

HASBRO INC  
Form 10-Q  
November 01, 2018

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D. C. 20549**

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**FORM 10-Q**

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(Mark One)

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

**For the quarterly period ended September 30, 2018**

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

**Commission File Number 1-6682**

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**HASBRO, INC.**

(Exact name of registrant as specified in its charter)

Rhode Island  
(State of Incorporation)

05-0155090  
(I.R.S. Employer Identification No.)

1027 Newport Avenue, Pawtucket, Rhode Island 02861  
(Address of Principal Executive Offices, Including Zip Code)

(401) 431-8697

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(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer (Do not check if a smaller reporting company) ☐

Smaller reporting Company ☐

Emerging growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The number of shares of Common Stock, par value \$.50 per share, outstanding as of October 22, 2018 was 126,507,478.

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.**

**HASBRO, INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**  
**(Thousands of Dollars Except Share Data)**  
**(Unaudited)**

	September 30, 2018	October 1, 2017	December 31, 2017
<b><u>ASSETS</u></b>			
Current assets			
Cash and cash equivalents	\$ 907,107	1,244,778	1,581,234
Accounts receivable, less allowance for doubtful accounts of \$96,000			
\$33,900 and \$31,400	1,391,242	1,655,752	1,405,399
Inventories	610,918	629,120	433,293
Prepaid expenses and other current assets	283,183	232,590	214,000
Total current assets	3,192,450	3,762,240	3,633,926
Property, plant and equipment, less accumulated depreciation of \$452,000			
\$417,000 and \$422,100	255,150	263,862	259,710
Other assets			
Goodwill	572,387	572,762	573,063
Other intangible assets, net of accumulated amortization of \$924,700			
\$898,300 and \$904,900	732,235	223,695	217,382
Other	743,107	722,089	605,902
Total other assets	2,047,729	1,518,546	1,396,347
Total assets	\$ 5,495,329	5,544,648	5,289,983
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>			
Current liabilities			
Short-term borrowings	\$ 20,307	189,012	154,957
Accounts payable	458,808	525,852	348,476
Accrued liabilities	842,808	769,893	748,264
Total current liabilities	1,321,923	1,484,757	1,251,697
Long-term debt	1,694,721	1,693,261	1,693,609
Other liabilities	591,404	410,378	514,720
Total liabilities	3,608,048	3,588,396	3,460,026
Shareholders' equity			
Preference stock of \$2.50 par value. Authorized 5,000,000 shares; none			

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issued	-	-	-
Common stock of \$0.50 par value. Authorized 600,000,000 shares; issued 209,694,630 at September 30, 2018, October 1, 2017, and December 31, 2017	104,847	104,847	104,847
Additional paid-in capital	1,282,405	1,043,981	1,050,605
Retained earnings	4,254,919	4,336,420	4,260,222
Accumulated other comprehensive loss	(296,738)	(234,792)	(239,425)
Treasury stock, at cost; 82,979,119 shares at September 30, 2018; 85,139,302 shares at October 1, 2017; and 85,244,923 shares at December 31, 2017	(3,458,152)	(3,294,204)	(3,346,292)
Total shareholders' equity	1,887,281	1,956,252	1,829,957
Total liabilities and shareholders' equity	\$ 5,495,329	5,544,648	5,289,983

See accompanying condensed notes to consolidated financial statements.

**HASBRO, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Operations**  
**(Thousands of Dollars Except Per Share Data)**  
**(Unaudited)**

	<b>Quarter Ended</b>		<b>Nine Months Ended</b>	
	<b>September</b>	<b>October 1,</b>	<b>September</b>	<b>October 1,</b>
	<b>30,</b>	<b>2017</b>	<b>30,</b>	<b>2017</b>
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Net revenues	\$ 1,569,686	1,791,502	3,190,485	3,613,671
Costs and expenses:				
Cost of sales	655,597	730,656	1,249,090	1,404,971
Royalties	105,265	139,222	240,962	282,754
Product development	65,807	67,386	183,050	192,765
Advertising	134,384	168,926	290,001	342,236
Amortization of intangibles	8,841	6,492	19,873	22,254
Program production cost amortization	14,088	5,394	33,419	16,152
Selling, distribution and administration	272,368	312,482	853,585	813,268
Total costs and expenses	1,256,350	1,430,558	2,869,980	3,074,400
Operating profit	313,336	360,944	320,505	539,271
Non-operating (income) expense:				
Interest expense	22,779	25,072	68,391	73,752
Interest income	(4,671)	(5,362)	(17,227)	(16,042)
Other income, net	(566)	(8,607)	(6,189)	(26,003)
Total non-operating expense, net	17,542	11,103	44,975	31,707
Earnings before income taxes	295,794	349,841	275,530	507,564
Income tax expense	31,933	84,258	63,862	105,659
Net earnings	\$ 263,861	265,583	211,668	401,905
Net earnings per common share				
Basic	\$ 2.08	2.12	1.68	3.21
Diluted	\$ 2.06	2.09	1.67	3.16
Cash dividends declared per common share	\$ 0.63	0.57	1.89	1.71

See accompanying condensed notes to consolidated financial statements.

**HASBRO, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Earnings**  
**(Thousands of Dollars)**  
**(Unaudited)**

	<b>Quarter Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2018</b>	<b>October 1, 2017</b>	<b>September 30, 2018</b>	<b>October 1, 2017</b>
Net earnings	\$ 263,861	265,583	211,668	401,905
Other comprehensive earnings (loss):				
Foreign currency translation adjustments	(6,762)	13,142	(44,560)	41,954
Unrealized holding losses on available -for-sale securities, net of tax	(617)	(784)	(673)	(555)
Net gains (losses) on cash flow hedging activities, net of tax	5,323	(26,532)	23,765	(83,729)
Changes in unrecognized pension amounts, net of tax	-	-	(26,058)	-
Reclassifications to earnings, net of tax:				
Net (gains) losses on cash flow hedging activities	(1,672)	4,547	5,318	(2,237)
Amortization of unrecognized pension and and postretirement amounts	2,066	1,448	6,398	4,345
Total other comprehensive loss, net of tax	(1,662)	(8,179)	(35,810)	(40,222)
Comprehensive earnings	\$ 262,199	257,404	175,858	361,683

See accompanying condensed notes to consolidated financial statements.

**HASBRO, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
**(Thousands of Dollars)**  
**(Unaudited)**

	<b>Nine Months Ended</b>	
	<b>September 30, 2018</b>	<b>October 1, 2017</b>
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 211,668	401,905
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation of plant and equipment	104,915	107,853
Amortization of intangibles	19,873	22,254
Program production cost amortization	33,419	16,152
Deferred income taxes	(7,189)	17,797
Stock-based compensation	35,823	37,390
Other non-cash items	(12,124)	(16,033)
<b>Change in operating assets and liabilities net of acquired balances:</b>		
Increase in accounts receivable	(9,252)	(300,693)
Increase in inventories	(197,253)	(222,546)
Increase in prepaid expenses and other current assets	(52,005)	(4,437)
Program production costs	(95,724)	(25,309)
Increase in accounts payable and accrued liabilities	124,755	137,518
Changes in net deemed repatriation tax	18,074	-
Other	(234)	29,945
Net cash provided by operating activities	174,746	201,796
<b>Cash flows from investing activities:</b>		
Additions to property, plant and equipment	(104,015)	(102,512)
Acquisitions	(155,451)	-
Other	8,587	5,516
Net cash utilized by investing activities	(250,879)	(96,996)
<b>Cash flows from financing activities:</b>		
Proceeds of borrowings with maturity greater than three months	-	493,878
Repayments of borrowings with maturity greater than three months	-	(350,000)
Net (repayments of) proceeds from other short-term borrowings	(131,629)	15,663
Purchases of common stock	(187,850)	(112,241)
Stock-based compensation transactions	28,827	29,432
Dividends paid	(229,562)	(206,012)
Payments related to tax withholding for share-based compensation	(58,336)	(31,973)
Net cash utilized by financing activities	(578,550)	(161,253)
<b>Effect of exchange rate changes on cash</b>	(19,444)	18,946
<b>Decrease in cash and cash equivalents</b>	(674,127)	(37,507)
<b>Cash and cash equivalents at beginning of year</b>	1,581,234	1,282,285
<b>Cash and cash equivalents at end of period</b>	\$ 907,107	1,244,778



Supplemental information

Cash paid during the period for:

Interest	\$	69,603	75,567
Income taxes	\$	87,704	86,441

See accompanying condensed notes to consolidated financial statements.

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**HASBRO, INC. AND SUBSIDIARIES**

**Condensed Notes to Consolidated Financial Statements**

**(Thousands of Dollars and Shares Except Per Share Data)**

**(Unaudited)**

**(1) Basis of Presentation**

In the opinion of management, the accompanying unaudited interim consolidated financial statements contain all normal and recurring adjustments necessary to present fairly the consolidated financial position of Hasbro, Inc. and all majority-owned subsidiaries ("Hasbro" or the "Company") as of September 30, 2018 and October 1, 2017, and the results of its operations and cash flows for the periods then ended in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and notes thereto. Actual results could differ from those estimates.

The quarters ended September 30, 2018 and October 1, 2017 were each 13-week periods. The nine-month period ended September 30, 2018 was a 39-week period while the nine-month period ended October 1, 2017 was a 40-week period.

The results of operations for the quarter and nine-month periods ended September 30, 2018 are not necessarily indicative of results to be expected for the full year, nor were those of the comparable 2017 periods representative of those actually experienced for the full year 2017. Certain reclassifications have been made to prior year amounts to conform to the current period presentation.

These condensed consolidated financial statements have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in the consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. The Company filed audited consolidated financial statements for the fiscal year ended December 31, 2017 in its Annual Report on Form 10-K ("2017 Form 10-K"), which includes all such information and disclosures and, accordingly, should be read in conjunction with the financial information included herein.

**Recently Adopted Accounting Standards**

The Company's accounting policies are the same as those described in Note 1 to the Company's consolidated financial statements in its 2017 Form 10-K with the exception of the accounting policies related to revenue recognition, reclassification of disproportionate tax effects from accumulated other comprehensive income ("AOCI") caused by the Tax Cuts and Jobs Act of 2017, the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost and Business Combinations, Clarifying the Definition of a Business.

On January 1, 2018, the Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* (ASC 606 or the "New Revenue Standard") using the modified retrospective method. ASC 606 supersedes the revenue recognition requirements in ASC 605 – *Revenue Recognition* and most industry-specific guidance in U.S. GAAP. The New Revenue Standard provides a five-step model for analyzing contracts and transactions to determine when, how, and if revenue is recognized. Revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The cumulative impact of the adoption of the New Revenue Standard was not material to the Company therefore the Company did not record any adjustments to retained earnings. This was determined by analyzing contracts not completed as of January 1, 2018. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. For further details, see Note 2.

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Revenue recognition from the sale of finished product to customers, which is the majority of the Company's revenues, did not change under the new standard and the Company does not expect material changes in the future as a result of the New Revenue Standard related to the sale of finished product to its customers. Within the Company's Entertainment and Licensing segment, the timing of revenue recognition for minimum guarantees that the Company receives from licensees is impacted by the New Revenue Standard. Prior to the adoption of ASC 606, for licenses of the Company's brands that are subject to minimum guaranteed license fees, the Company recognized the difference between the minimum guaranteed amount and the actual royalties earned from licensee merchandise sales ("shortfalls") at the end of the contract period, which was in the fourth quarter for most of the Company's licensee arrangements. In periods following January 1, 2018, minimum guaranteed amounts will be recognized on a straight-line basis over the license period. While the impact of this change will not be material to the year, it will impact the timing of revenue recognition within the Company's Entertainment and Licensing segment such that under ASC 606, less revenues will be recorded in the fourth quarter and more revenues will be recorded within the first, second, and third quarters. No other areas of the Company's business were materially impacted by the New Revenue Standard.

In January 2018, the FASB issued Accounting Standards Update No. 2017-01("ASU 2017-01"), Business Combinations (Topic 805): Clarifying the Definition of a Business. The standard clarifies the definition of a business with the objective of providing guidance when evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. For public companies, this standard was effective for annual reporting periods beginning after December 15, 2017. For further details, see Note 3.

In February 2018, the FASB issued Accounting Standards Update No. 2018-02 ("ASU 2018-02"), Income Statement -Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The standard provides for a reclassification from accumulated other comprehensive earnings ("AOCE") to retained earnings, of disproportionate income tax effects arising from the impact of the Tax Cuts and Jobs Act of 2017. For public companies, this standard is effective for annual reporting periods beginning after December 15, 2018. Early adoption is permitted. The Company adopted ASU 2018-02 in the first quarter of 2018. The impact of the adoption resulted in a one-time reclassification in the amount of \$21,503 from AOCE with a corresponding credit to retained earnings.

In March 2017, the FASB issued Accounting Standards Update No. 2017-07 (ASU 2017-07), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The standard requires companies to present the service cost component of net benefit cost in the income statement line items where they report compensation cost. Companies will present all other components of net benefit cost outside operating income, if this subtotal is presented. For public companies, this standard was effective for annual reporting periods beginning after December 15, 2017, and early adoption was permitted. The Company adopted this standard in the first quarter of 2018 and the adoption of this standard did not have a material impact on the Company's results or consolidated financial statements in the quarter or nine-months ended September 30, 2018.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (ASC 230) – Classification of Certain Cash Receipts and Cash Payments*. The new guidance is intended to reduce diversity in practice across all industries, in how certain transactions are classified in the statement of cash flows. ASU 2016-15 was effective for public

companies for fiscal years beginning after December 15, 2017. The Company adopted this standard in 2018 and the adoption of this standard did not have an impact on the Company's statement of cash flows for the nine-month periods ended September 30, 2018 and October 1, 2017.

In October 2016, the FASB issued Accounting Standards Update No. 2016-16 (ASU 2016-16), *Accounting for Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory*. For public companies, this standard was effective for annual reporting periods beginning after December 15, 2017, and early adoption is permitted. The standard requires that the income tax impact of intra-entity sales and transfers of property, except for inventory, be recognized when the transfer occurs requiring any deferred taxes not yet recognized on intra-entity transfers to be recorded to retained earnings. The Company adopted this standard in the first quarter of 2018 and the adoption did not have an impact on the Company's results or consolidated financial statements.

## **(2) Revenue Recognition**

### **Revenue Recognition**

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Revenue is recognized when control of the promised goods is transferred to the customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for transferring those goods. The Company accounts for a contract when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance, and collectability of consideration is probable.

*Toy and Games*

The majority of the Company's revenues are derived from sales of finished products to customers. Revenues from sales of finished products to customers accounted for 92% and 95% of the Company's revenues for the nine-month periods ended September 30, 2018 and October 1, 2017, respectively. When determining whether control of the finished products has transferred to the customer, the Company considers any future performance obligations. Generally, the Company has no post-shipment obligation on sales of finished products to customers and revenues from product sales are recognized upon passing of title to the customer, which is generally at the time of shipment. Any shipping and handling activities that are performed by the Company, whether before or after a customer has obtained control of the products, are considered activities to fulfill our obligation to transfer the products, and are recorded as incurred within selling, distribution, and administration expenses. For the quarters ended September 30, 2018 and October 1, 2017 these costs were approximately \$55,029 and \$57,725, respectively, and for the nine-month periods ended September 30, 2018 and October 1, 2017, these costs were approximately \$138,916 and \$131,809, respectively. The Company offers various discounts, rebates, allowances, returns, and markdowns to its customers, (collectively, "allowances"), all of which are considered when determining the transaction price. Certain allowances are fixed and determinable at the time of sale and are recorded at the time of sale as a reduction to revenues. Other allowances can vary depending on future outcomes such as customer sales volume ("variable consideration"). The Company estimates the amount of variable consideration using the expected value method. In estimating the amount of variable consideration using the expected value method, the Company considers various factors including but not limited to: customer terms, historical experience, any expected deviations from historical experience, and existing or expected market conditions. The Company then records an estimate of variable consideration as a reduction to revenues at the time of sale. The Company adjusts its estimate of variable consideration at least quarterly or when facts and circumstances used in the estimation process may change. Historically, adjustments to estimated variable consideration have not been material.

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Entertainment and Licensing

Revenues within the Company's Entertainment and Licensing segment, which accounted for 6% and 5% of the Company's revenues for the nine-month periods ended September 30, 2018 and October 1, 2017, respectively, are recorded either over a period of time or at a point in time. The Company enters into contracts to license its intellectual property, which consists of its brands, in various channels including but not limited to: consumer products such as apparel or home goods, within formats such as on-line games, within venues such as theme parks, or within formats such as motion picture films. The licensees pay the Company either a sales-based or usage-based royalty, or a combination of both, for use of the brands, in some cases subject to minimum guaranteed amounts or fixed fees. The license of the Company's brands provide access to the intellectual property over the term of the license, generally without any other performance obligation of the Company other than keeping the intellectual property active, and is therefore considered a right-to-access license of symbolic intellectual property. The Company records sales-based or usage-based royalty revenues for right-to-access licenses at the occurrence of the licensees' subsequent sale or usage. When the arrangement includes a minimum guarantee, the Company records the minimum guarantee on a ratable basis over the term of the license period and does not record the sales-based or usage-based royalty revenues until they exceed the minimum guarantee. The Company also produces television or streaming programming for licensing to third parties. The licensees typically pay a fixed fee for the license of the produced content. The content that the Company delivers to its licensees has stand-alone functionality, generally without any other performance obligation of the Company, and is therefore considered a right-to-use license of functional intellectual property. The Company records revenues for right-to-use licenses once the license period has commenced and the licensee has the ability to use the delivered content. In arrangements where the licensee pays the Company a fixed fee for multiple seasons or multiple series of programming, arrangement fees are recorded as revenues based upon their relative fair values. As of September 30, 2018, the Company did not have any material future performance commitments for film streaming or television orders that have not yet been delivered. The Company also develops application based digital games featuring its brands within the games. These games are hosted by third-party platform providers. The Company does not charge a fee to the end users for the download of the games or the ability to play the games. The end users make in-application purchases of digital currencies, via the Company's platform providers, with such purchased digital currencies to be used in the games. The Company records revenues from in-application purchases based on the usage patterns of the players. For the majority of the Company's digital games, players use their currencies in the month of purchase, and therefore revenues are recorded at the time of sale. The Company has no additional performance obligations other than delivery of the currency via its platform providers. The Company controls all aspects of the goods delivered to the consumer. The third-party platform providers are providing only the service of hosting and administering receipt from the end users. The Company is the principal in the arrangement and records the gross revenues within Net Revenues in our Consolidated Statements of Operations. The fee charged by the third-party platform providers to the Company are recorded within cost of sales.

Contract Assets and Liabilities

A contract asset is defined as an entity's right to consideration for goods or services that the entity has transferred to a customer. A contract liability is defined to occur if the customer's payment of consideration precedes the entity's performance and represents the entity's obligation to transfer goods or services to a customer for which the entity has received consideration. The Company occasionally will require payment from customers for finished product in advance of the customer receiving control of the finished product. In these situations, the Company defers revenue on the advanced payment until the customer has control of the finished product, generally within the next month. Within our Entertainment and Licensing segment, the Company may receive royalty payments from licensees in advance of the licensees' subsequent sales to their customers, or in advance of the Company's performance obligation being satisfied. The Company defers revenues on these advanced payments until its performance obligation is satisfied. The aggregate deferred revenues are recorded as liabilities and were \$43,653, and \$10,261 as of September 30, 2018 and December 31, 2017, respectively, and the changes in deferred revenues are not material to the Company's

consolidated statement of operations for the nine-months ended September 30, 2018 and October 1, 2017. The Company records contract assets in the case of minimum guarantees that are being recognized ratably over the term of the respective license periods. At September 30, 2018 and October 1, 2017, these contract assets were not material to the Company's consolidated balance sheets.

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Accounts Receivable and Allowance for Doubtful Accounts

The Company's accounts receivable on the consolidated balance sheets as of September 30, 2018, October 1, 2017 and December 31, 2017 are primarily from contracts with customers. In the nine-months ended September 30, 2018, the Company recorded a bad debt charge of \$59,115 related to a significant customer. In the quarter ended October 1, 2017, the Company recorded a bad debt charge of \$18,000 related to a significant customer. The Company had no other material bad debt expense in the nine-month period ended October 1, 2017 or the quarter ended on September 30, 2018.

Disaggregation of revenues

The Company disaggregates its revenues from contracts with customers by segment: US and Canada, International, Entertainment and Licensing, and Global Operations. The Company further disaggregates revenues within its International segment by major geographic region: Europe, Latin America, and Asia Pacific. Finally, the Company disaggregates its revenues by brand portfolio into four brand categories: Franchise brands, Partner brands, Hasbro gaming, and Emerging brands. We believe these collectively depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. See Note 11, Segment Reporting, for further information.

**(3) Asset Acquisition**

On June 12, 2018, the Company completed the acquisition of Saban Properties' Power Rangers and other Entertainment Assets. The Company accounted for the acquisition as an asset acquisition based on the guidance in ASU 2017-01, which uses the cost accumulation and allocation method. As such, the Company included acquisition costs in its calculation of the purchase price to be allocated to the assets acquired.

The total purchase price for the assets was \$535,850, consisting of the following:

Cash Consideration:		
To seller <sup>(1)</sup>	\$	152,000
Held in escrow <sup>(2)</sup>		25,000
Market value of stock issued to seller <sup>(3)</sup>		280,397
Deferred purchase price due in January 2019 <sup>(4)</sup>		75,000
		532,397
Acquisition costs		1,973
Other adjustment		1,480
Total Purchase Price to be allocated	\$	535,850

1. The Company previously paid Saban Brands \$22,250 for the Power Rangers master toy license agreement announced in February 2018 and those amounts were credited to, and included above, in the purchase price.
2. The \$25,000 was placed into an escrow account to support customary indemnification obligations of Saban Properties, and is considered restricted cash within cash and cash equivalents on the balance sheet with an offsetting liability included in other current liabilities. One-half of the \$25,000 in escrow is scheduled to be released on January 3, 2019, and the remaining half to be released on the one-year anniversary of the closing date, less any claim amounts deducted from the escrow prior to those dates.
3. The Company issued 3,074,190 shares of Hasbro common stock to Saban Properties, valued at \$280,397.
4. An additional \$75,000 will be paid in January 2019 with no contingencies.

The total purchase price was allocated on a relative fair value basis as follows:

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- \$534,370 was recorded as an intangible asset – Power Rangers IP rights, which will be amortized over a period of 25 years;
- \$7,884 as current assets;
- \$325 as capitalized production costs; and
- \$6,729 as other current liabilities.

#### **(4) Earnings Per Share**

Net earnings per share data for the quarter and nine-month periods ended September 30, 2018 and October 1, 2017 were computed as follows:

<b><u>Quarter</u></b>	<b>2018</b>		<b>2017</b>	
	<b>Basic</b>	<b>Diluted</b>	<b>Basic</b>	<b>Diluted</b>
Net earnings	\$ 263,861	263,861	265,583	265,583
Average shares outstanding	127,161	127,161	125,170	125,170
Effect of dilutive securities:				
Options and other share-based awards	-	731	-	1,980
Equivalent Shares	127,161	127,892	125,170	127,150
Net earnings per common share	\$ 2.08	2.06	2.12	2.09

<b><u>Nine Months</u></b>	<b>2018</b>		<b>2017</b>	
	<b>Basic</b>	<b>Diluted</b>	<b>Basic</b>	<b>Diluted</b>
Net earnings	\$ 211,668	211,668	401,905	401,905
Average shares outstanding	125,982	125,982	125,204	125,204
Effect of dilutive securities:				
Options and other share-based awards	-	792	-	2,044
Equivalent Shares	125,982	126,774	125,204	127,248
Net earnings per common share	\$ 1.68	1.67	3.21	3.16

For the quarters ended September 30, 2018 and October 1, 2017, options and restricted stock units totaling 949 and 450, respectively, were excluded from the calculation of diluted earnings per share because to include them would have been antidilutive. For the nine-month periods ended September 30, 2018 and October 1, 2017, options and

restricted stock units totaling 1,124 and 514, respectively, were excluded from the calculation of diluted earnings per share because to include them would have been antidilutive.

**(5) Other Comprehensive Earnings (Loss)**

Components of other comprehensive earnings (loss) are presented within the consolidated statements of comprehensive earnings (loss). The following table presents the related tax effects on changes in other comprehensive earnings (loss) for the quarter and nine-month periods ended September 30, 2018 and October 1, 2017.

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	Quarter Ended		Nine Months Ended	
	September	October 1,	September	October 1,
	30,	2017	30,	2017
	2018		2018	
Other comprehensive earnings (loss), tax effect:				
Tax benefit on unrealized holding losses	\$ 179	445	195	315
Tax (expense) benefit on cash flow hedging activities	(73)	1,700	238	5,936
Tax benefit on changes in unrecognized pension amounts	-	-	7,565	-
Reclassifications to earnings, tax effect:				
Tax expense (benefit) on cash flow hedging activities	1,015	(1,875)	107	(2,884)
Tax benefit on unrecognized pension and postretirement amounts reclassified to the consolidated statements of operations	(600)	(822)	(1,857)	(2,466)
Total tax effect on other comprehensive earnings (loss)	\$ 521	(552)	6,248	901

Changes in the components of accumulated other comprehensive earnings (loss) for the nine months ended September 30, 2018 and October 1, 2017 are as follows:

	Unrealized Holding Gains (Losses)		Foreign Currency Translation		Total Accumulated Other Comprehensive Loss
	Pension and Postretirement Amounts	Gains on Derivative Instruments	Available-for-Sale Securities	Adjustments	
<b>2018</b>					
Balance at December 31, 2017	\$ (110,971)	(32,827)	1,034	(96,661)	(239,425)
Adoption of ASU 2018-02	(18,065)	(3,660)	222	-	(21,503)
Current period other comprehensive earnings (loss)	(19,660)	29,083	(673)	(44,560)	(35,810)
Balance at September 30, 2018	\$ (148,696)	(7,404)	583	(141,221)	(296,738)
<b>2017</b>					
Balance at December 25, 2016	\$ (118,401)	51,085	1,424	(128,678)	(194,570)
Current period other comprehensive earnings (loss)	4,345	(85,966)	(555)	41,954	(40,222)
Balance at October 1, 2017	\$ (114,056)	(34,881)	869	(86,724)	(234,792)

At September 30, 2018, the Company had remaining net deferred gains on foreign currency forward contracts, net of tax, of \$12,255 in accumulated other comprehensive loss ("AOCE"). These instruments hedge payments related to inventory purchased in the third quarter of 2018 or forecasted to be purchased during the remainder of 2018 and, to a lesser extent, 2019 through 2022, intercompany expenses expected to be paid or received during 2018 and 2019, television and movie production costs paid in 2018 or expected to be paid in 2018 or 2019 and cash receipts for sales made at the end of the third quarter 2018 or forecasted to be made in the remainder of 2018 and, to a lesser extent,

2019 through 2020. These amounts will be reclassified into the consolidated statements of operations upon the sale of the related inventory or recognition of the related sales or expenses.

In addition to foreign currency forward contracts, the Company entered into hedging contracts on future interest payments related to the long-term notes due 2021 and 2044. At the date of debt issuance, these contracts were terminated and the fair value on the date of settlement was deferred in AOCE and is being amortized to interest expense over the life of the related notes using the effective interest rate method. At September 30, 2018, deferred losses, net of tax, of \$19,659 related to these instruments remained in AOCE. For the quarters ended September 30, 2018 and October 1, 2017, previously deferred losses of \$450 were reclassified from AOCE to net earnings, respectively. For the nine-month periods ended September 30, 2018 and October 1, 2017, previously deferred losses of \$1,349 and \$1,384 were reclassified from AOCE to net earnings, respectively.

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Of the amount included in AOCE at September 30, 2018, the Company expects net gains of approximately \$10,898 to be reclassified to the consolidated statements of operations within the next 12 months. However, the amount ultimately realized in earnings is dependent on the fair value of the hedging instruments on the settlement dates.

## **(6) Financial Instruments**

The Company's financial instruments include cash and cash equivalents, accounts receivable, short-term borrowings, accounts payable and certain accrued liabilities. At September 30, 2018, October 1, 2017 and December 31, 2017, the carrying cost of these instruments approximated their fair value. The Company's financial instruments at September 30, 2018, October 1, 2017 and December 31, 2017 also include certain assets and liabilities measured at fair value (see Notes 8 and 10) as well as long-term borrowings. The carrying costs, which are equal to the outstanding principal amounts, and fair values of the Company's long-term borrowings as of September 30, 2018, October 1, 2017 and December 31, 2017 are as follows:

	<b>September 30, 2018</b>		<b>October 1, 2017</b>		<b>December 31, 2017</b>	
	<b>Carrying Cost</b>	<b>Fair Value</b>	<b>Carrying Cost</b>	<b>Fair Value</b>	<b>Carrying Cost</b>	<b>Fair Value</b>
6.35% Notes Due 2040	\$ 500,000	546,450	500,000	613,750	500,000	601,800
3.50% Notes Due 2027	500,000	466,350	500,000	496,850	500,000	488,300
5.10% Notes Due 2044	300,000	285,390	300,000	324,300	300,000	313,320
3.15% Notes Due 2021	300,000	297,720	300,000	306,840	300,000	302,640
6.60% Debentures Due 2028	109,895	124,698	109,895	132,830	109,895	131,390
Total long-term debt	\$ 1,709,895	1,720,608	1,709,895	1,874,570	1,709,895	1,837,450
Less: Deferred debt expenses	15,174	-	16,634	-	16,286	-
Long-term debt	\$ 1,694,721	1,720,608	1,693,261	1,874,570	1,693,609	1,837,450

The fair values of the Company's long-term debt are considered Level 3 fair values (see Note 8 for further discussion of the fair value hierarchy) and are measured using the discounted future cash flows method. In addition to the debt terms, the valuation methodology includes an assumption of a discount rate that approximates the current yield on a similar debt security. This assumption is considered an unobservable input in that it reflects the Company's own assumptions about the inputs that market participants would use in pricing the asset or liability. The Company believes that this is the best information available for use in the fair value measurement.

## **(7) Income Taxes**

The Company and its subsidiaries file income tax returns in the United States and various state and international jurisdictions. In the normal course of business, the Company is regularly audited by U.S. federal, state and local, and international tax authorities in various tax jurisdictions.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act made broad and complex changes to the U.S. tax code which impacted 2017 including, but not limited to, reducing the U.S. federal corporate tax rate and requiring a one-time tax on certain unrepatriated earnings of foreign subsidiaries.

On December 22, 2017, Staff Accounting Bulletin No. 118 (“SAB 118”) established a one-year measurement period to complete the accounting for the ASC 740 income tax effects of the Tax Act. An entity recognizes the impact of those amounts for which the accounting is complete. For matters that have not been completed, provisional amounts are recorded to the extent they can be reasonably estimated. For amounts for which a reasonable estimate cannot be determined, no adjustment is made until such estimate can be completed.

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As a result, the Company recorded a one-time tax expense of \$47,800 in the first quarter of 2018 which reversed certain discrete benefits recorded in 2017 as well as increased our provisional deemed repatriation tax liability. In the third quarter, the estimate was further revised based on additional guidance and a one-time tax benefit of \$17,336 was recorded.

Prior to the enactment of the Tax Act, the Company previously considered the earnings in non-U.S. subsidiaries to be indefinitely reinvested and, accordingly, recorded no deferred income taxes. The Tax Act eliminates the deferral of U.S. income tax on these foreign earnings by imposing a one-time mandatory deemed repatriation tax and as a result, the Company now intends to repatriate substantially all of the accumulated foreign earnings. The Company still has significant cash needs outside the United States and we are currently analyzing our global working capital and cash requirements. However, tax reform gives the Company flexibility to manage cash globally. In 2017, the Company recorded \$1,657 of non-US local country withholding taxes as part of the provisional repatriation tax amount, which will be incurred due to certain future cash distributions. In the third quarter, the Company recorded an additional \$2,412 of net tax that reflects the state and local impact of proposed dividends from non-US subsidiaries to the parent Company. The Company will continue to record these additional tax effects, if any, in the period that the on-going distribution analysis is completed and is able to make reasonable estimates.

The Company is no longer subject to U.S. federal income tax examinations for years before 2013. With few exceptions, the Company is no longer subject to U.S. state or local and non-U.S. income tax examinations by tax authorities in its major jurisdictions for years before 2012. The Company is currently under income tax examination in several U.S. state and local and non-U.S. jurisdictions.

#### **(8) Fair Value of Financial Instruments**

The Company measures certain financial instruments at fair value. The fair value hierarchy consists of three levels: Level 1 fair values are based on quoted market prices in active markets for identical assets or liabilities that the entity has the ability to access; Level 2 fair values are those based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities; and Level 3 fair values are based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Accounting standards permit entities to measure many financial instruments and certain other items at fair value and establish presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar assets and liabilities. The Company has elected the fair value option for certain available-for-sale investments. At September 30, 2018, October 1, 2017 and December 31, 2017, these investments totaled \$24,201, \$24,405 and \$24,436, respectively, and are included in prepaid expenses and other current assets in the consolidated balance sheets. The Company recorded net (losses) gains of \$(10) and \$96 on these investments in other (income) expense, net for the quarter and nine months ended September 30, 2018, respectively, related to the change in fair value of such instruments. For the quarter and nine-month periods ended October 1, 2017, the Company recorded net gains of \$446 and \$1,461, respectively, in other (income) expense, net, related to the change in fair value of such instruments.



At September 30, 2018, October 1, 2017 and December 31, 2017, the Company had the following assets and liabilities measured at fair value in its consolidated balance sheets (excluding assets for which the fair value is measured using net asset value per share):

		<b>Fair Value Measurements Using:</b>		
		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
		<b>Fair Value</b>		
<b><u>September 30, 2018</u></b>				
<b>Assets:</b>				
Available-for-sale securities	\$	2,346	2,346	-
Derivatives		20,079	-	20,079
Total assets	\$	22,425	2,346	20,079
<b>Liabilities:</b>				
Derivatives	\$	2,113	-	2,113
Option agreement		23,460	-	-
Total liabilities	\$	25,573	-	2,113
<b><u>October 1, 2017</u></b>				
<b>Assets:</b>				
Available-for-sale securities	\$	2,866	2,866	-
Derivatives		11,975	-	11,975
Total assets	\$	14,841	2,866	11,975
<b>Liabilities:</b>				
Derivatives	\$	22,671	-	22,671
Option agreement		28,510	-	-
Total liabilities	\$	51,181	-	22,671
<b><u>December 31, 2017</u></b>				
<b>Assets:</b>				
Available-for-sale securitie				