

UNITED STATES OF AMERICA  
BEFORE THE  
SECURITIES AND EXCHANGE COMMISSION

ADMINISTRATIVE PROCEEDING  
File No. 3-21214

IN THE MATTER OF

JOSHUA ABRAHAMS, CPA,  
RESPONDENT.

**ANSWER OF RESPONDENT  
JOSHUA ABRAHAMS TO  
ORDER INSTITUTING PUBLIC  
ADMINISTRATIVE  
PROCEEDINGS PURSUANT TO  
SECTION 4C OF THE  
SECURITIES EXCHANGE ACT  
OF 1934, AND RULE 102(e) OF  
THE COMMISSION'S RULES OF  
PRACTICE**

Pursuant to Rule 220 of the Securities and Exchange Commission's ("SEC" or the "Commission") Rules of Practice (17 C.F.R. § 201.220), Respondent Joshua Abrahams ("Mr. Abrahams"), through his undersigned counsel, respectfully submits this Answer to the Order Instituting Public Administrative Proceedings ("OIP") dated October 21, 2022.

**INTRODUCTORY STATEMENT**

By answering the allegations below, Mr. Abrahams does not intend to waive his right to amend this Answer to provide such substantive answers and affirmative defenses, if necessary.

**ANSWER**

**I.**

Section I of the OIP asserts legal conclusions and/or a statement of the action that do not require a response. Should a response be required, Mr. Abrahams denies the allegations.

## II.

1. Answering Paragraph 1 of the OIP, Mr. Abrahams states that Mattel, Inc.'s ("Mattel") restated financial statements for the third and fourth quarters of 2017 speak for themselves and are the best evidence of their contents.

2. Answering Paragraph 2 of the OIP, Mr. Abrahams admits that he is a certified public accountant ("CPA") and that he formerly served as the lead engagement partner for Mattel. Except as expressly admitted, Mr. Abrahams denies the remaining allegations in this paragraph.

3. Mr. Abrahams denies all allegations in Paragraph 3 of the OIP.

4. Mr. Abrahams denies all allegations in Paragraph 4 of the OIP.

5. Mr. Abrahams admits all allegations in Paragraph 5 of the OIP.

6. Mr. Abrahams admits all allegations in Paragraph 6 of the OIP.

7. Answering Paragraph 7 of the OIP, Mr. Abrahams admits that at the end of Mattel's third quarter in 2017, Mattel recorded a valuation allowance against deferred tax assets. The remaining allegations assert legal conclusions or accounting principles that do not require a response.

8. Answering Paragraph 8 of the OIP, Mr. Abrahams lacks knowledge or information sufficient to form a belief as to the truth of the allegation that Mattel had never taken a valuation allowance prior to Q3 2017, and denies the allegation on that basis. Mr. Abrahams admits that as of Q3 2017, Mattel had suffered three years of cumulative losses, and that in September 2017, Mattel's largest customer declared bankruptcy. Mr. Abrahams also admits that after consulting with its national office, PricewaterhouseCoopers LLP's ("PwC") engagement team informed Mattel that it would need to take a valuation allowance, and that Mattel personnel

began calculating the valuation allowance. Mr. Abrahams further admits that at that time, Mattel had no internal control specifically related to calculating a valuation allowance. Regarding the allegations that a purported material weakness was not remediated until the quarter ended December 31, 2018, Mr. Abrahams states that Mattel's restated financial statements for the third and fourth quarters of 2017 speak for themselves and are the best evidence of their contents. Mr. Abrahams further admits that, in mid-October 2017, a PwC tax manager identified a \$129 million error because a deferred tax liability related to goodwill had been included in the initial calculation of the valuation allowance. Mr. Abrahams states that the allegations that a deferred tax liability should not have been used to lower the valuation allowance because goodwill is an indefinite-lived asset assert legal conclusions or accounting principles that do not require a response. Mr. Abrahams further admits that the error in the initial valuation allowance calculation was identified and corrected before the relevant internal control finished executing and before Mattel filed its Q3 2017 Form 10-Q. Except as expressly admitted, Mr. Abrahams denies the remaining allegations in this paragraph.

9. Answering Paragraph 9 of the OIP, Mr. Abrahams admits that he knew of the \$129 million calculation error and that he did not communicate this error or any associated control deficiency to Mattel's Audit Committee because it was identified and corrected before the relevant internal control finished executing and before Mattel filed its Q3 2017 Form 10-Q. Except as expressly admitted, Mr. Abrahams denies the remaining allegations in this paragraph.

10. Mr. Abrahams admits the allegation in Paragraph 10 of the OIP that Mattel classified the Thomas the Tank Engine asset ("Thomas") as an indefinite-lived asset in Q3 2017. Mr. Abrahams lacks knowledge or information sufficient to form a belief as to the truth of the allegation regarding when Mattel discovered the purported \$109 million error, and denies the

allegation on that basis. Mr. Abrahams admits that Mattel informed him in January 2018 that Mattel's tax department accounted for Thomas as a definite-lived asset and used a related deferred tax liability to reduce the amount of the valuation allowance by \$109 million. Except as expressly admitted, Mr. Abrahams denies the remaining allegations in this paragraph.

11. Answering Paragraph 11 of the OIP, Mr. Abrahams lacks knowledge or information sufficient to form a belief as to the truth of the allegations that Mattel's tax director discovered the purported error on Saturday, January 13, and informed PwC's tax partners on the engagement, and denies the allegations on that basis. Mr. Abrahams admits that PwC's senior tax partner on the engagement sent an email to the junior tax partner with possible options to evaluate the purported \$109 million error. Mr. Abrahams lacks knowledge or information sufficient to form a belief as to the truth of the allegations that on Monday January 15, this Mattel tax director informed others in Mattel's tax department, that Mattel's controller's office, along with the head of tax and head of internal audit, started researching the issue and held a series of internal meetings, and denies the allegations on that basis. Mr. Abrahams admits that Mattel had already decided to evaluate whether Thomas should be reclassified prior to the discovery of the purported \$109 million error. Mr. Abrahams lacks knowledge or information sufficient to form a belief as to the truth of the allegations that on January 16, the head of Mattel's tax department informed Mattel's CFO of the purported error, and denies the allegations on that basis. Mr. Abrahams denies that PwC's tax partners first informed him of the purported error. Mr. Abrahams lacks knowledge or information sufficient to form a belief as to the truth of the allegations that on January 17, after consulting with Mr. Abrahams and Mattel's internal accounting team, both of whom recommended that Thomas should be reclassified, Mattel's CFO decided that Mattel should reclassify Thomas, and denies the allegations on that basis. Mr.

Abrahams admits that Mattel reclassified the Thomas asset as of October 1, 2017 (the start of Q4 2017) from indefinite-lived to definite-lived. Mr. Abrahams lacks knowledge or information sufficient to form a belief as to the truth of the allegations that Mattel's CFO did not inform Mattel's CEO of the purported \$109 million error, and denies the allegations on that basis. Mr. Abrahams denies the allegations that the purported \$109 million error exceeded PwC's overall materiality threshold of \$21 million for the audit, and that he failed to verify that the engagement team documented the purported \$109 million error, any related materiality analysis, and any associated control deficiency analysis in its workpapers. Regarding the last sentence in this paragraph, Mr. Abrahams states that the engagement team's workpapers speak for themselves and are the best evidence of their contents. Except as expressly admitted, Mr. Abrahams denies the remaining allegations in this paragraph.

12. Mr. Abrahams admits the allegations in Paragraph 12 of the OIP that Mattel's Audit Committee met in late January 2018 to discuss year-end results and that Mr. Abrahams made PwC's presentation to the Audit Committee. Mr. Abraham states that PwC identified a significant risk in the evaluation of *whether* Mattel would be required to record a valuation allowance, but not in the quantification of that allowance. Mr. Abrahams further states that he did not believe that the purported \$109 million error was material. Mr. Abrahams further states that under PCAOB Auditing Standards, Mr. Abrahams was not required to inform the Audit Committee of non-material issues. Except as expressly admitted, Mr. Abrahams denies the remaining allegations in this paragraph.

13. Answering Paragraph 13 of the OIP, Mr. Abrahams admits that he told PwC's engagement quality review partner of the purported \$109 million error. Mr. Abrahams further admits that he informed the quality review partner that Mattel believed the purported error was

not material and would not be important to investors because the affected items were nonrecurring, it was a non-cash error, and the error did not hit key financial metrics. Mr. Abrahams further admits that the quality review partner concurred with the conclusion on materiality. Except as expressly admitted, Mr. Abrahams denies the remaining allegations in this paragraph.

14. Answering Paragraph 14 of the OIP, Mr. Abrahams admits that Mattel terminated its pending \$250 million senior notes offering, and that its Audit Committee initiated an independent internal investigation. Regarding the remaining allegations in this paragraph, Mr. Abrahams states that Mattel's August 8, 2019 Form 8-K speaks for itself and is the best evidence of its contents. Except as expressly admitted, Mr. Abrahams denies the remaining allegations in this paragraph.

15. Answering Paragraph 15 of the OIP, Mr. Abrahams admits that the fiscal year end 2017 financial statements did not need to be restated because the Q3 understatement and Q4 overstatement self-corrected the error for the fiscal year ended December 31, 2017. Regarding the remaining allegations in this paragraph, Mr. Abrahams states that Mattel's October 29, 2019 announcement and November 12, 2019 Form 10-K/A speak for themselves and are the best evidence of their contents. Except as expressly admitted, Mr. Abrahams denies the remaining allegations in this paragraph.

16. Answering Paragraph 16 of the OIP, Mr. Abrahams states that Mattel's Form 10-K/A speaks for itself and is the best evidence of its contents. Except as expressly admitted, Mr. Abrahams denies the remaining allegations in this paragraph.

17. Mr. Abrahams denies all allegations in Paragraph 17 of the OIP.

18. Mr. Abrahams states that Paragraph 18 of the OIP asserts legal conclusions or accounting principles that do not require a response.

19. Mr. Abrahams states that Paragraph 19 of the OIP asserts legal conclusions or accounting principles that do not require a response.

20. Mr. Abrahams states that Paragraph 20 of the OIP asserts legal conclusions or accounting principles that do not require a response.

21. Mr. Abrahams states that Paragraph 21 of the OIP asserts legal conclusions or accounting principles that do not require a response.

22. Mr. Abrahams states that Paragraph 22 of the OIP asserts legal conclusions or accounting principles that do not require a response.

23. Mr. Abrahams states that Paragraph 23 of the OIP asserts legal conclusions or accounting principles that do not require a response.

24. Answering Paragraph 24 of the OIP, Mr. Abrahams admits that he knew about the \$129 million error, and that there is no documentation of the error in PwC's Q3 2017 review workpapers because the error was identified and corrected before the relevant internal control finished executing and before Mattel filed its Q3 2017 Form 10-Q. Except as expressly admitted, Mr. Abrahams denies the remaining allegations in this paragraph.

25. Mr. Abrahams denies all allegations in Paragraph 25 of the OIP.

26. Mr. Abrahams states that Paragraph 26 of the OIP asserts legal conclusions or accounting principles that do not require a response.

27. Mr. Abrahams states that Paragraph 27 of the OIP asserts legal conclusions or accounting principles that do not require a response.

28. Answering Paragraph 28 of the OIP, Mr. Abrahams admits that PwC issued clean opinions on Mattel's 2017 and 2018 internal controls. Except as expressly admitted, Mr. Abrahams denies the remaining allegations in this paragraph.

29. Mr. Abrahams states that Paragraph 29 of the OIP asserts legal conclusions or accounting principles that do not require a response.

30. Mr. Abrahams states that Paragraph 30 of the OIP asserts legal conclusions or accounting principles that do not require a response.

31. Mr. Abrahams states that Paragraph 31 of the OIP asserts legal conclusions or accounting principles that do not require a response.

32. Mr. Abrahams states that Paragraph 32 of the OIP asserts legal conclusions or accounting principles that do not require a response.

33. Mr. Abrahams denies all allegations in Paragraph 33 of the OIP.

34. Mr. Abrahams states that Paragraph 34 of the OIP asserts legal conclusions or accounting principles that do not require a response.

35. Mr. Abrahams states that Paragraph 35 of the OIP asserts legal conclusions or accounting principles that do not require a response.

36. Mr. Abrahams states that Paragraph 36 of the OIP asserts legal conclusions or accounting principles that do not require a response.

37. Mr. Abrahams states that Paragraph 37 of the OIP asserts legal conclusions or accounting principles that do not require a response.

38. Mr. Abrahams denies all allegations in Paragraph 38 of the OIP.

39. Mr. Abrahams states that Paragraph 39 of the OIP asserts legal conclusions or accounting principles that do not require a response.

40. Mr. Abrahams states that Paragraph 40 of the OIP asserts legal conclusions or accounting principles that do not require a response.

41. Mr. Abrahams states that Paragraph 41 of the OIP asserts legal conclusions or accounting principles that do not require a response.

42. Mr. Abrahams states that Paragraph 42 of the OIP asserts legal conclusions or accounting principles that do not require a response.

43. Mr. Abrahams states that Paragraph 43 of the OIP asserts legal conclusions or accounting principles that do not require a response.

44. Mr. Abrahams states that Paragraph 44 of the OIP asserts legal conclusions or accounting principles that do not require a response.

45. Mr. Abrahams states that Paragraph 45 of the OIP asserts legal conclusions or accounting principles that do not require a response.

46. Mr. Abrahams denies all allegations in Paragraph 46 of the OIP.

47. Mr. Abrahams states that Paragraph 47 of the OIP asserts legal conclusions or accounting principles that do not require a response.

48. Mr. Abrahams states that Paragraph 48 of the OIP asserts legal conclusions or accounting principles that do not require a response.

49. Answering Paragraph 49 of the OIP, Mr. Abrahams admits that he did not believe it was necessary to communicate the purported \$109 million error to the Audit Committee. Mr. Abrahams states that this purported error was not material under PCAOB Auditing Standards and he was not required to disclose it to the Audit Committee. Except as expressly admitted, Mr. Abrahams denies the remaining allegations in this paragraph.

50. Mr. Abrahams states that Paragraph 50 of the OIP asserts legal conclusions or accounting principles that do not require a response.

51. Mr. Abrahams states that Paragraph 51 of the OIP asserts legal conclusions or accounting principles that do not require a response.

52. Mr. Abrahams states that Paragraph 52 of the OIP asserts legal conclusions or accounting principles that do not require a response.

53. Answering Paragraph 53 of the OIP, Mr. Abrahams admits that he learned of the purported \$109 million error in mid-January of 2018. Mr. Abrahams denies that he knew that Q3 2017 was the first time that Mattel had reported a valuation allowance, and that he failed to verify that the engagement team documented the purported error, any related materiality analysis, and any associated internal control deficiency analysis. Regarding the allegation that the purported \$109 million error appears nowhere in the workpapers, Mr. Abrahams states that PwC's workpapers speak for themselves and are the best evidence of their contents. Mr. Abrahams admits that he knew that the determination of *whether* Mattel was required to record a valuation allowance, but not the quantification of a potential valuation allowance, was identified as a significant risk for the 2017 audit by PwC. Regarding the remaining allegations in this paragraph, Mr. Abrahams states his January 2018 presentation speaks for itself and is the best evidence of its contents. Except as expressly admitted, Mr. Abrahams denies the remaining allegations in this paragraph.

54. Mr. Abrahams denies all allegations in Paragraph 54 of the OIP.

55. Mr. Abrahams denies all allegations in Paragraph 55 of the OIP.

56. Mr. Abrahams denies all allegations in Paragraph 56 of the OIP.

57. Mr. Abrahams denies all allegations in Paragraph 57 of the OIP.

58. Mr. Abrahams states that Paragraph 58 of the OIP asserts legal conclusions or accounting principles that do not require a response.

59. Mr. Abrahams states that Paragraph 59 of the OIP asserts legal conclusions or accounting principles that do not require a response.

60. Mr. Abrahams states that Paragraph 60 of the OIP asserts legal conclusions or accounting principles that do not require a response.

61. Mr. Abrahams states that Paragraph 61 of the OIP asserts legal conclusions or accounting principles that do not require a response.

62. Mr. Abrahams states that Paragraph 62 of the OIP asserts legal conclusions or accounting principles that do not require a response.

63. Mr. Abrahams states that Paragraph 63 of the OIP asserts legal conclusions or accounting principles that do not require a response.

64. Mr. Abrahams states that Paragraph 64 of the OIP asserts legal conclusions or accounting principles that do not require a response.

65. Mr. Abrahams denies all allegations in Paragraph 65 of the OIP.

66. Answering Paragraph 66 of the OIP, Mr. Abrahams denies that as a result of the conduct described in previous paragraphs of the OIP, Mr. Abrahams engaged in improper professional conduct. The remaining allegations in this paragraph assert legal conclusions that do not require a response.

67. Mr. Abrahams denies all allegations in Paragraph 67 of the OIP.

### III.

Section III of the OIP contains no factual allegations that require a response. To the extent that these remaining paragraphs otherwise contain factual allegations requiring a response, Mr. Abrahams denies the allegations.

#### AFFIRMATIVE DEFENSES

Mr. Abrahams asserts the following affirmative defenses and reserves the right to amend the Answer to assert additional affirmative defenses when and if, in the course of his investigation, discovery, or preparation for trial it becomes appropriate to assert such affirmative defenses. In asserting these defenses, Mr. Abrahams does not assume the burden of proof for any issue that would otherwise rest on the Division of Enforcement.

#### FIRST AFFIRMATIVE DEFENSE

The OIP fails to state a claim upon which relief can be granted.

#### SECOND AFFIRMATIVE DEFENSE

The OIP fails to state facts sufficient to allege a violation by Mr. Abrahams of the Exchange Act or any Rule promulgated thereunder.

#### THIRD AFFIRMATIVE DEFENSE

This Administrative Proceeding is barred by the applicable statute of limitations of 28 U.S.C. § 2462.

#### FOURTH AFFIRMATIVE DEFENSE

This Administrative Proceeding is barred by the doctrine of waiver.

#### FIFTH AFFIRMATIVE DEFENSE

This Administrative Proceeding violates the Due Process Clause of the United States Constitution.

SIXTH AFFIRMATIVE DEFENSE

This Administrative Proceeding violates Articles I and II of the United States Constitution.

SEVENTH AFFIRMATIVE DEFENSE

This Administrative Proceeding violates the Seventh Amendment to the United States Constitution.

EIGHTH AFFIRMATIVE DEFENSE

The initiation of this Administrative Proceeding is arbitrary, capricious, and selective prosecution.

NINTH AFFIRMATIVE DEFENSE

The claims in the OIP against Mr. Abrahams are barred, in whole or in part, because any alleged misstatements and omissions are not material and/or did not have any material effect on Mattel's stock price.

TENTH AFFIRMATIVE DEFENSE

The Commission's claims against Mr. Abrahams are barred, in whole or in part, because Mr. Abrahams at all times and with respect to all matters contained herein acted in good faith, exercised reasonable care, and acted in reasonable reliance upon the work, opinions, information, representations, and advice of others upon whom he was entitled to rely.

ELEVENTH AFFIRMATIVE DEFENSE

PwC's audits were conducted in accordance with generally accepted auditing standards, any reviews were conducted in accordance with applicable professional standards, and Mr. Abrahams in all other respects acted in accordance with applicable professional standards.

TWELFTH AFFIRMATIVE DEFENSE

PwC's audit reports were accurate in all material respects, the financial statements of Mattel opined on by PwC were accurate in all material respects, and the financial statements on which PwC opined were fairly presented, in all material respects, in accordance with generally accepted accounting principles.

WHEREFORE, Mr. Abrahams prays for judgment as follows:

1. That the Order Instituting Public Administrative Proceedings against Mr. Abrahams be dismissed with prejudice;
2. For such relief as this Commission may deem proper.

Dated: November 17, 2022

Respectfully submitted,

/s/ Thomas A. Zaccaro

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*Attorneys for Joshua Abrahams*

**CERTIFICATE OF SERVICE**

In accordance with 17 C.F.R. §§ 201.150, 201.151, I certify that a copy of Respondent's Answer to Order Instituting Public Administrative Proceedings was served on the following on November 17, 2022 via the methods indicated below:

***VIA EMAIL AND MAIL***

Stephen Kam  
Trial Counsel  
Securities and Exchange Commission  
444 Flower Street, Suite 900  
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Email: KamS@SEC.GOV  
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Dated: November 17, 2022

*/s/ Thomas A. Zaccaro*

Thomas A. Zaccaro