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Transaction ID 66738648
Case No. 2021-0562-SG**



IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

RICHARD ARMON, Derivatively on)
Behalf of MATTEL, INC.,)

Plaintiff,)

v.)

JOSEPH J. EUTENEUER, MARGARET)
H. GEORGIADIS, KEVIN FARR,)
PRICEWATERHOUSECOOPERS LLP,)
JOSHUA ABRAHAMAS, YNON KREIZ,)
JOSEPH B. JOHNSON, R. TODD)
BRADLEY, ADRIANA CISNEROS,)
MICHAEL J. DOLAN, TREVOR A.)
EDWARDS, FRANCES D. FERGUSON,)
SOREN T. LAURSEN, ANN LEWNES,)
KATHY W. LOYD, ROGER LYNCH,)
DOMINIC NG, JUDY D. OLIAN,)
VASANT M. PRABHU, DEAN A.)
SCARBOROUGH, CHRISTOPHER A.)
SINCLAIR, and DIRK VAN DE PUT,)

Defendants,)

- and -)

MATTEL, INC.)

Nominal Defendant.)

Civil Action No. 2021-0562-SG

VERIFIED STOCKHOLDER DERIVATIVE COMPLAINT

Plaintiff Richard Armon (“Plaintiff”), by and through his undersigned attorneys, alleges the following upon personal knowledge as to all allegations concerning himself, and upon information and belief as to all other allegations based,

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among other things, upon the investigation conducted by his attorneys, which includes a review and analysis of: (a) documents produced to Plaintiff by Mattel, Inc. (“Mattel” or the “Company”) in response to a books and records inspection demand made pursuant to Section 220 of the Delaware Corporation Law (the “Books and Records Production”); filings in various proceedings, including a class action lawsuit alleging violations of federal securities laws captioned, *In re Mattel, Inc., Sec. Litig.*, No. 2:19-cv-10860 (C.D. Ca.) (the “Securities Action”) and the decision of the District Court in that case denying defendants’ motion to dismiss (Dkt. No. 74) (the “Securities Action Opinion”); (c) Mattel’s filings with the United States Securities and Exchange Commission (“SEC”); (d) Mattel’s press releases, website, corporate governance documents, presentations, conference calls, and other publicly disseminated information; and (e) analyst reports, public records, and other publicly available information concerning the Company. Plaintiff believes that after a reasonable opportunity for discovery is afforded, substantial additional evidentiary support will exist for the allegations set forth herein.

NATURE OF THE ACTION

1. This shareholder derivative action is brought on behalf of Mattel against certain of its former and current directors and officers for breaching their fiduciary duties of loyalty, care, and disclosure for making and covering up known, material misstatements in the Company’s financial results and severe deficiencies in

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the Company's internal controls from at least August 2, 2017 through August 8, 2019 (the "Relevant Period").

2. Plaintiff also brings this action, on behalf of Mattel, against PricewaterhouseCoopers ("PwC") and one of its former auditors for aiding and abetting breaches of fiduciary duty for its role in covering up these known, material misstatements in Mattel's financial results and severe deficiencies in the Company's internal controls during the Relevant Period.

3. Founded in 1945, Mattel is one of the largest manufacturers of children's toys in the world. The Company's portfolio features popular brand names such as Barbie®, Hot Wheels®, and Thomas & Friends®.

4. However, the demand for children's toys has fallen sharply in the age of the internet and – after experiencing a series of setbacks and multiple changes in leadership starting in 2015 – Mattel announced disappointing financial results for the first two quarters of 2017. In September 2017, a month before the Company was set to release its third quarter results, the Company's biggest client Toys "R" Us filed for bankruptcy. As a result, Mattel faced significant pressure to report optimistic results in the third and fourth quarters of 2017, and for the full year 2017.

5. At the time, however, Mattel was riddled with severe internal control deficiencies, including in the way it calculated its publicly reported financials and in the way issues, errors, and material weaknesses were reported to the Board and the

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Audit Committee. These deficiencies contributed to multiple material misstatements in the Company's financial reports starting in the third quarter of 2017, and enabled Mattel management, along with its longtime auditor PwC, to cover up those misstatements.

6. Specifically, the Company's internal control deficiencies led it to miscalculate a tax valuation allowance and to understate Mattel's quarterly loss in the Company's third-quarter 2017 Form 10-Q by approximately \$109 million. Subsequently, in a conspiracy to avoid admitting that the Company suffered these deficiencies, and to avoid a restatement of its miscalculated third quarter results, Mattel and PwC manufactured a plan to institute a fraudulent change in accounting for intangible assets in its 2017 Form 10-K by artificially increasing its net loss for the fourth quarter of 2017 by \$109 million –sweeping the tax valuation error under the rug, at least for a time.

7. After Mattel fraudulently avoided a restatement of its financial results and an admission of deficiencies in its internal controls, the Company's publicly reported financials continued to falsely attest that there were no material weaknesses in Mattel's internal controls. Indeed, in the almost two years that followed (during the Relevant Period), Mattel continued to cover up its misstatements by falsely certifying in multiple Forms 10-Q and 10-K that those statements fairly represented the state of the Company's financial condition and representing that the Company

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maintained effective internal controls. Additionally, each of Mattel's annual financial reports filed with the SEC during the Relevant Period contained "clean" audit opinions from PwC, which falsely certified the accuracy of the Company's financial reporting and the effectiveness of the Company's internal controls.

8. As described in detail herein, the Individual Defendants (defined below) made materially false misleading statements and omissions during the Relevant Period concerning (i) the effectiveness of Mattel's internal controls and procedures; (ii) the accuracy of Mattel's financial statements, including its reported tax valuation allowance, net income/loss and earnings per share; (iii) the reclassification of the HIT Entertainment Ltd. asset ("HiT IP") in the fourth quarter of 2017 (explained in detail below); (iv) Mattel's compliance with Generally Accepted Accounting Principles ("GAAP"); and (v) PwC's auditing of Mattel's financial statements and its audit reports.

9. The fraud would only begin to be revealed in August 2019, after the Company was made aware of a whistleblower letter written by former Mattel Tax Department Officer Brett Whitaker ("Whitaker"), who personally observed many of the events that are the subject of this Complaint (the "Whistleblower Letter").

10. Whitaker provided a detailed account of his tenure at Mattel and knowledge of the fraud to lead counsel in the Securities Action and to the *Wall Street*

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Journal.¹ Whitaker’s account directly corroborates the allegations in this Complaint and is described in the amended complaint in the Securities Action with sufficient detail to establish his reliability and personal knowledge. Indeed, the court in the Securities Action held Whitaker’s “*detailed narrative of accounting deficiencies he personally observed [at Mattel] or surmised through dependable sources*” was “*sufficiently reputable due to his disclosed identity, elevated position, and first-hand knowledge of many pertinent events.*” (Securities Action Opinion at 17-18) (emphasis added).

11. On August 8, 2019, the Company terminated a \$250 million offering of senior notes due in 2027 – the day the offering was expected to close – and revealed the decision was the result of the Whistleblower Letter, which called into question the efficacy of the Company’s internal controls, the accuracy of its financial reporting, and the independence the Company’s longtime auditor PwC.

12. After the Company announced an investigation into the Whistleblower Letter on August 8, 2019, Mattel’s stock price declined more than 15% the next day—from \$13.43 per share to \$11.31 per share—on heavy trading volume.

13. On October 29, 2019, Mattel announced that an Audit Committee investigation into the Whistleblower Letter “found errors in publicly-filed Mattel

¹ Jean Eaglesham and Paul Ziobro, Mattel, *PwC Obscured Accounting Issues, Former Executive Says*, The Wall Street Journal (Nov. 6, 2019).

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financial statements for the last two quarters of 2017, failures to properly consider and disclose such errors to the then-[CEO], Margaret Georgiadis, and the Audit Committee once they became known, and violations of auditor independence rules.”

The press release noted further that the Audit Committee found:

Mattel’s previously reported net loss of \$603.3 million for the third quarter ended September 30, 2017 was understated by \$109 million due to an error in calculating its tax valuation allowance. The correct reported net loss for the quarter ended September 30, 2017 should have been a net loss of \$712.3 million.

A change in accounting for an intangible asset in the fourth quarter of 2017 resulted in an effective correction of the error for the 2017 annual results. However, *the tax expense remained uncorrected in the Q3 2017 10-Q and was therefore overstated in the quarter ended December 31, 2017.* As a result, *Mattel’s previously reported loss of \$281.3 million for the quarter ended December 31, 2017 should have been reported as a net loss of \$172.3 million.*

(Emphasis added). These statements and others – including a subsequent restatement of the Company’s financial results (described below) – are smoking-gun admissions that the Company, under the supervision of the Individual Defendants, (i) did not maintain adequate internal controls; (ii) miscalculated its publicly reported financials, including its tax valuation allowance; and (iii) and falsely certified the efficacy of its internal controls in the Company’s financial statements.

14. Following these revelations, purchasers of Mattel stock filed the Securities Action against defendants Margaret H. Georgiadis, Joseph J. Euteneuer, Kevin Farr, PwC, and Joshua Abrahams (the “Securities Defendants”). On May 29,

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2020, plaintiffs in the Securities Action filed an amended complaint (the “Amended Complaint”). (Securities Action, Dkt. No. 34).

15. On January 26, 2021, the court in the Securities Action denied the Securities Defendants’ motions to dismiss and issued the Securities Action Opinion. (Securities Action, Dkt. No. 74). The Securities Action Opinion held the “*Amended Complaint and suitable extrinsic evidence demonstrate that Mattel misstated its third and fourth quarter 2017 financial results and the effectiveness of its internal control.*” (*Id.* at 14) (emphasis added). The court supported its finding in part by comparing one of the misstatements with the Company’s eventual admission of wrongdoing – specifically, the Company’s 2017 Form 10-K (stating “Mattel’s management...evaluated the effectiveness of Mattel’s internal control over financial reporting” and “concluded that...[it] was effective as of December 31, 2017”) and the Company’s restatement of those results (stating that “because of the material weakness in Mattel’s internal control over financial reporting..., Mattel’s disclosure controls and procedures were not effective...”) (*Id.*).

16. The Securities Action Opinion further held that,

Mattel publicly attributed these “failures” in part to “lapses in judgment by management” and confirmed “there were material weaknesses in” Mattel’s “internal control over financial reporting” at the time of the preparation of the financial statements...[and] [t]hese undisputed facts alone support at least some degree of scienter...The inference is bolstered by Mattel’s admitted GAAP violations, the alleged concealment’s duration in light of Mattel’s then-concerning

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financial outlook, and Plaintiffs' well-pled facts supporting that *the late-disclosed deficiencies were obvious well before receipt of the whistleblower letter*...It is further strengthened *by particularized details illustrating the severity of Mattel's internal control weakness throughout the class period*.

(*Id.* at 14-15) (emphasis added). Based on this finding and other supporting facts, the Securities Action Opinion also held that plaintiffs adequately alleged scienter against the Securities Defendants under the heightened pleading standards of the Private Securities Litigation Reform Act ("PLSRA"). (*Id.*).

17. On February 5, 2020, Plaintiff served Mattel and the Company's Chief Executive Officer ("CEO") and Chairman of the Board, Ynon Kreiz ("Kreiz"), with a demand pursuant to Section 220 of the Delaware Corporation Law, requesting documents related to the wrongdoing alleged herein.

18. On March 9, 2020 and June 4, 2021, Mattel made the Books and Records Production to Plaintiff. Plaintiff's counsel has reviewed the Books and Records Production and determined that it contains evidence supporting Plaintiff's claims as set forth herein.

19. By purposely or recklessly failing to implement and maintain adequate accounting and tax internal controls and in disseminating false and misleading information to the public, the Individual Defendants breached their fiduciary duties to the Company's shareholders; aided and abetted, along with the PwC Defendants (defined below), others in breaching their fiduciary duties; violated the Company's

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Code of Conduct and Audit Committee Charter (defined and described below); violated laws and regulations governing internal controls and financial reporting; violated GAAP, the United States Public Company Accounting Oversight Board (“PCAOB”), and other accounting standards; and violated federal securities laws.

20. Additionally, during the Relevant Period, when the Company’s stock price was artificially inflated due to the false and misleading statements detailed herein, the Individual Defendants caused the Company to repurchase its own stock at prices that were artificially inflated. Approximately 1,479,167 shares of the Company’s common stock were repurchased during the Relevant Period for over \$23.2 million. As the Company’s stock was only worth \$11.31 per share during that time (the price at closing on August 9, 2019), the Company overpaid by over \$6.48 million in total.

21. As a direct and proximate result of the Individual Defendants and PwC Defendants’ misconduct, the Company has incurred and will continue to incur significant financial losses, including the costs of defending and potentially paying class-wide liability in the Securities Action, as well as additional damages, including reputational harm and loss of goodwill.

PARTIES AND RELEVANT NON-PARTIES

Plaintiff

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22. Plaintiff has been a continuous beneficial owner of Mattel common stock since 2015.

Nominal Defendant

23. Nominal defendant Mattel is a Delaware corporation with its principal executive offices located in El Segundo, California.

Defendants

24. Defendant Joseph J. Euteneuer (“Euteneuer”) served as the Company’s Chief Financial Officer (“CFO”) from September 25, 2017 until June 23, 2020. On April 6, 2020, the Company announced that “given the unprecedented events surrounding COVID-19...Mr. Euteneuer’s tenure as CFO has been extended [and] an end date has not yet been established.” Defendant Euteneuer is a defendant in the Securities Action, which alleges that he violated Section 10(b) of the Exchange Act, Rule 10b-5 promulgated thereunder, and Section 20(a) of the Exchange Act. On June 23, 2020, Mattel announced that Anthony P. DiSilvestro would assume the role of CFO. In 2017, defendant Euteneuer received \$5,277,089 in compensation from the Company, which included a \$500,000 bonus and \$2,586,570 in stock awards, among other things. In 2018, defendant Euteneuer received \$5,341,577 in compensation from the Company, which included \$2,070,588 in stock awards and \$1,431,000 in non-equity incentive plan compensation, among other things.

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25. Defendant Margaret H. Georgiadis (“Georgiadis”) served as Mattel’s CEO from February 8, 2017 until she resigned on April 19, 2018. Defendant Georgiadis is a defendant in the Securities Action, which alleges that she violated Section 10(b) of the Exchange Act, Rule 10b-5 promulgated thereunder, and Section 20(a) of the Exchange Act. In 2017, defendant Georgiadis received \$31,275,289 in compensation from the Company, which included \$1,500,000 in bonus, \$20,264,391 in stock awards, and \$7,784,988 in option awards, among other things. In 2018, defendant Georgiadis received \$3,790,949 in compensation from the Company, which included \$534,247 in salary, \$3,203,365 in stock awards, and \$53,337 in other compensation.

26. Defendant Kevin Farr (“Farr”) served as Mattel’s CFO from February 2000 to September 2017. Before joining Mattel, defendant Farr worked at PwC for ten years. Defendant Farr is a defendant in the Securities Action, which alleges he violated Section 10(b) of the Exchange Act, Rule 10b-5 promulgated thereunder, and Section 20(a) of the Exchange Act. In 2017, defendant Farr received \$2,791,810 in compensation from the Company.

27. Defendant PwC is a registered public accounting firm providing audit and assurance, tax, and consulting services. PwC has served as Mattel’s registered outside auditing firm since 1974. PwC issued audit reports on the Company’s financial statements and internal controls for fiscal years 2017 and 2018 and stated

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that it conducted its audits in accordance with controlling auditing standards. PwC consented to the incorporation by reference of its unqualified audit reports on the Company's financial statements and on management's assessment of internal controls in Mattel's Forms 10-K that were filed during the relevant period. In 2017, Mattel accrued \$9,408,000 in fees for audit and non-audit services provided by PwC. Defendant PwC is a defendant in the Securities Action, which alleges PwC violated Section 10(b) of the Exchange Act, Rule 10b-5 promulgated thereunder, and Section 20(a) of the Exchange Act.

28. Defendant Joshua Abrahams ("Abrahams") was the partner at PwC who led the Mattel audit team during the Relevant Period. On November 6, 2019, following PwC's receipt of the Whistleblower Letter, which implicated defendant Abrahams in the materially false and misleading misstatements alleged herein, defendant Abrahams was removed from the Mattel audit team and PwC placed him on administrative leave. Defendant Abrahams has since left PwC as a result of his conduct. Abrahams is a defendant in the Securities Action, which alleges he violated Section 10(b) of the Exchange Act, Rule 10b-5 promulgated thereunder, and Section 20(a) of the Exchange Act.

29. Defendant Kreiz has served as the Company's Chairman and CEO since April 26, 2018, and as a Company director since June 13, 2017. In 2017, defendant Kreiz received \$220,002 in compensation from the Company and, in

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2018, received \$16,955,660 in compensation from the Company. In 2019, defendant Kreiz received \$15,514,997 in compensation from the Company and, in 2020, received \$15,623,432 in compensation from the Company.

30. Defendant Joseph B. Johnson (“Johnson”) served as the Company’s Senior Vice President and Corporate Controller from May 2015 until August 10, 2018.

31. Defendant R. Todd Bradley (“Bradley”) has served as a Company director since May 17, 2018, and serves as a member of the Audit Committee and Compensation Committee. Defendant Bradley received \$249,995 in 2018, \$249,996 in 2019, and \$269,997 in 2020 in compensation from the Company.

32. Defendant Adriana Cisneros (“Cisneros”) has served as a Company director since August 13, 2018, and serves as a member of the Governance and Social Responsibility Committee. Defendant Cisneros received \$200,003 in 2018, \$247,496 in 2019, and \$247,497 in 2020 in compensation from the Company.

33. Defendant Michael J. Dolan (“Dolan”) has served as a Company director since 2004, and has served as the Board’s Independent Lead Director since January 2015. Dolan also serves as Chair of the Compensation Committee, Chair of the Executive Committee, and as a member of the Governance and Social Responsibility Committee. Defendant Dolan received \$330,010 in 2017, \$319,995

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in 2018, \$319,996 in 2019, and \$304,997 in 2020 in compensation from the Company.

34. Defendant Trevor A. Edwards (“Edwards”) served as a Company director from 2012 until he retired on May 17, 2018. In 2017, defendant Edwards received \$269,010 in compensation from the Company.

35. Defendant Frances D. Fergusson (“F. Fergusson”) served as a Company director from 2006 until May 17, 2018. In 2017, defendant F. Ferguson received \$272,510 in compensation from the Company and, in 2018, received \$25,250 in compensation from the Company.

36. Defendant Soren T. Laursen (“Laursen”) has served as a Company director since May 17, 2018, and as the Company’s interim Executive Director from October 2018 to September 2019. Laursen also serves as a member of the Governance and Social Responsibility Committee and the Finance Committee. Defendant Laursen received \$389,161 in 2018, \$378,486 in 2019, and \$247,497 in 2020 in compensation from the Company.

37. Defendant Ann Lewnes (“Lewnes”) has served as a Company director since 2015, and also serves as Chair of the Governance and Social Responsibility Committee, and as a member of the Executive Committee. Defendant Lewnes received \$270,010 in 2017, \$269,995 in 2018, \$269,996 in 2019, and \$269,997 in 2020 in compensation from the Company.

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38. Defendant Kathy W. Loyd (“Loyd”) served as a Company director from 2001 until May 17, 2018. In 2017, defendant Loyd received \$275,010 in compensation from the Company and, in 2018, received \$6,250 in compensation from the Company.

39. Defendant Roger Lynch (“Lynch”) has served as a Company director since August 13, 2018, and also serves as a member of the Audit Committee and the Finance Committee. Defendant Lynch received \$215,003 in 2018, \$264,996 in 2019, and \$264,997 in 2020 in compensation from the Company.

40. Defendant Dominic Ng (“Ng”) has served as a Company director since 2006, and also serves as the Chair of the Finance Committee, and as a member of the Audit Committee and the Executive Committee. Defendant Ng received \$280,010 in 2017, \$279,995 in 2018, \$279,996 in 2019, and \$279,997 in 2020 in compensation from the Company.

41. Defendant Judy D. Olian (“Olian”) has served as a Company director since September 13, 2018, and also serves as a member of the Compensation Committee and the Governance and Social Responsibility Committee. Defendant Olian received \$195,005 in 2018, \$254,996 in 2019, and \$254,997 in 2020 in compensation from the Company

42. Defendant Vasant M. Prabhu (“Prabhu”) served as a Company director from 2007 until April 15, 2020. During the Relevant Period, Prabhu served as Chair

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of the Audit Committee, and as a member of the Executive Committee and the Finance Committee. In 2017, defendant Prabhu received \$330,010 in compensation from the Company and, in 2018, received \$284,995 in compensation from the Company.

43. Defendant Dean A. Scarborough (“Scarborough”) served as a Company director from 2007 until May 17, 2018. In 2017, defendant Scarborough received \$285,010.

44. Defendant Christopher A. Sinclair (“Sinclair”) served as a Company director from 1996 until February 2017 and then served as Executive Chairman of the Board from until May 2018. Sinclair also served as the Company’s CEO from April 2015 to February 2017, at which point he purportedly resigned from his position and took on the role of Executive Chairman of the Board. In 2017, defendant Sinclair received \$3,665,628 in compensation from the Company and, in 2018, received \$564,956 in compensation from the Company.

45. Defendant Dirk Van de Put (“Van de Put”) served as a director of the Company from 2011 to November 17, 2017. Van de Put was a member of the Audit Committee

Non-Parties

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46. Non-party Diana Ferguson (“D. Ferguson”) was appointed to the Company’s Board effective July 21, 2020, serves on the Audit Committee, and assumed the role of Chair of the Audit Committee on September 1, 2020.

47. Non-party Whitaker was a senior Mattel tax executive from May 2017 to March 2018. Whitaker wrote the Whistleblower Letter and was interviewed by Lead Counsel in the Securities Action prior to filing their Complaint.

Definitions

48. Defendants Kreiz, Bradley, Cisneros, Dolan, Laursen, Lewnes, Lynch, Ng, and Olian are sometimes referred to herein as the “Director Defendants.” The Director Defendants are each current members of the Board and were members of the Board during the Relevant Period. At the time this Complaint was filed, Mattel’s ten-person Board was comprised of the Director Defendants and Non-Party D. Ferguson (sometimes collectively referred to as the “Directors”).

49. The Director Defendants (Kreiz, Bradley, Cisneros, Dolan, Laursen, Lewnes, Lynch, Ng, and Olian) and Defendants Euteneuer, Georgiadis, Johnson, Edwards, Loyd, F. Fergusson, Prabhu, Scarborough, Sinclair, and Van de Put are sometimes collectively referred to herein as the “Individual Defendants.”

50. Defendants PwC and Abrahams are sometimes referred to herein as the “PwC Defendants.”

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THE INDIVIDUAL DEFENDANTS' FIDUCIARY DUTIES

51. By reason of their positions as officers, directors, and/or fiduciaries of Mattel and because of their ability to control the business and corporate affairs of the Company, at all relevant times, the Individual Defendants owed Mattel and its shareholders fiduciary obligations of good faith, loyalty, and disclosure, and were required to use their utmost ability to control and manage the Company in a fair, just, honest, and equitable manner.

52. The Individual Defendants were required to act in furtherance of the best interests of Mattel and its shareholders so as to benefit all shareholders equally and not in furtherance of their personal interest or benefit.

53. Each director and officer of the Company owes to Mattel and its shareholders a fiduciary duty to exercise good faith and diligence in the administration of the affairs of the Company and in the use and preservation of its property and assets, and the highest obligations of fair dealing.

54. The Individual Defendants, because of their positions of control and authority as directors and/or officers of Mattel, were able to and did, directly and/or indirectly, exercise control over the wrongful acts complained of herein. Because of their advisory, executive, managerial, and directorial positions with Mattel, each of the Individual Defendants had knowledge of material non-public information regarding the Company. To discharge their duties, the officers and directors of

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Mattel were required to exercise reasonable and prudent supervision over the management, policies, practices and controls of the Company. By virtue of such duties, the officers and directors of Mattel were required to, among other things:

- (a) Exercise good faith to ensure that the affairs of the Company were conducted in an efficient, business-like manner so as to make it possible to provide the highest quality performance of their business;
- (b) Exercise good faith to ensure that the Company was operated in a diligent, honest, and prudent manner and complied with all applicable district and state laws, rules, regulations and requirements, and all contractual obligations, including acting only within the scope of its legal authority;
- (c) Exercise good faith to ensure that the Company's communications with the public and with shareholders are made with due candor in a timely and complete fashion; and
- (d) When put on notice of problems with the Company's business practices and operations, exercise good faith in taking appropriate action to correct the misconduct and prevent its recurrence.

55. The Individual Defendants, because of their positions of control and authority, were able to and did, directly or indirectly, exercise control over the wrongful acts complained of herein, as well as the contents of the various public statements issued by Mattel.

56. Each of the Individual Defendants breached his or her fiduciary duties as alleged herein, both individually and in concert with the other Defendants.

CONSPIRACY, AIDING AND ABETTING, AND CONCERTED ACTION

57. In committing the wrongful acts alleged herein, the Individual

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Defendants and the PwC Defendants have pursued, or joined in the pursuit of, a common course of conduct, and have acted in concert with and conspired with one another in furtherance of their wrongdoing. The Individual Defendants and the PwC Defendants caused the Company to conceal the true facts as alleged herein. The Individual Defendants and the PwC Defendants further aided and abetted and/or assisted each other in breaching their respective duties.

58. The purpose and effect of the conspiracy, common enterprise, and/or common course of conduct was, among other things, to facilitate and disguise the Individual Defendants and the PwC Defendants' violations of law, including breaches of fiduciary duty and unjust enrichment.

59. The Individual Defendants and the PwC Defendants accomplished their conspiracy, common enterprise, and/or common course of conduct by causing the Company, purposefully, recklessly, or negligently, to conceal material facts, fail to correct such misrepresentations, and violate applicable laws.

60. In furtherance of this plan, conspiracy, and course of conduct, the Individual Defendants and the PwC Defendants collectively and individually took the actions set forth herein. Because the actions described herein occurred under the authority of the Board, each of the Individual Defendants, who are directors of Mattel, and the PwC Defendants, was a direct, necessary, and substantial participant in the conspiracy, common enterprise, and/or common course of conduct

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complained of herein.

61. Each of the Individual Defendants and the PwC Defendants aided and abetted and rendered substantial assistance in the wrongs complained of herein. In taking such actions to substantially assist the commission of the wrongdoing complained of herein, each Individual Defendant and the PwC Defendant acted with actual or constructive knowledge of the primary wrongdoing, either took direct part in, or substantially assisted the accomplishment of that wrongdoing, and was or should have been aware of his or her overall contribution to and furtherance of the wrongdoing.

62. At all times relevant hereto, each Individual Defendant and the PwC Defendant was the agent of each of the other defendants and of Mattel and was at all times acting within the course and scope of such agency.

MATTEL'S CODE OF CONDUCT

63. Mattel's code of conduct (the "Code of Conduct") is the Company's "General Statement of Ethical Business Conduct." "The Code of Conduct is a statement of Mattel's standards of ethical business conduct, based on our commitment to adhere to Mattel's values and to comply with the law." (Code of Conduct, Page 5).

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64. The Code of Conduct “applies to the employees of every Company in the Mattel family...” (*Id.*). “Certain specified provision of the Code of Conduct also apply to members of Mattel’s Board of Directors...” (*Id.* at 6).

65. The Code of Conduct states, “It is very important to consider the appearance of conflicts of interest, since perceived conflicts can be as damaging to Mattel’s reputation as actual conflicts.” (*Id.* at 9).

66. In a section titled, “Accuracy of Company Records, Public Reports and Communications,” the Code of Conduct states:

Mattel is committed to provide full, fair, complete, accurate, timely and understandable disclosure of information, including financial information, in reports filed with the Securities and Exchange Commission and in other public communications, in accordance with applicable laws, rules and regulations.

Financial books, records and accounts must be maintained in reasonable detail, accurately reflect transactions and events, and conform to applicable legal and accounting requirements and to Mattel’s system of internal controls. In order to fulfill our responsibility for sound decision-making, we require honest and accurate recording and reporting of business information and transactions, including quality, safety and personnel data records, as well as financial transactions and records.

Falsification of any record or financial report, such as quality and safety data, time reports or expense reports, will result in immediate disciplinary action.

(*Id.* at 31).

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67. In a section titled, “Communication to the Media,” the Code of Conduct states:

To ensure that information provided to the public is accurate and consistent, all communications to the media should be coordinated with the Corporate Communications Department. Employees should not talk to the media without prior authorization from Corporate Communications. Any employee who is contacted by a member of the media should refer the inquiry to Corporate Communications. Communications with investors and with the financial community are also restricted.

(Id. at 35).

68. In a section titled, “Our Responsibility to Government and Compliance with the Law,” the Code of Conduct states, “Employees and Directors must comply with the laws, rules and regulations wherever Mattel does business. Every employee has a responsibility to understand the law and the Code as it applies to his or her job.” *(Id. at 36).*

69. By engaging in the conduct alleged herein, the Individual Defendants violated the Code of Conduct.

MATTEL’S AUDIT COMMITTEE CHARTER

70. The purpose of Mattel’s Audit Committee Charter (the “Audit Committee Charter”) is:

to provide assistance to the Board of Directors (the “Board”) of Mattel, Inc. (the “Company”) in fulfilling the Board’s oversight responsibilities regarding (a) the accounting and financial reporting processes of the Company, including the quality and integrity of the Company’s

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financial reporting and the audits of the Company's financial statements, (b) the independence, qualifications and performance of the Company's independent auditor (c) the performance of the Company's internal audit function and (d) the compliance by the Company with legal and regulatory requirements.

71. This section of the Audit Committee Charter goes on to state, "The Committee's responsibility is oversight."

72. In terms of "Authority and Responsibility," the Audit Committee Charter states:

The Committee shall have the sole authority to appoint or replace the independent auditor...The Committee shall be directly responsible for the compensation and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The independent auditor shall report directly to the Committee.

The Committee shall pre-approve all auditing services, internal-control-related services and permitted non-audit services (including the terms thereof) to be performed for the Company by its independent auditor....

The Committee may, in its discretion, utilize the services of the Company's regular corporate legal counsel with respect to legal matters. The Committee shall have the authority, to the extent it deems necessary or appropriate, to retain independent legal, accounting or other advisors. The Company shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent auditor for the purpose of rendering or issuing an audit report and to any advisors employed by the Committee, and for the payment of ordinary administrative expenses that are necessary or appropriate in carrying out the Committee's duties.

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The Committee shall make regular reports to the Board. The Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval. The Committee shall annually review the Committee's own performance.

73. The Audit Committee Charter states, "In addition to the general tasks and responsibilities noted above, the following are the specific functions of the Committee, to be performed as the Committee deems necessary or appropriate:"

Financial Statement and Disclosure Matters

1. Review and discuss with management and the independent auditor the annual audited financial statements, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations", and recommend to the Board whether the audited financial statements should be included in the Company's Form 10-K.

2. Review and discuss with management and the independent auditor the Company's quarterly financial statements including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the results of the independent auditor's review of the quarterly financial statements, prior to the filing of its Form 10-Q.

3. Discuss with the independent auditor and management, as applicable, the matters relating to the conduct of the audit that the independent auditor must communicate to the Committee..., including but not limited to:

(a) Discussing with management and the independent auditor significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles.

(b) Reviewing and discussing reports from the independent auditors on:

i) Critical accounting policies and practices to be used.

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ii) Alternative treatments of financial information within generally accepted accounting principles and practices related to material items that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor.

iii) Other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.

4. Discuss with management the Company's earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies. [].

5. Discuss with management and the independent auditor the effect of regulatory and accounting initiatives, as appropriate, as well as off-balance sheet structures on the Company's financial statements.

6. Oversee the Company's assessment and management of material risks (a) impacting the Company's business and (b) relating to financial reporting and accounting and compliance, and annually review and discuss with management the material risks impacting the Company and the steps management has taken to monitor and control these risks.

Internal Controls

7. Review and discuss with management, the principal internal auditor and with the independent auditor, the Company's required internal controls report and the independent auditor's internal controls opinion, any special steps adopted in light of material weaknesses in internal controls and the adequacy of disclosures about changes in internal controls over financial reporting prior to the filing of the Company's Form 10-K.

8. Discuss with the independent auditor and with management any management letter provided by the independent auditor and any other significant matters brought to the attention of the Committee by the independent auditor as a result of its annual audit. The Committee should allow management adequate time to consider any such matters raised by the independent auditor.

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9. Review disclosures made to the Committee by the Company's CEO and CFO during their certification process for the Form 10-K and Form 10-Q about any significant deficiencies in the design or operation of internal controls over financial reporting or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls over financial reporting.

Oversight of the Company's Relationship with the Independent Auditor

10. Review and evaluate the lead partner of the independent auditor team.

11. Obtain and review a report from the independent auditor at least annually regarding (a) the independent auditor's internal quality-control procedures, (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities ..., (c) any steps taken to deal with any such issues, and (d) all relationships between the independent auditor and the Company....

12. Actively engage in a dialogue with the independent auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditor, and take, or recommend that the Board take, appropriate action to oversee the independence of the independent auditor.

13. Evaluate the qualifications, performance and independence of the independent auditor....The Committee shall present its conclusions with respect to the independent auditor to the Board.

14. Ensure the rotation of the audit partner as required by law.

[15 omitted].

16. Discuss with the independent auditor issues on which the national office of the independent auditor was consulted by the Company's audit team, to the extent such issues were deemed to be material by the independent auditor.

[17 omitted].

Internal Audit

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18. Discuss at least annually with the principal internal auditor the activities and organizational structure of the Company's internal audit function and the qualifications of the primary personnel performing such function. [].

19. Review the significant issues reported to management by the internal auditing department and management's responses.

20. Meet periodically with the principal internal auditor, the independent auditor and management to discuss the internal audit department responsibilities, budget and staffing and any recommended changes in the planned scope of the internal audit, and any issues identified by them or any other matters brought to the attention of the Committee.

[21 omitted].

Compliance Oversight Responsibilities

22. Obtain from the independent auditor assurance that Section 10A(b) of the Exchange Act has not been implicated.

23. Obtain from the independent auditor reports of any fraud involving senior management and any fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements.

24. Obtain reports from management and the Company's principal internal auditor that the Company and its subsidiary/foreign affiliated entities are in conformity with applicable legal requirements and the Company's Code of Conduct. Advise the Board with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations and with the Company's Code of Conduct.

25. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

[26 omitted].

27. Annually review the results of internal audit's examination of officers' travel and entertainment reports.

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[28 omitted].

29. Discuss with the Company’s Chief Legal Officer legal matters that may have a material impact on (a) the financial statements, (b) the Company’s compliance policies or (c) internal controls over financial reporting.

30. At least annually, meet to review the implementation and effectiveness of the Company’s compliance and ethics program with the Chief Legal Officer.

[31 omitted].

Audit Committee Report

32. Oversee preparation of the report required by the rules of the Commission to be included in the Company’s annual proxy statement.

74. By engaging in the conduct alleged herein, the Individual Defendants violated the Audit Committee Charter.

SUBSTANTIVE ALLEGATIONS

Mattel’s Business Struggles

75. With more children opting for electronic and internet-based products, the demand for Mattel’s traditional toys has steadily declined in recent years.

76. After announcing disappointing financial results for the first quarter of 2017, on April 20, 2017, Mattel management announced a new strategic plan which Georgiadis stated would “shift our business aggressively in a new strategic direction and transform how we operate[.]”

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77. Soon after, on July 27, 2017, the Company announced its second quarter 2017 financial results, and that it had missed its revenue, gross margin, and earnings expectations.

78. On September 18, 2017, Toys “R” Us – Mattel’s largest customer and the largest vendor of the Company’s products – filed for bankruptcy. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

79. These events placed substantial pressure on Mattel to improve and perform well in the third and fourth quarters of 2017, with the Company’s financial results for the third quarter due to be reported on October 26, 2017 – the following month. However, at the time, Mattel was riddled with severe internal control deficiencies, including in the way it calculated its publicly reported financial results and in the way issues, errors, and material weaknesses were reported to the Board and the Audit Committee.

Internal Controls

80. Federal securities laws and SEC regulations require public companies like Mattel to maintain robust controls over their disclosures and financial reporting. These controls are critical to public companies and their investors because they

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provide reasonable assurance that its publicly-reported financial results are accurate, and that any material fraud or misstatement is detected and disclosed.

81. Pursuant to these requirements, Mattel is obligated to establish and maintain, among other things, (1) “disclosure controls and procedures,” which ensure that information required to be disclosed under the Exchange Act is communicated to management in advance of filing dates; and (2) “internal controls over financial reporting,” which are designed to provide reasonable assurances that a company’s financial statements are accurate, reliable and prepared in accordance with GAAP.

82. The Company’s management is also required to conduct a quarterly review and evaluation of to determine their effectiveness in preventing or detecting material misstatements of financial statements in a timely manner.

83. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

84. Unbeknownst to investors, however, by the beginning of the Relevant Period, August 2, 2017, Mattel’s internal controls were severely deficient, and these deficiencies contributed to a material misstatement of Mattel’s financial results,

[REDACTED]

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which in turn enabled the Individual Defendants to conspire with the PwC Defendants to cover up those material errors rather than disclose them to the public.

85. Throughout the Relevant Period, the Individual Defendants falsely represented that Mattel maintained effective controls, and falsely assured investors that they could rely on the information reported in Mattel’s SEC filings.

86. Mattel and the Individual Defendants subsequently admitted that these representations were false when made, and acknowledged the Company suffered from multiple, undisclosed material weaknesses, in violation of applicable laws (detailed below).

Brett Whitaker: The Whistleblower

87. Whitaker joined Mattel in May 2017, when the Company was a month away from publicly reporting its second quarter results. During this process, Whitaker allegedly “shadowed” Clara Wong (“Wong”), Mattel’s Vice President of Tax. (Amended Complaint, ¶ 67).

88. According to the Amended Complaint, from the beginning of his tenure, Whitaker observed red flags and critical deficiencies within Mattel’s system of internal controls related to the tax and accounting departments. For instance, Whitaker observed that:

- The Company did not have an adequate system of documentation for its financial statements;

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- The Company’s financial results did not “tie out” or reconcile;
- PwC were unable to explain how past quarters’ numbers were reconciled;
- There was ineffective communication between the tax department and the Financial Planning & Analysis department, which was a critical breakdown because Mattel’s tax provisioning was based in part on the Company’s forecast and budget;
- The Company lacked an internal control or formal process for determining, documenting and confirming its tax valuation allowance;
- Mattel’s process of applying its internal controls in the Tax department also deficient, as was the purported testing of such internal controls that was performed by Mattel’s Internal Audit department; and
- PwC, which was supposed to be evaluating Mattel’s internal controls, performed a “check the box exercise,” rather than an actual test and evaluation of the Company’s internal controls.

(Amended Complaint, ¶¶ 69-75).

89. According to Whitaker, these internal control issues were well-known throughout the Company during the Relevant Period. (*Id.* at ¶ 76). He reported that, “[i]f you just waked through the halls, [Mattel] was riddled with issues and alarms were going off everywhere.” (*Id.* at ¶¶ 3, 68). Whitaker allegedly stated that to understand Mattel’s financials, he had to “literally scrummage through boxes and boxes of loose paper to try and gain understanding” and stated this made him feel like he was “back in the 1980’s” and was the “biggest red flag.” (*Id.* at ¶ 69). Indeed, Whitaker allegedly reported the numbers in the Company’s financials did not “tie out” or reconcile with what it had reported to the SEC. (*Id.*).

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90. As detailed herein, Whitaker subsequently forced Mattel and certain of the Individual Defendants to reveal the Company's misstatements and internal control failures after the Company was made aware of the Whistleblower Letter.

91. Whitaker also detailed his knowledge of the fraud to the *Wall Street Journal*, the specifics of which were detailed in an article published on November 6, 2019 – less than three months after Mattel revealed the Whistleblower Letter.³



92. Whitaker also provided a detailed chronological account of his tenure at Mattel and knowledge of the fraud to lead counsel in the Securities Action. Whitaker's account directly corroborates the allegations in this Complaint and is described in the Amended Complaint in the Securities Action with sufficient detail to establish Whitaker's reliability and personal knowledge. Indeed, in the denying

³ Jean Eaglesham and Paul Ziobro, *Mattel, PwC Obscured Accounting Issues, Former Executive Says*, *The Wall Street Journal* (Nov. 6, 2019).

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the Securities Defendants’ motions to dismiss, the Securities Action Opinion held Whitaker’s “*detailed narrative of accounting deficiencies he personally observed [at Mattel] or surmised through dependable sources*” was “*sufficiently reputable* due to his disclosed identity, elevated position, and first-hand knowledge of many pertinent events.” (Securities Action Opinion at 17-18) (emphasis added).

Tax Valuation Allowances

93. A valuation allowance is a reserve that is used to offset the amount of a deferred tax asset. A deferred tax asset is an asset that can be used to reduce or eliminate a future tax liability and includes deductible carryforwards (deductions that cannot be utilized on a return during the current year but may be carried forward to reduce taxable income in a future year).

94. As a result, the value of deferred tax assets depends on whether the company will, in fact, generate taxable income in the future. If future income is likely, then the asset has value because it can be used to offset future tax liability on that income. Conversely, if the company will not likely generate income, then the asset has little or no value because it cannot be used to offset a future tax liability (as there likely will be no future tax liability).

95. GAAP specifically requires that if a company determines it likely will not be able to use all or some of its deferred tax assets because the company is unlikely to have a sufficient amount of future taxable income, the company must

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record a “valuation allowance” against the deferred tax assets. Accounting Standards Codification (“ASC”) 740-10-30-5. According to GAAP, a valuation allowance reduces the value of the asset, as it is “[t]he portion of a deferred tax asset for which it is more likely than not that a tax benefit will not be realized The valuation allowance shall be sufficient to reduce the deferred tax asset to the amount that is more likely than not to be realized.” ASC 740-10-30-24.

Mattel’s Third Quarter 2017 Financial Statement Preparation

96. Before Mattel reported its 2017 third quarter results for the period ending September 30, 2017, it had to decide whether to record a valuation allowance against its deferred tax assets. As of June 30, 2017, Mattel carried \$580 million in deferred tax assets on its balance sheet. Accordingly, any valuation allowance would have to be deducted from Mattel’s income, thus reducing any profit or enlarging any losses. Given the large amount of the deferred tax assets on the Company’s books, any material reduction in value of those assets was of great consequence to Mattel.

97. Whitaker allegedly reported that recording a valuation allowance against Mattel’s deferred tax assets would have threatened to “absolutely tank” the Company’s financial performance and was something the Company wanted “to avoid [] at all costs.” (Amended Complaint, ¶ 86).

98. According to the Amended Complaint, “Whitaker and his team were meeting multiple times a week with PwC [including defendant Abrahams] leading

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up to the close of the third quarter to determine whether to record a valuation allowance.” (*Id.* at ¶ 87). Further, Mattel executives and PwC allegedly discussed with Individual Defendant Euteneuer whether Mattel would record a valuation allowance on a regular basis. (*Id.* at ¶ 88).

99. Nevertheless, Whitaker reported that Mattel did not have internal controls in place to calculate the value of the Company’s deferred tax assets or the need for a valuation allowance. (*Id.* at ¶ 89).

100. According to Whitaker, ***Mattel and the PwC team initially decided not to record a valuation allowance against Mattel’s deferred tax assets for the third quarter of 2017***, even though the poor state of the business raised questions about the likelihood of future income against which to net these deferred tax assets. Nonetheless, according to Whitaker, management recognized that even if they did not record a valuation allowance in the third quarter, they would likely have to it in the next quarter. (*Id.* at ¶ 90). Whitaker allegedly stated that, in originally deciding not to record a valuation allowance against Mattel’s deferred tax assets, the Company was being unreasonably optimistic about its forecast. (*Id.* at 91).

101. ***With approximately one week left in the third quarter 2017 reporting process, Mattel and PwC allegedly reversed their decision, and decided that Mattel was required to record a valuation allowance.*** (*Id.* at ¶ 93). The decision was apparently based on a \$100 million write-off in receivables from Toys “R” Us, which

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Mattel desperately needed to be paid given the poor state of its business. If Mattel wrote off the full Toys “R” Us accounts receivable balance (meaning it was no longer cash or income the Company would receive), Mattel would not have been able to justify its decision to not take a valuation allowance. (*Id.* at ¶ 95). Whitaker was apparently shocked by the change in course because it would take several weeks of work to accurately calculate a valuation allowance, and he was now being asked to do that in a week. (*Id.* at ¶ 97).

102. After working quickly to meet this deadline, without access to needed materials, Whitaker’s team allegedly calculated a valuation allowance of approximately \$175 million to \$200 million against Mattel’s deferred tax assets. (*Id.* at ¶ 100).

103. Thereafter, and days before Mattel was set to report its third quarter earnings, PwC allegedly discovered a material error in the way the valuation allowance was calculated that required Whitaker and his team to quickly redo the entire tax entry – *for a third time*. (*Id.* at ¶ 102). Specifically, PwC informed Whitaker and the Mattel tax team that they improperly reduced the Company’s total deferred tax assets by several hundred million dollars, which had the effect of improperly reducing the valuation allowance amount on those assets. As a result, the Company’s valuation allowance, and Mattel’s net loss, needed to be substantially higher than they were. (*Id.* at ¶ 104).

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104. According to Whitaker, Mattel had improperly offset its deferred tax assets by netting out the value of deferred tax liabilities from certain intellectual property assets – namely, the HiT IP (explained below). While companies are permitted to do this type of netting when the property has a finite life (*i.e.*, when the asset’s value can be depreciated over a fixed period), GAAP only permits this type of netting when the property has an “indefinite life.” (*Id.* at ¶ 105).

105. *Whitaker and the Mattel tax teams’ recalculation resulted in an increase the valuation allowance recorded against Mattel’s deferred tax assets as of September 30, 2017 from \$175-\$200 million to \$562 million.* The results from these two calculations varied by hundreds of millions of dollars and, at the very least, indicated a material error was made during the first calculations and that the second should be further scrutinized. (*Id.* ¶¶ at 107-108). The huge variance in results, the number of calculations, and the proximity of the multiple calculations to the reporting deadline all spoke to the significance of the unaddressed material deficiencies in the Company’s internal controls during the third quarter of 2017.

106. According to Whitaker, the Company’s failure to discover this error in its own calculation was “the perfect example of a material weakness” in Mattel’s internal controls. (*Id.* at ¶ 110). Given the significance of the error, Whitaker expected that PwC would require Mattel to disclose material deficiencies in its accounting and disclosure controls. (*Id.* at ¶ 111). However, Whitaker reported that

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even after raising the issue in real time, PwC did not require the disclosure of any material weakness. Whitaker reported,

That was a bone of contention between me and John Brierley[,] [another PwC partner]. I wanted to have the best department that I could. *I was very upset that there was no internal control deficiency recognized* [in the Company's SEC filings]. That might have been the thing that finally encouraged leadership to give us the resources and the budget to start fixing things. I remember being very upset about that.

(*Id.* at 112) (emphasis added).

The Audit Committee's October 25, 2017 Meeting

107. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

108. [REDACTED]

[REDACTED]

[REDACTED]

109. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

110. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Mattel Reports its 2017 Third Quarter Results

111. On October 26, 2017, Mattel publicly reported its third quarter results, which, consistent with Whitaker’s story, included the valuation allowance of \$562 million and a loss of \$603 million.

112. The Company made no mention of the existence of a material weakness in its internal controls over financial reporting in its announcement or in its third quarter 2017 Form 10-Q filed with the SEC on October 26, 2017. Instead, the Company falsely reported that they had “evaluated the effectiveness of [Mattel’s] disclosure controls and procedures,” and that Mattel’s internal controls were effective as of September 30, 2017. This was patently false.

113. In reality, Mattel’s internal controls were severely deficient, and its third quarter financial results had been materially misstated. Specifically, Mattel’s

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reported loss for the third quarter of 2017 was understated by approximately \$109 million, or by 18%.

114. Whitaker reported that the Company relied on a solitary spreadsheet to calculate the \$562 million entry in its third quarter 2017 financials, and that Mattel could not locate supporting documentation. (Amended Complaint, ¶ 117). Whitaker allegedly spent hours trying to find the support for Mattel's valuation allowance but was unsuccessful. (*Id.* at ¶ 118).

The Individual Defendants Misclassify the Company's HiT IP

115. In the third quarter of 2017, Mattel treated its HiT IP as an asset having a finite life (*i.e.*, amortizing over a fixed period) and netted the deferred tax liability resulting from the HiT IP against Mattel's deferred tax assets, thereby reducing its valuation allowance. With the deferred tax liability related to this asset valued at approximately \$109 million, this netting had a material impact in lowering the allowance reported by Mattel as of the end of the third quarter of 2017.

116. After the Company filed its third quarter financials, however, Whitaker allegedly noticed a document listed the HiT IP as having no amortization – *i.e.*, listing it as an indefinite-lived asset. (Amended Complaint, ¶ 120). ***This meant the deferred tax liability related to the HiT IP should not have been used to reduce Mattel's tax assets or the Company's valuation allowance in the third quarter 2017.*** Had the HiT IP been classified properly, the valuation allowance that Mattel

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recorded in the third quarter 2017 would have been \$109 million higher, and its reported loss would have been \$109 million larger.

117. According to the Amended Complaint, when Whitaker reported the mistake to Dermot Martin (“Martin”), Senior Director of Tax at Mattel, Martin allegedly responded “there goes my f***ing job.” Whitaker allegedly said that he “had never seen anything like it in [his] entire life.” (*Id.* at ¶ 122).

118. According to the Amended Complaint, after discovering the above error, *Whitaker confirmed with Mattel’s accounting team that the HiT IP was not being amortized for accounting purposes, contrary to how it was treated for purposes of Mattel’s SEC filings.* (*Id.* at ¶ 124).

119. But instead of reporting this material weakness and restating Mattel’s recently-issued third quarter 2017 financial statements, PwC and Mattel conspired to change the accounting treatment of the HiT IP by retroactively reclassifying it to match the Company’s treatment of it as a finite asset. *The reclassification was specifically intended to avoid the restatement of Mattel’s third quarter results and an admission of the material weaknesses in the Company’s internal controls.*

120. Whitaker reported that the tax team called a meeting with senior Mattel management on January 15, 2018. The meeting was allegedly attended by at least Mattel’s SVP of Accounting, Joe Johnson (“Johnson”); VP of accounting, Lew; VP of Internal Audit, Beverly Lively; Director of Internal Audit, Vladimir Marinescu;

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Assistant Controller, Nathan Yoo; Wong; Whitaker; and Martin. (*Id.* at ¶ 126).

While multiple attendees allegedly believed there was a material weakness in the Company's internal controls, Johnson, Mattel's SVP of Accounting, protested that, "We cannot have a material weakness [because] [t]hat would be the kiss of death." (*Id.* at ¶¶ 128, 130). Whitaker reported that by the end of the meeting, the group was in agreement that there was "a clear-cut material weakness," but held out hope Mattel and/or PwC would find a way to re-characterize it. (*Id.* at ¶ 132).

121. Soon after, Wong communicated to Whitaker that PwC had manufactured a plan to avoid a restatement by changing the classification of the HiT IP asset from an indefinite-lived asset to a finite-lived asset retroactively as of the start of the fourth quarter, October 1, 2017 – thereby matching its classification to the manner in which the Company had treated it in the third quarter, and purportedly rendering the valuation allowance "correct" as of the fourth quarter. (*Id.* at ¶ 143). Mattel apparently believed that retroactively reclassifying the HiT IP asset exposed Mattel to minimal penalties from regulators. (*Id.* at ¶ 144).

122. Despite changing the accounting treatment of the HiT IP asset and making that change retroactive to October 1, 2017, Mattel buried the known error and avoided the disclosure of material weaknesses in Mattel's internal controls.

123. Although both Mattel and PwC concluded that Mattel's third quarter 2017 financial statements contained a material misstatement, neither the Individual

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Defendants nor the PwC Defendants informed Mattel’s Audit Committee of the misstatements.

124. Governing audit standards required that the PwC Defendants report this error to Mattel’s Audit Committee, which they failed to do.

125. Had the Individual Defendants and the PwC Defendants upheld their obligations, they would have informed the Audit Committee of these important facts and allowed the Audit Committee to decide how to handle the error and disclosure requirements. Indeed, the “Primary Responsibilities” of Mattel’s Audit Committee include:

- Assist the Board in fulfilling the Board’s oversight responsibilities regarding the quality and integrity of Mattel’s financial reports, the independence, qualifications, and performance of Mattel’s independent registered public accounting firm, the performance of Mattel’s internal audit function, and Mattel’s compliance with legal and regulatory requirements[;]
- Sole authority to appoint or replace the independent registered public accounting firm; directly responsible for the compensation and oversight of the work of the independent registered public • Meet with the independent registered public accounting firm and management in connection with each annual audit to discuss the scope of the audit and the procedures to be followed[;]
- Review and discuss Mattel’s quarterly and annual financial statements with management, the independent registered public accounting firm, and the internal audit group[;]
- Discuss with management and the independent registered public accounting firm Mattel’s practices with respect to risk assessment, risk management, and critical accounting policies[; and]

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- Discuss periodically with the independent registered public accounting firm and the senior internal auditing officer the adequacy and effectiveness of Mattel’s accounting and financial controls, and consider any recommendations for improvement of such internal control procedures[.]

126. Moreover, the Individual Defendants and PwC Defendants failed to report the known errors and material weaknesses to the Audit Committee despite the fact that they met with the Audit Committee specifically to discuss the accuracy of the Company’s 2017 financial statements, including the existence of any material weaknesses, so that the Audit Committee could approve their filing with the SEC.

As stated in the Company’s 2018 Proxy Statement:

[T]he Audit Committee has reviewed and discussed with management, the senior internal auditing officer of Mattel, and PwC, the audited financial statements of Mattel as of and for the year ended December 31, 2017 and Management’s Report on Internal Control Over Financial Reporting. Management has confirmed to the Audit Committee that, as required by Section 404 of the Sarbanes-Oxley Act, management has evaluated the effectiveness of Mattel’s internal control over financial reporting using the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations (“COSO”) of the Treadway Commission. Based on this evaluation, management concluded that Mattel’s internal control over financial reporting was effective as of December 31, 2017. ...

In addition, Mattel’s Chief Executive Officer and Chief Financial Officer reviewed with the Audit Committee, prior to filing with the SEC, the certifications that were filed pursuant to the requirements of the Sarbanes-Oxley Act and the disclosure controls and procedures management has adopted to support the certifications. ...

The Audit Committee has discussed with PwC the matters required to be discussed by Auditing Standard No. 1301, “Communications with

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Audit Committees”, as adopted by the Public Company Accounting Oversight Board (the “PCAOB”). ...

Based on the reports and discussions described above, the Audit Committee recommended to the Board that the audited financial statements be included in Mattel’s Annual Report on Form 10-K for the year ended December 31, 2017, for filing with the SEC.

127. Neither the Individual Defendants nor the PwC Defendants informed the Audit Committee of the highly material facts of which they were aware concerning the material misstatement of Mattel’s financial results and the material weaknesses in its internal controls during these discussions. Instead, the Individual Defendants and PwC Defendants intentionally avoided making the required restatement of Mattel’s third quarter results and the required admission of material weaknesses in the Company’s internal controls.

[REDACTED]

128. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

129. [REDACTED]

[REDACTED]

[REDACTED]

130. [REDACTED]

[REDACTED]

131. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

132.

[REDACTED]

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137. [REDACTED]

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Mattel Prepares its Fourth Quarter and Full Year 2017 Financial Statements

142. Before the Company filed its 2017 Form 10-K with the SEC on February 27, 2018, PwC conducted a final review of the Company's financial statements. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

143. During PwC's review, Martin, Mattel's Senior Director of Tax, apparently discovered yet another error related to the accounting for Mattel's intellectual property. Specifically, Mattel improperly netted certain deferred tax liabilities related to indefinite-lived assets, a violation of GAAP, when it was attempting to determine its valuation allowance as of December 31, 2017. The error

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was valued at approximately \$20 million, which was just above PwC's materiality threshold. (Amended Complaint, ¶ 153). According to Whitaker, PwC spent an entire day at Mattel's offices figuring out if they could net other, immaterial errors against this one to take it below the materiality threshold and avoid having to report it. In the end, PwC successfully reduced the effect of the error and decided that it did not have to be reported. This meant that Mattel would not have to report any weaknesses or errors in its 2017 Form 10-K. (*Id.* at ¶ 154).

144. According to Whitaker, when the issue was resolved, members of Mattel management walked through the halls of the Company high-fiving each other to celebrate the fact that there would be no restatement and apparently also sent a congratulatory email stating that the issue was resolved and PwC's audit was complete. (*Id.* at ¶ 155).

Mattel Reports its Fourth Quarter and Full Year 2017 Financials

145. On February 27, 2018, Mattel filed its fourth quarter and annual results for 2017 with the SEC on Form 10-K. *Mattel did not disclose that (1) its 2017 third quarter results were materially misstated; (2) the material weaknesses in its internal controls; and (3) it conspired with PwC to avoid restating its third quarter results.*

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146. The 2017 Form 10-K contained numerous false and misleading statements. For instance, Mattel reported that Mattel’s “internal control over financial reporting was effective as of December 31, 2017.”

147. The Company’s 2017 Form 10-K also included false representations that Mattel reclassified the HiT IP during the fourth quarter for legitimate reasons. In truth, this reclassification was manufactured to avoid a restatement of its financial results and an admission that the Company suffered deficiencies in its internal controls.

148. Moreover, in violation of PCAOB accounting standards, PwC issued an unqualified audit opinion incorporated into Mattel’s 2017 Form 10-K falsely stating that Mattel’s internal controls over financial reporting were effective as of December 31, 2017 and that Mattel’s financial statements were accurate and prepared in accordance with GAAP.

Mattel is Forced to Disclose the Whistleblower Letter

149. [REDACTED]

[REDACTED]

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150. [REDACTED]

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[REDACTED]

151. On August 8, 2019, Mattel filed a Form 8-K with the SEC disclosing that the Company “was made aware of an anonymous whistleblower letter” and, as a result, would initiate an investigation related to the “matters set forth in the letter.”

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152. As a result of Mattel’s disclosure, the Company’s stock price declined 16% in a single day, from \$13.43 on August 8, 2019, to a closing price of \$11.31 on August 9, 2019, on exceptionally high volume.

Mattel’s Admissions of Guilt

153. Following the Company’s August 8, 2019 disclosure, Mattel made a series of admissions which corroborate the allegations in the Whistleblower Letter, the Amended Complaint in the Securities Action, and in this Complaint.

154. Specifically, Mattel admitted that its third and fourth quarter 2017 financial results were materially false when issued and announced the company would issue a restatement.

155. On October 29, 2019, Mattel filed a Form 8-K with the SEC addressing the findings from the whistleblower investigation. The Company announced that it would be restating its quarterly financial data for the three and nine months ended September 30, 2017 as reported in Mattel’s third quarter 2017 Form 10-Q and the three months ended December 31, 2017 as reported in Mattel’s 2017 Form 10-K, and that those financial statements “*should no longer be relied upon due to material misstatements.*” (Emphasis added).

156. The decision to restate financial results was an admission by Mattel and PwC that Mattel’s financial statements in its third quarter 2017 Form 10-Q and 2017 Form 10-K were materially false when issued.

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157. The October 29, 2019 Form 8-K added that “*related press releases, earnings releases, and investor communications describing Mattel’s financial statements for these periods should no longer be relied upon.*” (Emphasis added). As a result, the Company planned to amend its 2018 Form 10-K to restate “the unaudited quarterly financial data for the three month periods ended September 30, 2017 and ended December 31, 2017...(including restatement of related information for the nine months ended September 30, 2017),” as well as “Management’s Report on Internal Control over Financial Reporting...to restate the Evaluation of Disclosure Controls and Procedures included under Item 9A.”

158. The Form 8-K further reported that “the Company has reassessed its conclusions regarding the effectiveness of its internal control over financial reporting as of December 31, 2018” and “*has determined that certain material weaknesses existed as of December 31, 2018 and subsequently, and therefore the Company has concluded that its internal control over financial reporting as of December 31, 2018 was not effective and that Management’s Report on Internal Control on Financial Reporting as of December 31, 2018 should also no longer be relied upon.*” (Emphasis added).

159. In a press release filed the same day, October 29, 2019, the Company provided further detail on the accounting misstatements that would be corrected in the forthcoming restatement. The press release stated that the Company’s

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“investigation determined that income tax expense was understated by \$109 million in the third quarter of 2017, and overstated by \$109 million in the fourth quarter of 2017[.]” (Emphasis added). The press release added that the “Audit Committee’s investigation found errors in publicly-filed Mattel financial statements for the last two quarters of 2017, failures to properly consider and disclose such errors to the then-Chief Executive Officer (‘CEO’), Margaret Georgiadis, and the Audit Committee once they became known, and violations of auditor independence rules.”

160. The press release contained a section entitled “Mattel’s 10-Q for the Quarter Ended September 30, 2017 [] and 10-K for the Year Ended December 31, 2017 [] Contain Errors,” which stated:

Mattel’s previously reported net loss of \$603.3 million for the third quarter ended September 30, 2017 was understated by \$109 million due to an error in calculating its tax valuation allowance. The correct reported net loss for the quarter ended September 30, 2017 should have been a net loss of \$712.3 million.

A change in accounting for an intangible asset in the fourth quarter of 2017 resulted in an effective correction of the error for the 2017 annual results. However, the tax expense remained uncorrected in the Q3 2017 10-Q and was therefore overstated in the quarter ended December 31, 2017. As a result, Mattel’s previously reported loss of \$281.3 million for the quarter ended December 31, 2017 should have been reported as a net loss of \$172.3 million.

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161. The Company also admitted in the press release that “lapses in judgment by [Mattel] management” were to blame for the misstatement, and stated further that:

Mattel’s management identified the third quarter 2017 accounting error associated with its tax valuation allowance during its year-end accounting closing procedures for the quarter ended December 31, 2017. The error was not properly assessed nor were findings and conclusions documented. The error was not reported to Mattel’s then-CEO, Margaret Georgiadis, and the Audit Committee, and was also not disclosed in the 2017 10-K. The investigation revealed that a confluence of one-time events, management’s reliance on the accounting advice sought and received on the error from the lead audit engagement partner of Mattel’s outside auditor, and lapses in judgment by management contributed to these failures.

162. Mattel admitted in the press release “that there were material weaknesses in its internal control over financial reporting at the time of the preparation of its financial statements for the quarters ending on September 30, 2017 and December 31, 2017.”

163. The October 29, 2019 Form 8-K also disclosed that defendant Euteneuer would be departing the Company in six-months and that he was “informed of the transition plan on October 23, 2019,” less than a week before the release of the October 29, 2019 Form 8-K and press release.

164. With regard to defendant Abrahams, the press release stated that the:

Audit Committee’s investigation and a separate investigation by Mattel’s outside auditor concluded that certain actions in specific HR-related activities by the lead audit partner of Mattel’s outside auditor,

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namely providing recommendations on candidates for Mattel's senior finance positions, was in violation of the SEC's auditor independence rules. He also provided feedback on senior finance employees.

165. The press release added that "Mattel's outside auditor has replaced its lead audit engagement partner and certain other members of its audit team for its audit engagement with Mattel. The Audit Committee and Mattel's management support this decision."

166. Following Mattel's issuance of its Audit Committee's findings in October 2019, Whitaker recognized that the Company and PwC were attempting to minimize the issues, and the *Wall Street Journal*. On November 6, 2019, the *Wall Street Journal* published an article titled "Mattel, PwC Obscured Accounting Issues, Former Executive Says" detailing Whitaker's account of the internal control deficiencies at Mattel and PwC's cover-up of the valuation allowance misstatement. The article also reported that Abrahams had been put on administrative leave and was expected to leave PwC as a result of his conduct related to the Whistleblower Letter.

The Company's Restatement

167. On November 12, 2019, Mattel filed with the SEC its amended 2018 Form 10-K/A with restated financials (the "Restatement") and made further admissions of the Individual Defendants role in the fraud. The purpose of the Restatement was (1) to restate Mattel's previously issued financial statements for

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the three and nine-month periods ended September 30, 2017, and the Company's previously reported financial information for the three months ended December 31, 2017, to correct for material misstatements; and (2) to restate Management's Report on Internal Control over Financial Reporting based on material weaknesses in Mattel's internal controls over financial reporting.

168. Mattel confirmed in the Restatement that, contrary to its statements during the Relevant Period, its accounting suffered from multiple material weaknesses.⁵

169. Mattel also admitted in the Restatement that its internal controls were "ineffective" at the time of the preparation of its financial statements for the quarters ended September 30, 2017 and December 31, 2017 (and for subsequent periods) because its internal controls suffered from two material weaknesses.

170. Mattel admitted in the Restatement that it had a material weakness in management's control over the Company's review of its income tax valuation allowance. According to the Restatement, this material weakness was remediated during the three months ended December 31, 2018.

⁵ The Restatement defines a material weakness specifically as "a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis."

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171. Mattel also admitted in the Restatement that it had a material weakness in its monitoring control activities, and specifically that the Company failed to properly design and operate controls to assess and communicate known financial statement errors and internal control deficiencies in a timely manner to management and/or the Audit Committee. This material weakness also resulted in the Restatement, applicable to the three and nine-month periods ended September 30, 2017 and for the three months ended December 31, 2017.

172. The Restatement included “Management’s Report on Internal Control Over Financial Reporting (As Restated),” which provided:

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). Mattel’s management, including Ynon Kreiz, its principal executive officer, and Joseph J. Euteneuer, its principal financial officer, evaluated the effectiveness of Mattel’s internal control over financial reporting using the framework in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO framework). In connection with the Original Filing, Mattel included Management’s Report on Internal Control Over Financial Reporting therein, which expressed management’s conclusion that Mattel’s internal control over financial reporting was effective as of December 31, 2018. In connection with filing this Form 10-K/A for the year ended December 31, 2018, management, including Mattel’s principal executive officer and principal financial officer, reassessed the effectiveness of Mattel’s internal control over financial reporting as of December 31, 2018 based on the COSO framework. Based on that reassessment, ***management determined that Mattel did not maintain effective internal control over financial reporting as of December 31, 2018 due to the existence of the material weakness described below... We failed to properly design and operate effective monitoring control***

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activities to properly assess and communicate known financial statement errors and internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including the chief executive officer and the board of directors, as appropriate. Mattel has determined that this control deficiency constitutes a material weakness. The material weakness resulted in the restatement of Mattel's consolidated financial statements as of and for the three and nine month periods ended September 30, 2017 and financial information for the three months ended December 31, 2017, related to an accounting misstatement associated with the tax valuation allowance. Additionally, this material weakness could result in a misstatement of Mattel's consolidated financial statements or disclosures that could result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

(Emphasis added).

173. In the Restatement, PwC restated its audit report, which stated:

[I]n our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework (2013) issued by the COSO because a material weakness in internal control over financial reporting existed as of that date as the Company did not properly design and operate effective monitoring control activities to properly assess and communicate known financial statement errors and internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including the chief executive officer and the board of directors, as appropriate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described in the accompanying Management's Report on Internal Control Over Financial Reporting....

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Restatement of Management's Conclusion Regarding Internal Control over Financial Reporting

Management and we previously concluded that the Company maintained effective internal control over financial reporting as of December 31, 2018. However, management has subsequently determined that a material weakness in internal control over financial reporting related to the failure to properly design and operate effective monitoring control activities to properly assess and communicate known financial statement errors and internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including the chief executive officer and the board of directors, as appropriate, existed as of that date. Accordingly, management's report has been restated and our present opinion on internal control over financial reporting, as presented herein, is different from that expressed in our previous report.

174. Mattel also admitted in the Restatement that because of its improper consideration of an indefinite-lived intangible asset and resultant deferred tax liability in Mattel's tax valuation allowance calculation, the Company was forced to restate its financial results for the third and fourth quarters of 2017. The result of the error caused Mattel's provision for income taxes to be understated by \$109 million for the third quarter of 2017.

175. According to the Restatement, if Mattel had reported an accurate valuation allowance in the third quarter of 2017, it would have reported an allowance of \$670.9 million. Mattel covered up this error in the fourth quarter of 2017 by reclassifying the HiT IP asset as finite-lived, which also had the effect of causing Mattel's financial results to be materially misstated. Further, when the Company

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reclassified the HiT IP in the fourth quarter, it should have consequently reduced its valuation allowance by \$109 million, which would have resulted in a credit to fourth quarter income of approximately \$109 million, reducing the fourth quarter loss that Mattel originally reported. The reason Mattel never recorded this credit to income in its fourth quarter results was because the reclassification was done to bury the known error by making the treatment of the HiT IP correspond to the misstated valuation allowance that Mattel had improperly reported in the third quarter.

176. The Restatement stated further that,

On August 6, 2019, Mattel was made aware of an anonymous whistleblower letter. An independent investigation was initiated in August 2019 on matters discussed in that letter. The investigation concluded there were material tax related misstatements in the previously issued unaudited consolidated financial statements as of and for the three and nine month periods ended September 30, 2017 and previously reported unaudited consolidated financial information for the three months ended December 31, 2017 and failures to properly consider and communicate such misstatements to Mattel's then Chief Executive Officer and Audit Committee. The investigation did not find that management engaged in fraud. As it relates to the accounting misstatement, it was concluded that Mattel had failed to properly consider an indefinite-lived intangible asset in its tax valuation allowance calculation for the three months ended September 30, 2017, which caused the provision for income taxes to be understated by \$109.0 million. *In the fourth quarter of 2017, Mattel determined that the intangible asset was no longer indefinite-lived. This change resulted in an effective correction of the tax misstatement for the 2017 annual results. However, the provision for income taxes remained uncorrected for the three months ended September 30, 2017, which resulted in an overstatement of the tax expense for the three months ended December 31, 2017.*

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(Emphasis added).

177. The disclosures made in the Restatement were reiterated during a November 15, 2019 conference call with investors. For instance, Mattel’s Senior Vice President and Corporate Controller Yoon Hugh stated that,

In light of the investigation’s conclusions, management determined that there were material weaknesses that existed at the time of the preparation of our financial statements for the third and fourth quarters of 2017. One of those material weaknesses related to the control over the review of income tax valuation allowance analysis. This material weakness was remediated during the 3 months ended December 31, 2018, after enhancements in the design of the control were made and were operating effectively for a sufficient period of time as of December 31, 2018. The second material weakness related to a deficiency in monitoring control activities. Management determined this material weakness still existed as of December 31, 2018.

[REDACTED]

178. [REDACTED]

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False and Misleading Statements

187. On August 2, 2017, the Company filed with the SEC its Form 10-Q for the second quarter of 2017. The Form 10-Q was signed by Individual Defendant Johnson and included a certification from Individual Defendants Georgiadis and Farr attesting that Mattel’s “disclosure controls and procedures were effective as of June 30, 2017.” This statement was false and misleading when made because, at the time, Mattel had serious deficiencies in its internal controls and its disclosure controls and procedures were not effective.

188. On October 26, 2017, Mattel filed with the SEC its Form 10-Q for the third quarter of 2017. The Form 10-Q was signed by Individual Defendant Johnson and included a certification from Individual Defendants Georgiadis and Euteneuer attesting that Mattel’s “disclosure controls and procedures were effective as of September 30, 2017.” This statement was false and misleading when made because, at the time, Mattel had serious deficiencies in its internal controls and its disclosure controls and procedures were not effective.

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189. On February 27, 2018, Mattel filed with the SEC its Form 10-K for the fourth quarter and full year 2017. The 2017 Form 10-K was signed by Individual Defendants Georgiadis, Euteneuer, Johnson, Sinclair, Dolan, Edwards, Fergusson, Kreiz, Lewnes, Ng, Prabhu, Scarborough, and Loyd, and included a certification from Individual Defendants Georgiadis and Euteneuer attesting that Mattel’s “disclosure controls and procedures were effective as of December 31, 2017.” This statement was false and misleading when made because, at the time, Mattel had serious deficiencies in its internal controls and its disclosure controls and procedures were not effective. Moreover, the 2017 Form 10-K failed to correct the material misstatement concerning the Company’s valuation allowance in the Company’s previous Form 10-Q and fraudulently misclassified the HiT IP to cover-up the mistake.

190. On July 25, 2018, the Company filed with the SEC its Form 10-Q for the second quarter of 2018. The Form 10-Q was signed by Individual Defendant Johnson and included a certification from Individual Defendants Kreiz and Euteneuer attesting that Mattel’s “disclosure controls and procedures were effective as of June 30, 2018.” This statement was false and misleading when made because, at the time, Mattel had serious deficiencies in its internal controls and its disclosure controls and procedures were not effective. Additionally, the Form 10-Q also included the same false and misleading statements as in the 2017 Form 10-K.

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191. On October 25, 2018, the Company filed with the SEC its Form 10-Q for the third quarter of 2018. The Form 10-Q was signed by Individual Defendant Euteneuer and included a certification from Individual Defendants Kreiz and Euteneuer attesting that Mattel’s “disclosure controls and procedures were effective as of September 30, 2018.” This statement was false and misleading when made because, at the time, Mattel had serious deficiencies in its internal controls and its disclosure controls and procedures were not effective. The Form 10-Q also included the same false and misleading statements as in the 2017 Form 10-K.

192. On February 22, 2019, the Company filed with the SEC its Form 10-K for the fourth quarter and full year 2018. The Form 10-K was signed by Individual Defendants Kreiz, Euteneuer, Bradley, Cisneros, Dolan, Laursen, Lewnes, Lynch, Ng, Olian, and Prabhu, and included a certification from Individual Defendants Kreiz and Euteneuer attesting that Mattel’s “disclosure controls and procedures were effective as of December 31, 2018.” This statement was false and misleading when made because, at the time, Mattel had serious deficiencies in its internal controls and its disclosure controls and procedures were not effective. The Form 10-K also included the same false and misleading statements as in the 2017 Form 10-K.

193. On April 26, 2019, the Company filed with the SEC its Form 10-Q for the first quarter of 2019. The Form 10-Q was signed by Individual Defendant Euteneuer and included a certification from Individual Defendants Kreiz and

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Euteneuer attesting that Mattel’s “disclosure controls and procedures were effective as of March 31, 2019.” This statement was false and misleading when made because, at the time, Mattel had serious deficiencies in its internal controls and its disclosure controls and procedures were not effective. The Form 10-Q also included the same misstatements as in the 2017 Form 10-K.

194. On July 26, 2019, the Company filed with the SEC its Form 10-Q for the second quarter of 2019. The Form 10-Q was signed by Mattel’s Senior Vice President and Corporate Controller, Yoon Hugh, and included a certification from Individual Defendants Kreiz and Euteneuer attesting that Mattel’s “disclosure controls and procedures were effective as of June 30, 2019.” This statement was false and misleading when made because, at the time, Mattel had serious deficiencies with its internal controls and its disclosure controls and procedures were not effective. The Form 10-Q also included the same misstatements as in the 2017 Form 10-K.

Repurchases of Company Stock

195. During the Relevant Period, when the Company’s stock price was artificially inflated due to the false and misleading statements detailed herein, the Individual Defendants caused the Company to repurchase its own stock at prices that were artificially inflated.

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196. Approximately 1,479,167 shares of the Company's common stock were repurchased during the Relevant Period for over \$23.2 million. As the Company's stock was actually only worth \$11.31 per share during that time, the price at closing on August 9, 2019, the Company overpaid by over \$6.48 million in total.

197. According to the Company's 10-Q for the third quarter 2017, in August 2017, the Company purchased 289,305 shares of its common stock for approximately \$5.65 million, at an average price of \$19.56 per share. Based on the actual value of Mattel stock at the time, the Company overpaid approximately \$2.38 million for these repurchases.

198. The Company's 10-Q for the third quarter 2017 also reported that the Company purchased 48,922 of its own shares in September 2017 for approximately \$752,909. Based on the actual value of Mattel stock at the time, the Company overpaid approximately \$199,602 for these repurchases.

199. According to the Company's 2017 10-K, during the three month period ended December 31, 2017, the Company purchased 75,831 shares of its common stock for approximately \$1.12 million, at an average price of \$14.80 per share. Based on the actual value of Mattel stock at the time, the Company overpaid approximately \$264,650 for these repurchases.

200. According to the Company's Form 10-Q for the first quarter of 2018, during the three-month period ended March 31, 2018, the Company purchased

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103,456 shares of its common stock for approximately \$1.63 million, at an average price of \$15.79 per share. Based on the actual value of Mattel stock at the time, the Company overpaid approximately \$463,483 for these repurchases.

201. According to the Company's Form 10-Q for the second quarter of 2018, during the three-month period ended June 30, 2018, the Company purchased 49,561 shares of its common stock for approximately \$745,397, at an average price of \$15.04 per share. Based on the actual value of Mattel stock at the time, the Company overpaid approximately \$184,863 for these repurchases.

202. According to the Company's Form 10-Q for the third quarter 2018, during the three-month period ended September 30, 2018, the Company purchased 424,699 shares of its common stock for approximately \$6.7 million, at an average price of \$15.79 per share. Based on the actual value of Mattel stock at the time, the Company overpaid approximately \$1.9 million for these repurchases.

203. According to the Company's 2018 10-K, in October 2018, the Company purchased 7,198 shares of its common stock for approximately \$97,964, at an average price of \$13.61 per share. Based on the actual value of Mattel stock at the time, the Company overpaid approximately \$16,555 for these repurchases.

204. Mattel's 2018 10-K also reported that, in November 2018, the Company purchased 1,363 shares of its common stock for approximately \$18,945,

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at an average price of \$13.90 per share. Based on the actual value of Mattel stock at the time, the Company overpaid approximately \$3,530 for these repurchases.

205. According to the Company's Form 10-Q for the first quarter of 2019, during the three-month period ended March 31, 2019, the Company purchased 29,977 shares of its common stock for approximately \$385,204, at an average price of \$12.85 per share. Based on the actual value of Mattel stock at the time, the Company overpaid approximately \$46,165 for these repurchases.

206. The Company's Form 10-Q for the first quarter of 2019 also reported that, in April 2019, the Company purchased 900 shares of its common stock for approximately \$11,241, at an average price of \$12.49 per share. Based on the actual value of Mattel stock at the time, the Company overpaid approximately \$1,062 for these repurchases.

207. According to the Company's Form 10-Q for the third quarter of 2019, in July 2019, the Company purchased 7,901 shares of its common stock for approximately \$113,695, at an average price of \$14.39 per share. Based on the actual value of Mattel stock at the time, the Company overpaid approximately \$24,335 for these repurchases.

208. The Company's Form 10-Q for the third quarter of 2019 also reported that, in August 2019, the Company purchased 440,054 shares of its common stock for approximately \$5.97 million, at an average price of \$13.57 per share. Based on

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the actual value of Mattel stock at the time, the Company overpaid approximately \$994,522 for these repurchases.

Additional Allegations Against the PwC Defendants

209. PwC falsely certified that it had audited Mattel's financial statements and internal controls for 2017 and 2018 in accordance with controlling auditing standards.

210. Among other things, PwC's statements misrepresented that (1) it conducted its audits in compliance with PCAOB auditing standards; (2) it had a reasonable basis for its opinions that the Company's internal controls were effective and contained no material weaknesses; and (3) Mattel's financial statements complied with GAAP.

211. PwC violated PCAOB auditing standards by failing to report known material weaknesses starting in the second quarter of 2017.

212. PwC knowingly made materially false and misleading statements in Mattel's 2017 and 2018 Form 10-Ks. For instance, in each of Mattel's originally-issued 2017 and 2018 Form 10-Ks, PwC stated that Mattel's internal controls over financial reporting were effective.

213. PwC violated PCAOB auditing standards when it did not require Mattel to restate its third quarter 2017 Form 10-Q. After the PwC Defendants learned no later than January 2018 that Mattel's third quarter 2017 Form 10-Q contained a

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material misstatement, PCAOB auditing standards mandated that PwC require Mattel to restate those financial statements. Once PwC was informed of the \$109 million material misstatement, PwC was required to advise Mattel to restate its results of operations for the third quarter of 2017. Instead, PwC advised Mattel not to restate the results created a method to conceal the error, namely to reclassify the economic life of the HiT IP intangible asset to match its improper treatment in the calculation of the allowance.

214. Further, by conspiring to cover up this material misstatement, the PwC Defendants also violated PCAOB standards of independence and due care.

215. Mattel's relations with the PwC Defendants violated Auditor Independence requirements and the Audit Committee Charter.

Scienter Holdings in the Securities Action Opinion

216. The Securities Action Opinion held that plaintiff adequately alleged scienter against the Securities Defendants under the heightened pleading standards of the PLSRA, based, among other things, on the following considerations:

- “Plaintiffs provide additional allegations to support a strong inference that the Mattel Defendants’ purported ‘lapses in judgment’ concerning the financial results amounted to deliberate recklessness or intent. For example, draft financial statements provided to Georgiadis and Euteneuer days before results issued ‘varied significantly by hundreds of millions of dollars,’ yet those results were given to investors without delay or disclaimer.” (Securities Action Opinion, 15).

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- “Plaintiffs provide particularized allegations about meetings involving Mattel’s leadership, legal team, and PwC resulting in a supposed consensus ‘that Mattel’s third quarter 2017 financial statements contained a material misstatement’ and ‘would have to be restated,’ yet decisionmakers ‘failed to report the known errors and material weaknesses to the Audit Committee despite the fact that they met with the Audit Committee specifically to discuss the accuracy of the Company’s 2017 financial statements, including the existence of any material weaknesses, so that the Audit Committee could approve their filing with the SEC.’” (*Id.* at 15-16).
- “The timing and nature of Euteneuer’s departure from Mattel further supports a scienter inference, as Mattel informed him of the transition ‘less than a week before the release of the October 29, 2019 Form 8-K...’” (*Id.* at 16).
- “The severity of Mattel’s control weakness as recounted above, and its persistence well after PwC’s involvement, supports scienter...So too does the contention that PwC’s top brass for Mattel acknowledged the gravity of the misstatement, but strenuously worked to avoid disclosures and a restatement.” (*Id.* at 20-21).
- “Abrahams’ departure from PwC may also be considered one piece of the scienter puzzle given its proximity to his removal from Mattel’s audit team.” (*Id.* at 21).

DAMAGE TO MATTEL

217. As a direct and proximate result of the Individual Defendants’ actions, Mattel has expended, and will continue to expend, significant sums of money, including:

- (i) the costs of internally investigation, defending, and potentially paying class wide liability in the Securities Action;
- (ii) \$6.48 million in Company stock repurchase overpayments during the Relevant Period;
- (iii) any loss suffered in connection with the Company’s termination of its \$250 million notes offering;

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- (iv) expenditures related to the Company's investigation into the Whistleblower Letter, including payments to outside counsel, as well as the costs associated with preparing and issuing the Restatement;
- (v) expenditures related to investigations conducted by the SEC and any other government or regulatory body related to the Whistleblower Letter or the allegations alleged herein;
- (vi) costs incurred from compensating the Individual Defendants during the Relevant Period; and
- (vii) irreparable reputational harm and loss of goodwill.

DERIVATIVE AND DEMAND FUTILITY ALLEGATIONS

218. Plaintiff brings this action derivatively for the benefit of Mattel to redress injuries suffered and to be suffered as a proximate result of the Individual Defendants' breaches of fiduciary duties and other violations of law.

219. Plaintiff will adequately and fairly represent the interests of Mattel and its stockholders in enforcing and prosecuting its rights.

220. Plaintiff has been a continuous beneficial owner of Mattel common stock since 2015.

Demand Futility

221. Plaintiff incorporates by reference and realleges each and every allegation contained above as though fully set forth herein.

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222. At the time this action was commenced, the Company's ten-person Board consisted of the nine Director Defendants⁶ and Non-Party D. Ferguson (collectively, the "Directors"). Accordingly, Plaintiff needs only to allege demand futility as to five of the ten directors that were on the Board at the time of the filing of this Complaint. As detailed below, the Directors are incapable of making an independent and disinterested decision to institute and vigorously prosecute. As a result, demand upon the current Board to institute this action is not necessary because such a demand would have been and would be a futile and useless act.

223. Each of the Director Defendants were members of the Board during the time of the false and misleading statements referenced above were disseminated (*i.e.*, the Relevant Period), and as such had a fiduciary duty to ensure that the Company's SEC filings, press releases, and other public statements and presentations concerning its business, operations, prospects, internal controls, and financial statements were accurate. The Director Defendants breached that duty and each face a substantial likelihood of liability for their individual misconduct and, as a result, any demand upon them is futile.

224. Moreover, the Director Defendants owed a duty to, in good faith and with due diligence, exercise reasonable inquiry, oversight, and supervision to ensure

⁶ For ease of reference, the Director Defendants are Kreiz, Bradley, Cisneros, Dolan, Laursen, Lewnes, Lynch, Ng, and Olian.

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that the Company's internal controls were sufficiently robust and effective (and/or were being implemented effectively), and to ensure that the Board's duties were being discharged in good faith and with the required diligence and due care. Instead, the Director Defendants knowingly and/or with reckless disregard reviewed, authorized, and/or caused the publication of the materially false and misleading statements discussed above that caused the Company's stock to trade at artificially-inflated prices and misrepresented the financial health of Mattel.

225. The Director Defendants' making or authorization of these false and misleading statements, failure to timely correct such statements, failure to recognize revenue for certain transactions, failure to take necessary and appropriate steps to ensure that the Company's internal controls over financial reporting were sufficiently robust and effective (and/or were being implemented effectively), and failure to take necessary and appropriate steps to ensure that the Board's duties were being discharged in good faith and with the required diligence, all constitute breaches of fiduciary duties and have resulted in the Director Defendants facing a substantial likelihood of liability.

226. In addition, the Director Defendants face a substantial likelihood of liability for breaching his or her fiduciary duties by making or authorizing the false and misleading statements that inflated the Company's stock price. If the Director Defendants were to bring a suit on behalf of Mattel to recover damages sustained as

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a result of this misconduct, they would expose themselves to significant liability.

This is something they will not do. For this reason, demand is futile.

227. Demand as to Non-Party D. Ferguson is also futile because, among other reasons, she cannot independently evaluate a decision to sue the Director Defendants, *i.e.*, every single other member of the Board.

228. The Directors, and in particular the Director Defendants, each conducted little, if any, oversight of the Company's engagement in the scheme to manipulate its finances and to make false and misleading statements, consciously disregarded their duties to monitor such controls over reporting and engagement in the scheme, and consciously disregarded their duties to protect corporate assets. The Current Defendants each collect substantial compensation from the Company.

229. The Director Defendants breached their fiduciary duties, are not independent or disinterested, and thus demand upon each of them is futile and, therefore, excused.

230. Whitaker reported that critical documents were scattered around Mattel's headquarters with no electronic backups, senior executives did not understand and could not reconcile previous financial documents upon which they had signed off or the Individual Defendants' process for setting and confirming Mattel's tax valuation allowance. According to Whitaker, "If you just walked around the halls, you would know that this place was riddled with issues and alarms

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were going off everywhere.” The Individual Defendants were also on notice of accounting issues related to its prior allegedly improper inventory practices, which were at issue in the 2017 Securities Class Action. Yet, in the face of these red flags, each of the Director Defendants consciously disregarded their duties as Board members to implement and maintain a system to monitor the Company’s internal tax and accounting controls.

231. Director Defendants Dolan, Kreiz, Lewnes, Ng, and Loyd, signed the Company’s 2017 Form 10-K and each of the Director Defendants signed the Company’s 2018 Form 10-K, and falsely attested to the adequacy of Mattel’s internal controls and contained the materially misstated valuation allowance and fraudulently reclassified HiT IP.

232. Because the Director Defendants face a substantial likelihood of liability for participating in the breaches of fiduciary duty detailed herein and because they comprise an overwhelming majority of the current Board, the Director Defendants and indeed the entire Board cannot impartially consider a demand to institute this litigation against the Individual Defendants. As a result, demand is futile and therefore excused.

233. Demand is also futile in the context of Plaintiff’s aiding and abetting breach of fiduciary duty claims against the PwC Defendants because those claims are predicated on the same facts as the claims against the Individual Defendants. In

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order to bring suit against the PwC Defendants, the Director Defendants would be forced to implicate and sue themselves, and concede their liability, which they will not do. As a result, demand is futile and therefore excused.

234. The Current Directors could not impartially consider a demand to institute this litigation because it would undercut or compromise the defenses of the Securities Class Action Defendants in the Securities Action. Accordingly, the Current Directors have a conflict of interest and, as a result, demand is futile.

235. Defendants Bradley, Lynch, Ng, and Prabhu (the “Audit Committee Defendants”) served as members of the Audit Committee during the Relevant Period. Pursuant to the Company’s Audit Committee Charter, the Audit Committee Defendants are responsible for overseeing, among other things, the Company’s accounting and financial reporting processes, the independence, qualifications, and performance of Mattel’s independent auditor, and the Company’s compliance with legal and regulatory requirements. The Audit Committee Defendants failed to ensure the integrity of the Company’s accounting and financial reporting processes, as they are charged to do under the Audit Committee Charter, allowing the Company to engage in improper accounting practices and to issue false and misleading financial statements with the SEC for nearly two years. Thus, the Audit Committee Defendants breached their fiduciary duties, are not disinterested, and demand is futile and therefore excused as to them.

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236. Three of the Director Defendants have served on the Board for nearly a decade or longer. These longstanding business and personal relationships with each other, the Individual Defendants, and PwC preclude these Director Defendants (and the others who are beholden to them) from acting independently and in the best interests of the Company and the shareholders. Thus, demand upon the Directors would be futile.

237. Additional demand futility allegations concerning the Director Defendants to follow.

238. Defendant Kreiz has served as Chairman of the Board and CEO of the Company since April 26, 2018. As Chairman of the Board, defendant Kreiz conducted little, if any, oversight of the Company's engagement in the scheme to manipulate its finances and to make false and misleading statements, consciously disregarded his duties to monitor such controls over reporting and engagement in the scheme, and consciously disregarded his duties to protect corporate assets. According to the Company's public filings, defendant Kreiz received \$220,002 in 2018, \$16,955,660 in 2019, and \$15,623,432 in 2020 in compensation from the Company. Defendant Kreiz breached his fiduciary duties, is not independent or disinterested, and thus demand upon him is futile and, therefore, excused.

239. Defendant Bradley has served as a director of the Company since May 17, 2018. As a director, defendant Bradley conducted little, if any, oversight of the

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Company's engagement in the scheme to manipulate its finances and to make false and misleading statements, consciously disregarded his duties to monitor such controls over reporting and engagement in the scheme, and consciously disregarded his duties to protect corporate assets. According to the Company's public filings, defendant Bradley received \$249,995 in 2018, \$249,996 in 2019, and \$269,997 in 2020 in compensation from the Company. Defendant Bradley breached his fiduciary duties, is not independent or disinterested, and thus demand upon him is futile and, therefore, excused.

240. Defendant Cisneros has served as a director of the Company since August 13, 2018. As a director, defendant Cisneros conducted little, if any, oversight of the Company's engagement in the scheme to manipulate its finances and to make false and misleading statements, consciously disregarded his duties to monitor such controls over reporting and engagement in the scheme, and consciously disregarded his duties to protect corporate assets. According to the Company's public filings, defendant Cisneros received \$200,003 in 2018, \$247,496 in 2019, and \$247,497 in 2020 in compensation from the Company. Defendant Cisneros breached his fiduciary duties, is not independent or disinterested, and thus demand upon him is futile and, therefore, excused.

241. Defendant Dolan has served as a director of the Company since 2004. As a director, defendant Dolan conducted little, if any, oversight of the Company's

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engagement in the scheme to manipulate its finances and to make false and misleading statements, consciously disregarded his duties to monitor such controls over reporting and engagement in the scheme, and consciously disregarded his duties to protect corporate assets. According to the Company's public filings, defendant Dolan received \$330,010 in 2017, \$319,995 in 2018, \$319,996 in 2019, and \$304,997 in 2020 in compensation from the Company. Defendant Dolan breached his fiduciary duties, is not independent or disinterested, and thus demand upon him is futile and, therefore, excused.

242. Defendant Laursen has served as a director of the Company since May 17, 2018, and as the Company's interim Executive Director from October 2018 to September 2019. As a director, defendant Laursen conducted little, if any, oversight of the Company's engagement in the scheme to manipulate its finances and to make false and misleading statements, consciously disregarded his duties to monitor such controls over reporting and engagement in the scheme, and consciously disregarded his duties to protect corporate assets. According to the Company's public filings, defendant Laursen received \$389,161 in 2018, \$378,486 in 2019, and \$247,497 in 2020 in compensation from the Company. Defendant Laursen breached his fiduciary duties, is not independent or disinterested, and thus demand upon him is futile and, therefore, excused.

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243. Defendant Lewnes has served as a director of the Company since 2015. As a director, defendant Lewnes conducted little, if any, oversight of the Company's engagement in the scheme to manipulate its finances and to make false and misleading statements, consciously disregarded his duties to monitor such controls over reporting and engagement in the scheme, and consciously disregarded his duties to protect corporate assets. According to the Company's public filings, defendant Lewnes received \$270,010 in 2017, \$269,995 in 2018, \$269,996 in 2019, and \$269,997 in 2020 in compensation from the Company. Defendant Lewnes breached his fiduciary duties, is not independent or disinterested, and thus demand upon him is futile and, therefore, excused.

244. Defendant Lynch has served as a director of the Company since August 13, 2018. As a director, defendant Lynch conducted little, if any, oversight of the Company's engagement in the scheme to manipulate its finances and to make false and misleading statements, consciously disregarded his duties to monitor such controls over reporting and engagement in the scheme, and consciously disregarded his duties to protect corporate assets. According to the Company's public filings, defendant Lynch received \$215,003 in 2018, \$264,996 in 2019, and \$264,997 in 2020 in compensation from the Company. Defendant Lynch breached his fiduciary duties, is not independent or disinterested, and thus demand upon him is futile and, therefore, excused.

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245. Defendant Ng has served as a director of the Company since 2006. As a director, defendant Ng conducted little, if any, oversight of the Company's engagement in the scheme to manipulate its finances and to make false and misleading statements, consciously disregarded his duties to monitor such controls over reporting and engagement in the scheme, and consciously disregarded his duties to protect corporate assets. According to the Company's public filings, defendant Ng received \$280,010 in 2017, \$279,995 in 2018, \$279,996 in 2019, and \$279,997 in 2020 in compensation from the Company. Defendant Ng breached his fiduciary duties, is not independent or disinterested, and thus demand upon him is futile and, therefore, excused.

246. Defendant Olian has served as a director of the Company since September 13, 2018. As a director, defendant Olian conducted little, if any, oversight of the Company's engagement in the scheme to manipulate its finances and to make false and misleading statements, consciously disregarded his duties to monitor such controls over reporting and engagement in the scheme, and consciously disregarded his duties to protect corporate assets. According to the Company's public filings, defendant Olian received \$195,005 in 2018, \$254,996 in 2019, and \$254,997 in 2020 in compensation from the Company. Defendant Olian breached his fiduciary duties, is not independent or disinterested, and thus demand upon him is futile and, therefore, excused.

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247. Mattel has been and will continue to be exposed to significant losses due to the wrongdoing complained of herein, yet the Directors have not filed any lawsuits against themselves or others who were responsible for that wrongful conduct to attempt to recover for Mattel any part of the damages Mattel suffered and will continue to suffer thereby. Thus, any demand upon the current Board would be futile.

COUNT I
Breach of Fiduciary Duty
Against the Individual Defendants

248. Plaintiff incorporates by reference and realleges each and every allegation contained above as though fully set forth herein.

249. The Individual Defendants owe the Company fiduciary obligations. By reason of their fiduciary relationships, the Individual Defendants owed and owe the Company the highest obligations of good faith, fair dealing, loyalty, and due care.

250. The Individual Defendants, together and individually, violated and breached their fiduciary duties of candor, good faith, and loyalty.

251. The Individual Defendants made materially false misleading statements and omissions concerning (i) the effectiveness of Mattel's internal controls and procedures; (ii) the accuracy of Mattel's financial statements, including its reported tax valuation allowance, net income/loss and earnings per share; (iii) the reclassification of the HiT IP asset in the fourth quarter of 2017; (iv) Mattel's

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compliance with GAAP; and (v) PwC's auditing of Mattel's financial statements and its audit reports.

252. Moreover, the Individual Defendants willfully ignored the obvious problems with the Company's internal controls, practices, and procedures and failed to make a good faith effort to correct the problems or prevent their recurrence.

253. As a direct and proximate result of the Individual Defendants' breaches of their fiduciary obligations, Mattel has sustained significant damages, as alleged herein. As a result of the misconduct alleged herein, the Individual Defendants are liable to the Company.

254. Plaintiff, on behalf of Mattel, has no adequate remedy at law.

COUNT II
Unjust Enrichment Against the Individual Defendants

255. Plaintiff incorporates by reference and realleges each and every allegation contained above as though fully set forth herein.

256. By their wrongful acts, violations of law, and false and misleading statements and omissions of material fact that they made and/or caused to be made, the Individual Defendants were unjustly enriched at the expense of, and to the detriment of, Mattel.

257. The Individual Defendants either benefitted financially from the improper conduct and their engaging in lucrative insider transactions tied to the false

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and misleading statements, or received bonuses, stock options, or similar compensation from Mattel that was tied to the performance or artificially inflated valuation of Mattel or received compensation that was unjust in light of the Individual Defendants' bad faith conduct.

258. Plaintiff, on behalf of Mattel, seeks an order disgorging all profits, including from insider transactions, benefits, and other compensation, including any performance-based or valuation-based compensation, obtained by the Individual Defendants due to their wrongful conduct and breach of their fiduciary and contractual duties.

259. Plaintiff, on behalf of Mattel, has no adequate remedy at law.

COUNT III
Aiding and Abetting Breaches of Fiduciary Duty
Against the Individual Defendants and PwC Defendants

260. Plaintiff incorporates by reference and realleges each and every allegation contained above, as though fully set forth herein.

261. By encouraging and accomplishing the illegal and improper transactions alleged herein and concealing them from the public, the Individual Defendants and the PwC Defendants have each encouraged, facilitated and advanced their breaches of their fiduciary duties. In so doing, the Individual Defendants and the PwC Defendants have each aided and abetted, conspired and schemed with one

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another to breach their fiduciary duties, waste the Company's corporate assets and engage in the ultra vires and illegal conduct complained of herein.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff prays for relief and judgment, as follows:

A. Declaring that Plaintiff may maintain this derivative action on behalf of Mattel and that Plaintiff is a proper and adequate representative of the Company;

B. Awarding the amount of damages sustained by the Company as a result of the Individual Defendants' breaches of fiduciary duties and unjust enrichment;

C. Directing Mattel to take all necessary actions to reform and improve its corporate governance and internal procedures to comply with applicable laws and to protect Mattel and its stockholders from a repeat of the damaging events described herein, including, but not limited to,

- strengthening the Board's supervision of operations and compliance with applicable state and federal laws and regulations;
- strengthening the Company's internal reporting and financial disclosure controls;
- developing and implementing procedures for greater shareholder input into the policies and guidelines of the Board; and
- strengthening the Company's internal operational control functions.

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D. Awarding to Mattel restitution from the Individual Defendants, and each of them; Awarding to Plaintiff the costs and disbursements of the action, including reasonable attorneys' fees, accountants' and experts' fees, costs, and expenses; and

E. Granting such other and further relief as the Court deems just and proper.

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RIGRODSKY LAW, P.A.

By: /s/ Seth D. Rigrodsky
Seth D. Rigrodsky (#3147)
Gina M. Serra (#5387)
Herbert Mondros (#3308)
300 Delaware Avenue, Suite 210
Wilmington, DE 19801
(302) 295-5310

GRABAR LAW OFFICE
Joshua H. Grabar, Esq.
One Liberty Place
1650 Market Street, Suite 3600
Philadelphia, PA 19103
Telephone: 267-507-6085
Email: jgrabar@grabarlaw.com

Attorneys for Plaintiff