

MATTEL INC /DE/
Form 10-Q
July 20, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

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)

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Delaware
(State or other jurisdiction of incorporation or organization)

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

333 Continental Blvd.

El Segundo, CA 90245-5012

(Address of principal executive offices)

(310) 252-2000

(Registrant's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

NONE

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

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

Number of shares outstanding of registrant's common stock, \$1.00 par value, as of July 14, 2011:

342,890,365 shares

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MATTEL, INC. AND SUBSIDIARIES

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****MATTEL, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	June 30, 2011	June 30, 2010	December 31, 2010
	(Unaudited; in thousands, except share data)		
ASSETS			
Current Assets			
Cash and equivalents	\$ 418,476	\$ 544,869	\$ 1,281,123
Accounts receivable, net	1,012,000	805,076	1,146,106
Inventories	783,533	597,614	463,838
Prepaid expenses and other current assets	317,093	330,444	335,543
Total current assets	2,531,102	2,278,003	3,226,610
Noncurrent Assets			
Property, plant, and equipment, net	513,792	486,026	484,705
Goodwill	828,525	817,618	824,007
Other noncurrent assets	924,279	894,078	882,411
Total Assets	\$ 4,797,698	\$ 4,475,725	\$ 5,417,733
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Current portion of long-term debt	\$ 10,000	\$ 250,000	\$ 250,000
Accounts payable	371,862	340,772	406,270
Accrued liabilities	499,190	421,877	642,211
Income taxes payable	17,513	15,088	51,801
Total current liabilities	898,565	1,027,737	1,350,282
Noncurrent Liabilities			
Long-term debt	950,000	460,000	950,000
Other noncurrent liabilities	482,248	481,013	488,867
Total noncurrent liabilities	1,432,248	941,013	1,438,867
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	1,686,716	1,694,233	1,706,461
Treasury stock at cost; 97.1 million shares, 81.3 million shares, and 92.3 million shares, respectively	(2,028,757)	(1,596,532)	(1,880,692)
Retained earnings	2,655,469	2,416,084	2,720,645
Accumulated other comprehensive loss	(287,912)	(448,179)	(359,199)

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Total stockholders' equity	2,466,885	2,506,975	2,628,584
Total Liabilities and Stockholders' Equity	\$ 4,797,698	\$ 4,475,725	\$ 5,417,733

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

Table of Contents**MATTEL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
	(Unaudited; in thousands, except per share amounts)			
Net Sales	\$ 1,161,667	\$ 1,018,503	\$ 2,113,523	\$ 1,898,585
Cost of sales	605,426	528,887	1,084,135	977,117
Gross Profit	556,241	489,616	1,029,388	921,468
Advertising and promotion expenses	116,167	101,850	218,016	196,019
Other selling and administrative expenses	330,807	318,330	665,347	610,786
Operating Income	109,267	69,436	146,025	114,663
Interest expense	17,642	13,444	36,458	27,067
Interest (income)	(2,451)	(2,782)	(5,614)	(5,234)
Other non-operating (income), net	(812)	(3,303)	(968)	(2,529)
Income Before Income Taxes	94,888	62,077	116,149	95,359
Provision for income taxes	14,359	10,502	19,013	18,942
Net Income	\$ 80,529	\$ 51,575	\$ 97,136	\$ 76,417
Net Income Per Common Share Basic	\$ 0.23	\$ 0.14	\$ 0.27	\$ 0.21
Weighted average number of common shares	347,133	362,819	348,094	363,065
Net Income Per Common Share Diluted	\$ 0.23	\$ 0.14	\$ 0.27	\$ 0.21
Weighted average number of common and potential common shares	350,944	365,851	351,744	366,144
Dividends Declared Per Common Share	\$ 0.23	\$	\$ 0.46	\$

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

Table of Contents**MATTEL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the Six Months Ended	
	June 30,	June 30,
	2011	2010
	(Unaudited; in thousands)	
Cash Flows From Operating Activities:		
Net income	\$ 97,136	\$ 76,417
Adjustments to reconcile net income to net cash flows used for operating activities:		
Depreciation	71,918	74,747
Amortization	7,337	7,783
Deferred income taxes	(38,752)	(9,326)
Share-based compensation	19,870	25,410
Increase (decrease) from changes in assets and liabilities:		
Accounts receivable	158,941	(86,602)
Inventories	(298,794)	(266,763)
Prepaid expenses and other current assets	29,118	22,154
Accounts payable, accrued liabilities, and income taxes payable	(206,022)	(255,933)
Other, net	(67,530)	40,031
Net cash flows used for operating activities	(226,778)	(372,082)
Cash Flows From Investing Activities:		
Purchases of tools, dies, and molds	(54,830)	(39,612)
Purchases of other property, plant, and equipment	(47,588)	(17,932)
Proceeds from sale of other property, plant, and equipment	489	645
Proceeds from (payments for) foreign currency forward exchange contracts	57,576	(40,411)
Net cash flows used for investing activities	(44,353)	(97,310)
Cash Flows From Financing Activities:		
Payments of short-term borrowings		(1,950)
Payment of credit facility renewal costs	(6,917)	
Payment of long-term borrowings	(240,000)	(40,000)
Share repurchases	(251,865)	(111,199)
Payment of dividends on common stock	(159,906)	
Proceeds from exercise of stock options	67,400	44,291
Other, net	(9,465)	9,712
Net cash flows used for financing activities	(600,753)	(99,146)
Effect of Currency Exchange Rate Changes on Cash	9,237	(3,590)
Decrease in Cash and Equivalents	(862,647)	(572,128)
Cash and Equivalents at Beginning of Period	1,281,123	1,116,997
Cash and Equivalents at End of Period	\$ 418,476	\$ 544,869

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

Table of Contents**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 or the Company) as of and for the periods presented, have been included. Because 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 (U.S. GAAP).

The financial information included herein should be read in conjunction with Mattel's consolidated financial statements and related notes in its 2010 Annual Report on Form 10-K.

2. Accounts Receivable

Accounts receivable are net of allowances for doubtful accounts of \$20.5 million, \$19.7 million, and \$21.8 million as of June 30, 2011, June 30, 2010, and December 31, 2010, respectively.

3. Inventories

Inventories include the following:

	June 30, 2011	June 30, 2010 (In thousands)	December 31, 2010
Raw materials and work in process	\$ 121,760	\$ 95,761	\$ 68,095
Finished goods	661,773	501,853	395,743
	\$ 783,533	\$ 597,614	\$ 463,838

4. Property, Plant, and Equipment

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

	June 30, 2011	June 30, 2010 (In thousands)	December 31, 2010
Land	\$ 26,767	\$ 26,706	\$ 26,796
Buildings	259,877	244,544	249,542
Machinery and equipment	836,527	780,367	809,723
Tools, dies, and molds	618,579	590,089	589,156
Capital leases	23,271	23,271	23,271

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Leasehold improvements	192,820	180,503	177,141
	1,957,841	1,845,480	1,875,629
Less: accumulated depreciation	(1,444,049)	(1,359,454)	(1,390,924)
	\$ 513,792	\$ 486,026	\$ 484,705

Table of Contents**5. Goodwill**

Goodwill is allocated to various reporting units, which are either at the operating segment level or one reporting level below the operating segment level, for purposes of evaluating whether goodwill is impaired. Mattel's reporting units are: Mattel Girls Brands US, Mattel Boys Brands US, Fisher-Price Brands US, American Girl Brands, and International. Mattel tests its goodwill for impairment annually in the third quarter, and whenever events or changes in circumstances indicate that the carrying value may exceed its fair value.

The change in the carrying amount of goodwill by reporting unit for the six months ended June 30, 2011 is shown below. Brand-specific goodwill held by foreign subsidiaries is allocated to the US reporting units selling those brands, thereby causing foreign currency translation impact for the US reporting units.

	December 31, 2010	Impact of Currency Exchange Rate Changes (In thousands)	June 30, 2011
Mattel Girls Brands US	\$ 31,071	\$ 799	\$ 31,870
Mattel Boys Brands US	130,658	63	130,721
Fisher-Price Brands US	215,879	157	216,036
American Girl Brands	207,571		207,571
International	238,828	3,499	242,327
	\$ 824,007	\$ 4,518	\$ 828,525

6. Other Noncurrent Assets

Other noncurrent assets include the following:

	June 30, 2011	June 30, 2010 (In thousands)	December 31, 2010
Deferred income taxes	\$ 512,566	\$ 490,597	\$ 477,320
Nonamortizable identifiable intangibles	122,223	122,223	122,223
Identifiable intangibles (net of amortization of \$51.2 million, \$74.6 million, and \$64.2 million, respectively)	86,811	88,446	91,359
Other	202,679	192,812	191,509
	\$ 924,279	\$ 894,078	\$ 882,411

7. Accrued Liabilities

Accrued liabilities include the following:

	June 30, 2011	June 30, 2010 (In thousands)	December 31, 2010
Royalties	\$ 71,160	\$ 59,359	\$ 95,785
Advertising and promotion	38,463	31,162	59,586
Derivatives payable	30,770	13,020	11,082
Taxes other than income taxes	28,409	37,454	68,686
Other	330,388	280,882	407,072

\$ 499,190 \$ 421,877 \$ 642,211

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8. Product Recalls

During 2007, Mattel recalled products with high-powered magnets that may become dislodged and other products, some of which were produced using non-approved paint containing lead in excess of applicable regulatory and Mattel standards. During the second half of 2007, additional products were recalled, withdrawn from retail stores, or replaced at the request of consumers as a result of safety or quality issues (collectively, the 2007 Product Recalls).

Following the announcement of the 2007 Product Recalls, a number of lawsuits were filed against Mattel with respect to the recalled products, which are more fully described in Note 14 to the Consolidated Financial Statements in Mattel's 2010 Annual Report on Form 10-K. During the three and six months ended June 30, 2010, Mattel reduced its estimate of these settlement costs, which had the effect of reducing other selling and administrative expenses by \$1.2 million and \$8.7 million, respectively, primarily based on actual experience under the settlement program. During the three and six months ended June 30, 2011, there were no changes to Mattel's 2007 Product Recalls reserve estimates.

Although management is not aware of any additional quality or safety issues that are likely to result in material recalls or withdrawals, there can be no assurance that issues will not be identified in the future.

9. Seasonal Financing

Mattel maintains and periodically amends or replaces its domestic unsecured committed revolving credit facility with a commercial bank group that is used as a back-up facility 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 revolving credit facility was amended and restated on March 8, 2011 to, among other things, (i) extend the maturity date of the credit facility to March 8, 2015, (ii) increase aggregate commitments under the credit facility to \$1.4 billion, with an accordion feature, which allows Mattel to increase the aggregate availability under the credit facility to \$1.6 billion under certain circumstances, (iii) decrease the applicable interest rate margins to a range of 0.25% to 1.50% above the applicable base rate for base rate loans, and 1.25% to 2.50% above the applicable London Interbank Borrowing Rate 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 0.15% to 0.40% of the unused commitments under the credit facility.

The borrowing capacity of the amended facility is \$1.4 billion for four years, which exceeds the \$1.1 billion for one year remaining on the facility prior to the amendment. 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.

In connection with the execution of the amendment of the domestic unsecured revolving credit facility, Mattel terminated its \$300.0 million domestic receivables sales facility, which was a sub-facility of the domestic unsecured committed revolving credit facility.

Mattel is required to meet financial covenants at the end of each quarter and fiscal year, using the formulae specified in the credit facility agreement to calculate the ratios. Mattel was in compliance with such covenants at the end of the six months ended June 30, 2011.

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Long-term debt includes the following:

	June 30, 2011	June 30, 2010 (In thousands)	December 31, 2010
Medium-term notes due October 2011 to November 2013	\$ 110,000	\$ 160,000	\$ 150,000
2006 Senior Notes		200,000	200,000
2008 Senior Notes due March 2013	350,000	350,000	350,000
2010 Senior Notes due October 2020 and October 2040	500,000		500,000
	960,000	710,000	1,200,000
Less: current portion	(10,000)	(250,000)	(250,000)
Total long-term debt	\$ 950,000	\$ 460,000	\$ 950,000

In September 2010, Mattel issued \$250.0 million of unsecured 4.35% senior notes (4.35% Senior Notes) due October 1, 2020 and \$250.0 million of unsecured 6.20% senior notes (6.20% Senior Notes) due October 1, 2040 (collectively, 2010 Senior Notes). Interest on the 2010 Senior Notes is payable semi-annually April 1 and October 1 of each year. Mattel may redeem all or part of the 2010 Senior Notes at any time or from time to time at its option at a redemption price equal to the greater of (i) 100% of the principal amount of the notes being redeemed plus accrued and unpaid interest to the redemption date, and (ii) a make-whole amount based on the yield of a comparable US Treasury security plus 25 basis points in respect of the 4.35% Senior Notes and 40 basis points in respect of the 6.20% Senior Notes.

In June 2011, Mattel repaid the remaining \$200.0 million of its 2006 Senior Notes in connection with its scheduled maturities. In June 2011 and October 2010, Mattel repaid \$40.0 million and \$10.0 million, respectively, of its Medium-term notes in connection with their scheduled maturities.

11. Other Noncurrent Liabilities

Other noncurrent liabilities include the following:

	June 30, 2011	June 30, 2010 (In thousands)	December 31, 2010
Benefit plan liabilities	\$ 224,346	\$ 248,262	\$ 257,195
Noncurrent tax liabilities	113,351	108,237	113,526
Other	144,551	124,514	118,146
	\$ 482,248	\$ 481,013	\$ 488,867

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The components of comprehensive income (loss), net of tax, are as follows:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
	(In thousands)			
Net income	\$ 80,529	\$ 51,575	\$ 97,136	\$ 76,417
Currency translation adjustments	35,236	(77,566)	88,414	(106,642)
Defined benefit pension plans net prior service cost and net actuarial loss	2,533	2,244	5,066	4,585
Net unrealized (losses) gains on derivative instruments:				
Unrealized holding (losses) gains	(8,604)	15,999	(22,957)	27,738
Reclassification adjustment for realized losses included in net income	1,504	2,916	764	5,674
	(7,100)	18,915	(22,193)	33,412
	\$ 111,198	\$ (4,832)	\$ 168,423	\$ 7,772

The components of accumulated other comprehensive loss are as follows:

	June 30,	June 30,	December 31,
	2011	2010	2010
	(In thousands)		
Currency translation adjustments	\$ (133,344)	\$ (329,283)	\$ (221,758)
Defined benefit pension and other postretirement plans, net of tax	(129,248)	(137,432)	(134,314)
Net unrealized (loss) gain on derivative instruments, net of tax	(25,320)	18,536	(3,127)
	\$ (287,912)	\$ (448,179)	\$ (359,199)

Currency Translation Adjustments

Mattel's reporting currency is the US dollar. The translation of its net investment in subsidiaries with non-US dollar functional currencies subjects Mattel to 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 loss within stockholders' equity. For the six months ended June 30, 2011, currency translation adjustments resulted in a net gain of \$88.4 million, with gains primarily from the strengthening of the Euro, Brazilian real, Mexican peso, and British pound sterling against the US dollar. For the six months ended June 30, 2010, currency translation adjustments resulted in a net loss of \$106.6 million, with losses primarily from the weakening of the Euro, British pound sterling, Brazilian real, and Chilean peso against the US dollar, partially offset from the strengthening of the Mexican peso against the US 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 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

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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 June 30, 2011, June 30, 2010, and December 31, 2010, Mattel held foreign currency forward exchange contracts with notional amounts of approximately \$1.4 billion, \$1.1 billion, and \$1.1 billion, respectively.

The following table presents Mattel's derivative assets and liabilities:

	Balance Sheet Classification	Asset Derivatives		
		June 30, 2011	Fair Value June 30, 2010 (In thousands)	December 31, 2010
Derivatives designated as hedging instruments:				
Foreign currency forward exchange contracts	Prepaid expenses and other current assets	\$ 7,833	\$ 30,802	\$ 8,200
Foreign currency forward exchange contracts	Other noncurrent assets			