1.60 billion, with an accordion feature, which allows Mattel to increase the aggregate availability under the credit facility to $1.85 billion under certain circumstances, (iii) decrease the applicable interest rate margins to a range of 0.00% to 0.75% above the applicable base rate for base rate loans and 0.88% to 1.75% above the applicable LIBOR for Eurodollar rate loans, in each case depending on Mattel s senior unsecured long-term debt rating, and (iv) decrease commitment fees to a range of 0.08% to 0.28% of the unused commitments under the credit facility.

The amended credit facility has a borrowing capacity of up to $1.60 billion over a term of five years. Prior to the amendment, the facility permitted Mattel to borrow up to $1.40 billion and had two years remaining to maturity. The proportion of unamortized debt issuance costs from the prior facility renewal related to creditors involved in both the prior facility and amended facility and borrowing costs incurred as a result of the amendment were deferred and will be amortized over the term of the amended facility.

Mattel is required to meet financial ratio covenants at the end of each quarter and fiscal year, using the formulae specified in the credit agreement to calculate the ratios. Mattel was in compliance with such covenants at March 31, 2014.

The credit agreement is a material agreement and failure to comply with the financial ratio covenants may result in an event of default under the terms of the credit facility. If Mattel were to default under the terms of the credit facility, its ability to meet its seasonal financing requirements could be adversely affected.

9. Long-Term Debt

Long-term debt includes the following:

	March 31, 2014	March 31, 2013 (In thousands)	December 31, 2013
Medium-term notes	$	$ 50,000	$
2010 Senior Notes due October 2020 and October 2040	500,000	500,000	500,000
2011 Senior Notes due November 2016 and November 2041	600,000	600,000	600,000
2013 Senior Notes due March 2018 and March 2023	500,000	500,000	500,000
	1,600,000	1,650,000	1,600,000
Less: current portion		(50,000)	
Total long-term debt	$ 1,600,000	$ 1,600,000	$ 1,600,000

During November 2013, Mattel repaid $50.0 million of its Medium-term notes in connection with their scheduled maturities.

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10. Other Noncurrent Liabilities

Other noncurrent liabilities include the following:

	March 31, 2014	March 31, 2013	December 31, 2013
		(In thousands)	
Benefit plan liabilities	$ 196,753	$ 283,006	$ 193,046
Noncurrent tax liabilities	143,191	213,917	186,055
Other	159,546	150,100	161,526
	$ 499,490	$ 647,023	$ 540,627

11. Accumulated Other Comprehensive Income (Loss)

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

	For the Three Months Ended March 31, 2014			
	Derivative Instruments	Defined Benefit Pension Plans	Currency Translation Adjustments	Total
	(In thousands)			
Accumulated Other Comprehensive Income (Loss), Net of Tax, as of December 31, 2013	$ (10,789)	$ (131,946)	$ (300,941)	$ (443,676)
Other comprehensive income before reclassifications	1,228	(92)	3,872	5,008
Amounts reclassified from accumulated other comprehensive income (loss)	2,767	2,180		4,947
Net increase in other comprehensive income	3,995	2,088	3,872	9,955
Accumulated Other Comprehensive Income (Loss), Net of Tax, as of March 31, 2014	$ (6,794)	$ (129,858)	$ (297,069)	$ (433,721)

	For the Three Months Ended March 31, 2013			
	Derivative Instruments	Defined Benefit Pension Plans	Currency Translation Adjustments	Total
	(In thousands)			
	$ (2,583)	$ (190,656)	$ (271,247)	$ (464,486)

Accumulated Other Comprehensive Income (Loss), Net of Tax, as of December 31, 2012				
Other comprehensive income before reclassifications	8,138	311	(27,379)	(18,930)
Amounts reclassified from accumulated other comprehensive income (loss)	(1,129)	3,120		1,991
Net increase (decrease) in other comprehensive income	7,009	3,431	(27,379)	(16,939)
Accumulated Other Comprehensive Income (Loss), Net of Tax, as of March 31, 2013	$ 4,426	$ (187,225)	$ (298,626)	$ (481,425)

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

	For the Three Months Ended March 31, 2014	For the Three Months Ended March 31, 2013	Statements of Operations Classification
	(In thousands)		
Derivative Instruments			
(Loss) gain on foreign currency forward exchange contracts	$ (2,718)	$ 1,131	Cost of sales
	(49)	(2)	Provision for income taxes
	$ (2,767)	$ 1,129	Net (loss) income
Defined Benefit Pension Plans			
Amortization of prior service credit	$ 264	$ 126	(a)
Recognized actuarial loss	(3,662)	(5,146)	(a)
	(3,398)	(5,020)	
	1,218	1,900	Provision for income taxes
	$ (2,180)	$ (3,120)	Net (loss) income

(a) *The amortization of prior service credit and recognized actuarial loss are included in the computation of net periodic benefit cost. Refer to Note 15 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 US dollar. The translation of its net investments in subsidiaries with non-US 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-US dollar functional currencies are translated into US dollars at fiscal period-end exchange rates. Income, expense, and cash flow items are translated at weighted average exchange rates prevailing during the fiscal period. The resulting currency translation adjustments are recorded as a component of accumulated other comprehensive income (loss) within stockholders equity. Currency translation adjustments resulted in a net gain of $3.9 million for the three months ended March 31, 2014, primarily due to the strengthening of the Brazilian real, Australian dollar, and Indonesian rupiah against the US dollar, partially offset by the weakening of the Argentine peso. Currency translation adjustments resulted in a net loss of $27.4 million for the three months ended March 31, 2013, primarily due to the weakening of the Euro and British pound sterling against the US dollar, partially offset by the strengthening of the Mexican peso and Brazilian real.

12. Derivative Instruments

Mattel seeks to mitigate its exposure to foreign currency transaction risk by monitoring its foreign currency transaction exposure for the year and partially hedging such exposure using foreign currency forward exchange contracts. Mattel uses foreign currency forward exchange contracts as cash flow hedges primarily to hedge its purchases and sales of inventory denominated in foreign currencies. These contracts generally have maturity dates of up to 18 months. These derivative instruments have been designated as effective cash flow hedges, whereby the unsettled hedges are reported in Mattel s consolidated balance sheets at fair value, with changes in the fair value of the hedges reflected in other comprehensive income (OCI). Realized gains and losses for these contracts are recorded in the consolidated statements of operations in the period in which the inventory is sold to customers. Additionally, Mattel uses foreign currency forward exchange contracts to hedge intercompany loans and advances denominated in foreign currencies. Due to the short-term nature of the contracts involved, Mattel does not use hedge accounting for these contracts, and as such, changes in fair value are recorded in the period of change in the consolidated statements of operations. As of March 31, 2014, March 31, 2013, and December 31, 2013, Mattel held foreign currency forward exchange contracts with notional amounts of approximately $1.86 billion, $1.55 billion, and $1.55 billion, respectively.

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The following table presents Mattel s derivative assets and liabilities:

	Balance Sheet Classification	Asset Derivatives Fair Value March 31, 2014	March 31, 2013 (In thousands)	December 31, 2013
Derivatives designated as hedging instruments:				
Foreign currency forward exchange contracts	Prepaid expenses and other current assets	$ 3,183	$ 10,868	$ 415
Foreign currency forward exchange contracts	Other noncurrent assets	307		
Total derivatives designated as hedging instruments		$ 3,490	$ 10,868	$ 415
Derivatives not designated as hedging instruments:				
Foreign currency forward exchange contracts	Prepaid expenses and other current assets	$ 3,220	$	$ 1,895
Total		$ 6,710	$ 10,868	$ 2,310

	Balance Sheet Classification	Liability Derivatives Fair Value March 31, 2014	March 31, 2013 (In thousands)	December 31, 2013
Derivatives designated as hedging instruments:				
Foreign currency forward exchange	Accrued liabilities	$ 10,514	$ 3,664	$ 12,432

contracts				
Foreign currency forward exchange contracts	Other noncurrent liabilities	16		470
Total derivatives designated as hedging instruments		$ 10,530	$ 3,664	$ 12,902
Derivatives not designated as hedging instruments				
Foreign currency forward exchange contracts	Accrued liabilities	$ 7,697	$ 1,240	$ 1,711
Total		$ 18,227	$ 4,904	$ 14,613

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 March 31, 2014		**For the Three Months Ended March 31, 2013**		
	Amount of Gain (Loss) Recognized in OCI	**Amount of Gain (Loss) Reclassified from Accumulated OCI to Statements of Operations**	**Amount of Gain (Loss) Recognized in OCI**	**Amount of Gain (Loss) Reclassified from Accumulated OCI to Statements of Operations**	**Statements of Operations Classification**
	(In thousands)				
Derivatives designated as hedging instruments					
Foreign currency forward exchange contracts	$ 1,228	$ (2,767)	$ 8,138	$ 1,129	Cost of sales

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The net loss of $2.8 million and net gain of $1.1 million reclassified from accumulated other comprehensive loss to the consolidated statements of operations for the three months ended March 31, 2014 and 2013, respectively, are offset by the changes in cash flows associated with the underlying hedged transactions.

	Amount of Gain (Loss) Recognized in the Statements of Operations For the Three Months Ended March 31, 2014	For the Three Months Ended March 31, 2013	Statements of Operations Classification
	(In thousands)		
Derivatives not designated as hedging instruments			
Foreign currency forward exchange contracts	$ 7,553	$ (13,775)	Non-operating income/expense
Foreign currency forward exchange contracts	1,771	403	Cost of sales
Total	$ 9,324	$ (13,372)	

The net gain of $9.3 million and net loss of $13.4 million recognized in the consolidated statements of operations for the three months ended March 31, 2014 and 2013, respectively, are offset by foreign currency transaction gains and losses on the related hedged balances.

13. Fair Value Measurements

The following table presents information about Mattel s assets and liabilities measured and reported in the financial statements at fair value 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 measured and reported at fair value on a recurring basis include the following:

	March 31, 2014			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Foreign currency forward exchange contracts (a)	$	$ 6,710	$	$ 6,710
Auction rate security (b)			29,988	29,988
Total assets	$	$ 6,710	$ 29,988	$ 36,698
Liabilities:				
Foreign currency forward exchange contracts (a)	$	$ 18,227	$	$ 18,227

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Foreign currency forward exchange contracts (a)	$	$ 10,868	$	$ 10,868
Auction rate security (b)			21,504	21,504
Total assets	$	$ 10,868	$ 21,504	$ 32,372
Liabilities:				
Foreign currency forward exchange contracts (a)	$	$ 4,904	$	$ 4,904

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	December 31, 2013			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Foreign currency forward exchange contracts (a)	$	$ 2,310	$	$ 2,310
Auction rate security (b)			28,895	28,895
Total assets	$	$ 2,310	$ 28,895	$ 31,205
Liabilities:				
Foreign currency forward exchange contracts (a)	$	$ 14,613	$	$ 14,613

(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 auction rate security is estimated using a discounted cash flow model based on (i) estimated interest rates, timing, and amount of cash flows, (ii) credit spreads, recovery rates, and credit quality of the underlying securities, (iii) illiquidity considerations, and (iv) market correlation.*

The following table presents information about Mattel s auction rate security measured and reported at fair value on a recurring basis using significant Level 3 inputs:

	Level 3
	(In thousands)
Balance at December 31, 2013	$ 28,895
Unrealized gain	1,093
Balance at March 31, 2014	$ 29,988

Other Financial Instruments

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

The estimated fair value of Mattel s long-term debt, including the current portion, was $1.66 billion (compared to a carrying value of $1.60 billion) as of March 31, 2014, $1.77 billion (compared to a carrying value of $1.65 billion) as of March 31, 2013, and $1.62 billion (compared to a carrying value of $1.60 billion) as of December 31, 2013. 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.

14. 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. Certain of Mattel s restricted stock units (RSUs) are considered participating securities because they contain nonforfeitable rights to dividend equivalents.

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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 (loss) per common share for the three months ended March 31, 2014 and 2013:

	For the Three Months Ended	
	March 31, 2014	March 31, 2013
	(In thousands, except per share amounts)	
Basic:		
Net (loss) income	$ (11,218)	$ 38,511
Less: net income allocable to participating RSUs (a)		(401)
Net (loss) income available for basic common shares	$ (11,218)	$ 38,110
Weighted average common shares outstanding	340,226	344,315
Basic net (loss) income per common share	$ (0.03)	$ 0.11
Diluted:		
Net (loss) income	$ (11,218)	$ 38,511
Less: net income allocable to participating RSUs (a)		(412)
Net (loss) income available for diluted common shares	$ (11,218)	$ 38,099
Weighted average common shares outstanding	340,226	344,315
Weighted average common equivalent shares arising from:		
Dilutive stock options and non-participating RSUs		4,480
Weighted average number of common and potential common shares	340,226	348,795
Diluted net (loss) income per common share	$ (0.03)	$ 0.11

(a) *During the three months ended March 31, 2014, Mattel did not allocate its net loss to its participating RSUs as its participating RSUs are not obligated to share in the losses of the Company. During the three months ended March 31, 2013, Mattel allocated a proportionate share of both dividends and undistributed earnings to participating RSUs.*

The calculation of potential common shares assumes the exercise of dilutive stock options and vesting of non-participating RSUs, net of assumed treasury share repurchases at average market prices. Nonqualified stock options and non-participating RSUs totaling 3.8 million and 0.1 million shares were excluded from the calculation of diluted net income per common share for the three months ended March 31, 2014 and 2013, respectively, because they were antidilutive.

15. 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 Note 4 to the Consolidated Financial Statements Employee Benefit Plans in its 2013 Annual Report on Form 10-K.

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

	For the Three Months Ended	
	March 31, 2014	March 31, 2013
	(In thousands)	
Service cost	$ 2,597	$ 3,899
Interest cost	6,941	6,630
Expected return on plan assets	(8,003)	(7,329)
Amortization of prior service credit	(264)	(126)
Recognized actuarial loss	3,587	5,106
	$ 4,858	$ 8,180

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

	For the Three Months Ended March 31, 2014	March 31, 2013
	(In thousands)	
Service cost	$ 20	$ 22
Interest cost	452	338
Recognized actuarial loss	75	40
	$ 547	$ 400

During the three months ended March 31, 2014, Mattel made cash contributions totaling approximately $1 million and $1 million to its defined benefit pension and postretirement benefit plans, respectively.

16. Share-Based Payments

Mattel has various stock compensation plans, which are more fully described in Note 7 to the Consolidated Financial Statements Share-Based Payments in its 2013 Annual Report on Form 10-K. Under the Mattel, Inc. 2010 Equity and Long-Term Compensation Plan, Mattel has the ability to grant nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, RSUs, performance awards, dividend equivalent rights, and shares of common stock to officers, employees, and other persons providing services to Mattel. Stock options are granted with exercise prices at the fair market value of Mattel s common stock on the applicable grant date and expire no later than ten years from the date of grant. Both stock options and time-vesting RSUs generally provide for vesting over a period of three years from the date of grant.

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

	For the Three Months Ended March 31, 2014	March 31, 2013
	(In thousands)	
Stock option compensation expense	$ 2,560	$ 2,609
RSU compensation expense	10,133	11,253
	$ 12,693	$ 13,862

As of March 31, 2014, total unrecognized compensation cost related to unvested share-based payments totaled $74.3 million and is expected to be recognized over a weighted-average period of 1.9 years.

Mattel uses treasury shares purchased under its share repurchase program to satisfy stock option exercises and the vesting of RSUs. Cash received for stock option exercises for the three months ended March 31, 2014 and 2013 was $5.1 million and $57.3 million, respectively.

17. Other Selling and Administrative Expenses

Other selling and administrative expenses include the following:

	For the Three Months Ended March 31, 2014	March 31, 2013
	(In thousands)	
Design and development	$ 49,497	$ 47,973
Identifiable intangible asset amortization	2,631	2,803

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18. Foreign Currency Transaction Gains and Losses

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 to which they relate in the consolidated statements of operations. For hedges of intercompany loans and advances, which do not qualify for hedge accounting treatment, the gains or losses on the hedges resulting from changes in fair value as well as the offsetting transaction gains or losses on the related hedged items, along with unhedged items, are recognized in other non-operating income (expense), net in the consolidated statements of operations. Inventory purchase and sale transactions denominated in the Euro, British pound sterling, Mexican peso, Brazilian real, and Indonesian rupiah are the primary transactions that cause foreign currency transaction exposure for Mattel.

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

	For the Three Months Ended	
	March 31, 2014	March 31, 2013
	(In thousands)	
Operating income	$ 8,069	$ 10,880
Other non-operating (expense) income, net	(932)	132
Net transaction gains	$ 7,137	$ 11,012

19. Income Taxes

Mattel s provision for income taxes was $1.8 million and $5.7 million for the three months ended March 31, 2014 and 2013, respectively. During the three months ended March 31, 2014, Mattel recognized net discrete tax expense of $3.7 million primarily related to reassessments of prior years tax liabilities based on the status of audits and tax filings in various jurisdictions around the world, settlements, and enacted tax law changes. During the three months ended March 31, 2013, Mattel recognized net discrete tax benefits of $4.0 million primarily related to the signing of the American Taxpayer Relief Act on January 2, 2013, which extended the Research and Development tax credit retroactively for the 2012 tax year.

In the first quarter of 2014, Mattel adopted Accounting Standards Update (ASU) 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*, which generally requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. However, to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from the disallowance of a tax position or the applicable tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. Upon adoption of ASU 2013-11, Mattel reclassified unrecognized tax benefits of approximately $44 million, primarily recorded within other noncurrent liabilities, against its noncurrent deferred tax assets as of March 31, 2014. There was no impact on Mattel s operating results.

In the normal course of business, Mattel is regularly audited by federal, state and foreign tax authorities. The IRS is currently auditing Mattel s 2010 and 2011 federal income tax returns. Mattel expects that the completion of the audit will occur in the second quarter of 2014.

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 $40 million to $60 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.

20. 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.

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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.

In November 2006, Mattel asked the Court for leave to file an Amended Complaint that included not only additional claims against Bryant, but also included 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. On January 12, 2007, the Court granted Mattel leave to file these claims as counterclaims in the consolidated cases, which Mattel did that same day.

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, which began on May 27, 2008, 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 the effect of the December 3, 2008 injunctive orders until further order of the Court and entered a further specified stay of the injunctive orders on January 7, 2009.

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, except to the extent specified by the Court s January 7, 2009 modification.

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. The Ninth Circuit opinion vacating the relief ordered by the District Court was issued on July 22, 2010. 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.

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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. 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 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. Mattel was served with the complaint on January 23, 2014. In its complaint, MGA purports to seek damages in excess of $1 billion. Mattel believes that MGA s claim should be barred as a matter of law, and intends to vigorously defend against it. Accordingly, Mattel does not believe a loss is probable and, therefore, a liability has not been accrued as of March 31, 2014.

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 requesting the annulment of its security bonds and promissory notes given to Mattel as well as requesting the 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 (historical value), 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 (historical value).

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 (historical value). Additionally, the court-appointed expert calculated a loss of profits compensation of approximately $1 million (historical value). 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 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 court upheld Mattel do Brasil s counterclaim and ordered Yellowstone to pay Mattel do Brasil approximately $4 million (historical value). 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.

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In September 2010, Yellowstone filed a further appeal. 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 $20 million in damages, as adjusted for inflation and interest. The court also awarded Mattel approximately $8 million on its counterclaim, as adjusted for inflation. On August 2, 2013, Mattel filed a motion for clarification since the written decision contained clear errors in terms of amounts awarded and interest and inflation adjustments. Mattel s motion also asked the court to decide whether Yellowstone s award could be offset by the counterclaim award, despite Yellowstone s status as a bankrupt entity. A decision on the clarification motion is expected in the second quarter of 2014. Mattel intends to appeal the decision to the Superior Court based on both procedural and substantive grounds.

Mattel believes that it is reasonably possible that a loss in this matter could range from $0 to approximately $20 million. The high end of this range, approximately $20 million, is based on the calculation of the current amount of the damages and loss of profits, including interest and inflation adjustments, reported in the first court-appointed examination report submitted in the lawsuit, plus attorney s fees. Mattel do Brasil may be entitled to offset its counterclaim award of approximately $8 million, including inflation adjustment, against such loss. The existence of pending motions for clarification filed by both parties and the resulting clarification decision expected to be issued in the second quarter of 2014, as well as the procedural aspects of an appeal to the Superior Court, adds some uncertainty to the final outcome of the matter. Mattel believes however that it has good legal grounds for appeal of the decision and does not believe that a loss is probable for this matter. Accordingly, a liability has not been accrued as of March 31, 2014. Mattel may be required to place the full amount of the damage award in escrow pending an appeal decision by the Superior Court.

21. Segment Information

Mattel, through its subsidiaries, sells a broad variety of toy products which are grouped into three major brand categories:

Mattel Girls & Boys Brands including Barbie® fashion dolls and accessories (Barbie), Monster High®, Disney Classics®, Ever After High®, Little Mommy®, and Polly Pocket (collectively Other Girls), Hot Wheels® and Matchbox® vehicles and play sets (collectively Wheels), and CARS®, Disney Planes , Radica®, Toy Story®, Max Steel®, WWE® Wrestling, Batman®, and games and puzzles (collectively Entertainment).

Fisher-Price Brands including Fisher-Price®, Little People®, BabyGear , Laugh & Learn®, and Imaginext® (collectively Core Fisher-Price), Thomas & Friends®, Dora the Explorer®, Mickey Mouse® Clubhouse, and Disney Jake and the Never Land Pirates® (collectively Fisher-Price Friends), and Power Wheels®

American Girl Brands including My American Girl®, the historical collection, and Bitty Baby®. American Girl Brands products are sold directly to consumers via its catalog, website, and proprietary retail stores. Its children s publications are also sold to certain retailers.

Mattel s operating segments are: (i) North America, which consists of the US and Canada, (ii) International, and (iii) American Girl. The North America and International segments sell products in the Mattel Girls & Boys Brands and Fisher-Price Brands categories, although some are developed and adapted for particular international markets.

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Segment Data

The following tables present information about revenues, income, 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 Part I, Item 2 Non-GAAP Financial Measure of this Quarterly Report on Form 10-Q). 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 sales by segment as one of the metrics to measure segment performance. Such sales adjustments are included in the determination of segment income from operations based on the adjustments recorded in the financial accounting systems. Segment income represents each segment s operating income, while consolidated operating income represents income from operations before net interest, other non-operating income (expense), 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, share-based payments, and corporate headquarters functions managed on a worldwide basis, and the impact of changes in foreign currency rates on intercompany transactions.

	For the Three Months Ended March 31, 2014	March 31, 2013
	(In thousands)	
Revenues by Segment		
North America	$ 441,431	$ 456,469
International	489,239	527,011
American Girl	110,558	104,950
Gross sales	1,041,228	1,088,430
Sales adjustments	(95,051)	(92,824)
Net sales	$ 946,177	$ 995,606
Segment Income		
North America	$ 48,723	$ 68,127
International	31,480	61,995
American Girl	9,244	11,955
	89,447	142,077
Corporate and other expense (a)	(83,229)	(76,246)
Operating income	6,218	65,831
Interest expense	17,246	20,337
Interest (income)	(1,279)	(1,400)
Other non-operating (income) expense, net	(328)	2,729
(Loss) Income before income taxes	$ (9,421)	$ 44,165

(a) *Corporate and other expense includes severance and other termination-related costs of $21.5 million and $5.5 million for the three months ended March 31, 2014 and 2013, respectively, and share-based compensation expense of $12.7 million and $13.9 million for the three months ended March 31, 2014 and 2013, respectively.*

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

	March 31, 2014	March 31, 2013	December 31, 2013
		(In thousands)	
Assets by Segment			
North America	$ 463,905	$ 475,702	$ 723,886
International	734,024	683,083	920,770
American Girl	110,666	94,569	100,438
	1,308,595	1,253,354	1,745,094
Corporate and other	104,794	97,340	83,854
Accounts receivable and inventories, net	$ 1,413,389	$ 1,350,694	$ 1,828,948

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The table below presents worldwide revenues by brand category:

	For the Three Months Ended	
	March 31, 2014	March 31, 2013
	(In thousands)	
Worldwide Revenues by Brand Category		
Mattel Girls & Boys Brands	$	