HASBRO INC
Form 10-Q
May 02, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 1, 2018

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

Commission File Number 1-6682

HASBRO, INC.

(Exact name of registrant as specified in its charter)

Rhode Island	05-0155090
(State of Incorporation)	(I.R.S. Employer Identification No.)

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

(401) 431-8697

(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 [x] No [ ]

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 [x]	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. [ ]

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

The number of shares of Common Stock, par value $.50 per share, outstanding as of April 23, 2018 was 124,937,746.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.

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

		April 1, 2018	April 2, 2017	December 31, 2017
ASSETS				
Current assets				
Cash and cash equivalents	$	1,598,944	1,463,081	1,581,234
Accounts receivable, less allowance for doubtful accounts of $94,300 $13,200 and $31,400		612,698	676,945	1,405,399
Inventories		517,439	416,232	433,293
Prepaid expenses and other current assets		292,756	243,475	214,000
Total current assets		3,021,837	2,799,733	3,633,926
Property, plant and equipment, less accumulated depreciation of $436,600, $392,900 and $422,100		262,418	270,023	259,710
Other assets				
Goodwill		573,574	570,937	573,063
Other intangibles, net, accumulated amortization of $911,300, $883,900 and $904,900		210,904	238,069	217,382
Other		660,339	767,108	605,902
Total other assets		1,444,817	1,576,114	1,396,347
Total assets	$	4,729,072	4,645,870	5,289,983
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Short-term borrowings	$	21,611	65,294	154,957
Current portion of long-term debt		-	349,814	-
Accounts payable		256,433	241,214	348,476
Accrued liabilities		574,482	545,492	748,264
Total current liabilities		852,526	1,201,814	1,251,697
Long-term debt		1,693,977	1,198,896	1,693,609
Other liabilities		611,210	393,516	514,720
Total liabilities		3,157,713	2,794,226	3,460,026
Shareholders' equity				

Preference stock of $2.50 par value. Authorized 5,000,000 shares; none issued		-	-	-
Common stock of $0.50 par value. Authorized 600,000,000 shares; issued 209,694,630 at April 1, 2018, April 2, 2017, and December 31, 2017		104,847	104,847	104,847
Additional paid-in capital		1,053,368	1,008,737	1,050,605
Retained earnings		4,090,637	4,145,469	4,260,222
Accumulated other comprehensive loss		(292,395)	(197,171)	(239,425)
Treasury stock, at cost; 84,706,373 shares at April 1, 2018; 84,685,145 shares at April 2, 2017; and 85,244,923 shares at December 31, 2017		(3,385,098)	(3,210,238)	(3,346,292)
Total shareholders' equity		1,571,359	1,851,644	1,829,957
Total liabilities and shareholders' equity	$	4,729,072	4,645,870	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)

	Quarter Ended	
	April 1, 2018	April 2, 2017
Net revenues	$ 716,341	849,663
Costs and expenses:		
Cost of sales	255,187	306,082
Royalties	69,652	64,380
Product development	57,384	62,586
Advertising	68,016	80,936
Amortization of intangibles	6,478	7,881
Program production cost amortization	12,034	5,570
Selling, distribution and administration	328,009	243,885
Total costs and expenses	796,760	771,320
Operating profit (loss)	(80,419)	78,343
Non-operating (income) expense:		
Interest expense	22,809	24,456
Interest income	(6,248)	(5,564)
Other income, net	(8,592)	(11,386)
Total non-operating expense, net	7,969	7,506
Earnings (loss) before income taxes	(88,388)	70,837
Income tax expense	24,104	2,238
Net earnings (loss)	$ (112,492)	68,599
Net earnings (loss) per common share:		
Basic	$ (0.90)	0.55
Diluted	$ (0.90)	0.54
Cash dividends declared per common share	$ 0.63	0.57

See accompanying condensed notes to consolidated financial statements.

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

	Quarter Ended	
	April 1, 2018	**April 2, 2017**
Net earnings (loss)	$ (112,492)	68,599
Other comprehensive earnings (loss):		
Foreign currency translation adjustments	12,829	24,673
Unrealized holding losses on available-for-sale securities, net of tax	(143)	(31)
Net losses on cash flow hedging activities, net of tax	(25,270)	(23,317)
Changes in unrecognized pension amounts, net of tax	(26,058)	-
Reclassifications to earnings (loss), net of tax:		
Net losses (gains) on cash flow hedging activities	5,355	(5,374)
Amortization of unrecognized pension and postretirement amounts	1,820	1,448
Total other comprehensive loss, net of tax	(31,467)	(2,601)
Comprehensive earnings (loss)	$ (143,959)	65,998

See accompanying condensed notes to consolidated financial statements.

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

	Three Months Ended	
	April 1, 2018	**April 2, 2017**
Cash flows from operating activities:		
Net earnings (loss)	$ (112,492)	68,599
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation of plant and equipment	26,221	27,702
Amortization of intangibles	6,478	7,881
Program production cost amortization	12,034	5,570
Deferred income taxes	(16,437)	13,428
Stock-based compensation	10,291	10,844
Other non-cash items	(4,971)	(5,498)
Change in operating assets and liabilities net of acquired and disposed balances:		
Decrease in accounts receivable	808,367	660,253
Increase in inventories	(76,516)	(21,377)
Increase in prepaid expenses and other current assets	(78,540)	(7,200)
Program production costs	(11,398)	(11,738)
Decrease in accounts payable and accrued liabilities	(297,669)	(342,533)
Changes in net deemed repatriation tax	75,805	-
Other	(23,434)	5,997
Net cash provided by operating activities	317,739	411,928
Cash flows from investing activities:		
Additions to property, plant and equipment	(28,235)	(30,243)
Other	2,007	(781)
Net cash utilized by investing activities	(26,228)	(31,024)
Cash flows from financing activities:		
Net repayments of other short-term borrowings	(133,698)	(107,336)
Purchases of common stock	(38,126)	(19,312)
Stock-based compensation transactions	19,518	9,743
Dividends paid	(70,781)	(63,404)
Payments related to tax withholding for share-based compensation	(52,637)	(31,391)
Net cash utilized by financing activities	(275,724)	(211,700)
Effect of exchange rate changes on cash	1,923	11,592
Increase in cash and cash equivalents	17,710	180,796
Cash and cash equivalents at beginning of year	1,581,234	1,282,285
Cash and cash equivalents at end of period	$ 1,598,944	1,463,081
Supplemental information		
Cash paid during the period for:		
Interest	$ 28,699	31,446
Income taxes	$ 42,481	31,571

See accompanying condensed notes to consolidated financial statements.

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 April 1, 2018 and April 2, 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 quarter ended April 1, 2018 was a 13-week period. The quarter ended April 2, 2017 was a 14-week period.

The results of operations for the quarter are not necessarily indicative of results to be expected for the full year, nor were those of the comparable 2017 period representative of those actually experienced for the full year 2017.

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 and the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.

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.

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 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 income ("AOCI") 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 AOCI 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 first quarter of 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 quarters ended April 1, 2018 and April 2, 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

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 90% and 92% of the Company's revenues for the quarters ended April 1, 2018 and April 2, 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 April 1, 2018 and April 2, 2017, these costs were $41,486 and $36,609, 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.

Entertainment and Licensing

Revenues within the Company’s Entertainment and Licensing segment, which accounted for 9% and 6% of the Company’s revenues for the quarters ended April 1, 2018 and April 2, 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 April 1, 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 spending patterns of the players. For the majority of the Company’s digital games, players spend 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 revenues are recorded in net revenues inclusive of the fees charged by the third-party platform providers. 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 are not material to the Company’s consolidated balance sheets as of April 1, 2018 and December 31, 2017, and the changes in deferred revenues are not material to the Company’s consolidated statement of operations for the quarter ended April 1, 2018. The Company historically has not recorded contract assets and does not currently expect to record any material contract assets in the future.

Accounts Receivable and Allowance for Doubtful Accounts

The Company’s accounts receivable on the consolidated balance sheets as of April 1, 2018, April 2, 2017 and December 31, 2017 are materially from contracts with customers. In the quarter ended April 1, 2018, the Company recorded a bad debt charge of $59,115 related to a significant customer. The Company had no other material bad debt expense in the quarters ended April 1, 2018 and April 2, 2017.

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 10, Segment Reporting, for further information.

(3) Earnings (Loss) Per Share

Net earnings (loss) per share data for the quarters ended April 1, 2018 and April 2, 2017 were computed as follows:

		2018		2017	
Quarter		**Basic**	**Diluted**	**Basic**	**Diluted**
Net earnings (loss)	$	(112,492)	(112,492)	68,599	68,599
Average shares outstanding		125,073	125,073	125,182	125,182
Effect of dilutive securities:					
Options and other share-based awards		-	-	-	2,047
Equivalent Shares		125,073	125,073	125,182	127,229
Net earnings (loss) per common share	$	(0.90)	(0.90)	0.55	0.54

For the quarters ended April 1, 2018 and April 2, 2017, options and restricted stock units totaling 3,191 and 638, respectively, were excluded from the calculation of diluted earnings per share because to include them would have been antidilutive. Of this amount 1,993 would have been included in the calculation of diluted shares had the Company not had a net loss in the first quarter of 2018. Assuming that these awards and options were included, under the treasury stock method, they would have resulted in an additional 1,022 shares being included in the diluted earnings per share calculation for the quarter ended April 1, 2018.

(4) 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 quarters ended April 1, 2018 and April 2, 2017.

		Quarter Ended	
		April 1, 2018	April 2, 2017
Other comprehensive earnings (loss), tax effect:			
Tax benefit on unrealized holding losses	$	41	18
Tax benefit on cash flow hedging activities		5,980	5,310
Tax benefit on changes in unrecognized pension amounts		7,565	-
Reclassifications to earnings, tax effect:			
Tax benefit on cash flow hedging activities		(794)	(369)
Tax benefit on unrecognized pension and postretirement amounts reclassified to the consolidated statements of operations		(528)	(822)
Total tax effect on other comprehensive earnings (loss)	$	12,264	4,137

Changes in the components of accumulated other comprehensive loss for the three months ended April 1, 2018 and April 2, 2017 are as follows:

		Pension and Postretirement Amounts	Gains (Losses) on Derivative Instruments	Unrealized Holding Gains on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Loss
2018						
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)		(24,238)	(19,915)	(143)	12,829	(31,467)
Balance at April 1, 2018	$	(153,274)	(56,402)	1,113	(83,832)	(292,395)
2017						
Balance at December 25, 2016	$	(118,401)	51,085	1,424	(128,678)	(194,570)
Current period other comprehensive earnings (loss)		1,448	(28,691)	(31)	24,673	(2,601)
Balance at April 2, 2017	$	(116,953)	22,394	1,393	(104,005)	(197,171)

Gains (Losses) on Derivative Instruments

At April 1, 2018, the Company had remaining net deferred losses on foreign currency forward contracts, net of tax, of $36,046 in accumulated other comprehensive loss ("AOCE"). These instruments hedge payments related to inventory purchased in the first 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, cash receipts for sales made at the end of the first quarter of 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 in 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 April 1, 2018, deferred losses, net of tax of $20,356 related to these instruments remained in AOCE. For the quarters ended April 1, 2018 and April 2, 2017, losses of $450 and $484, respectively, were reclassified from AOCE to net earnings.

Of the amount included in AOCE at April 1, 2018, the Company expects net losses of approximately $21,415 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.

(5) Financial Instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, short-term borrowings, accounts payable and certain accrued liabilities. At April 1, 2018, April 2, 2017 and December 31, 2017, the carrying cost of these instruments approximated their fair value. The Company's financial instruments at April 1, 2018, April 2, 2017 and December 31, 2017 also include certain assets and liabilities measured at fair value (see Notes 7 and 9) 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 April 1, 2018, April 2, 2017 and December 31, 2017 are as follows:

	April 1, 2018		April 2, 2017		December 31, 2017	
	Carrying Cost	Fair Value	Carrying Cost	Fair Value	Carrying Cost	Fair Value
6.35% Notes Due 2040	$ 500,000	585,400	500,000	597,150	500,000	601,800
3.50% Notes Due 2027	500,000	468,000	-	-	500,000	488,300
6.30% Notes Due 2017	-	-	350,000	357,385	-	-
5.10% Notes Due 2044	300,000	299,460	300,000	306,570	300,000	313,320
3.15% Notes Due 2021	300,000	300,480	300,000	305,490	300,000	302,640
6.60% Debentures Due 2028	109,895	128,006	109,895	125,390	109,895	131,390
Total long-term debt	$ 1,709,895	1,781,346	1,559,895	1,691,985	1,709,895	1,837,450
Less: Current portion	-	-	350,000	357,385	-	-
Less: Deferred debt expenses	15,918	-	10,999	-	16,286	-
Long-term debt	$ 1,693,977	1,781,346	1,198,896	1,334,600	1,693,609	1,837,450

Current portion of long-term debt at April 2, 2017 of $349,814, as shown on the consolidated balance sheet represents the $350,000 principal of 6.30% notes less $186 of deferred debt expenses.

The fair values of the Company's long-term debt are considered Level 3 fair values (see Note 7 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.

(6) 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. For the quarter ended April 1, 2018, the Company obtained additional information affecting the provisional amount initially recorded for the quarter ended December 31, 2017. As a result, the Company recorded a one-time tax expense of $47,800 which reversed certain discrete benefits recorded in 2017 as well as increased our provisional deemed repatriation tax liability.

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.

(7) <u>Fair Value of Financial Instruments</u>

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 April 1, 2018, April 2, 2017 and December 31, 2017, these investments totaled $24,584, $23,603 and $24,436, respectively, and are included in prepaid expenses and other current assets in the consolidated balance sheets. The Company recorded net gains of $448 and $631 on these investments in other income, net for the quarters ended April 1, 2018 and April 2, 2017, respectively, related to the change in fair value of such instruments.

At April 1, 2018, April 2, 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):

			Fair Value Measurements Using:		
		Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
April 1, 2018					
Assets:					
Available-for-sale securities	$	2,941	2,941	-	-
Derivatives		2,960	-	2,960	-
Total assets	$	5,901	2,941	2,960	-
Liabilities:					
Derivatives	$	39,428	-	39,428	-
Option agreement		23,665	-	-	23,665
Total liabilities	$	63,093	-	39,428	23,665
April 2, 2017					
Assets:					
Available-for-sale securities	$	3,687	3,687	-	-
Derivatives		56,017	-	56,017	-
Total assets	$	59,704	3,687	56,017	-
Liabilities:					
Derivatives	$	20,595	-	20,595	-
Option agreement		28,710	-	-	28,710
Total liabilities	$	49,305	-	20,595	28,710
December 31, 2017					
Assets:					
Available-for-sale securities	$	3,126	3,126	-	-
Derivatives		12,226	-	12,226	-
Total assets	$	15,352	3,126	12,226	-
Liabilities:					
Derivatives	$	23,051	-	23,051	-
Option agreement		23,980	-	-	23,980
Total Liabilities	$	47,031	-	23,051	23,980

Available-for-sale securities include equity securities of one company quoted on an active public market.

The Company's derivatives consist of foreign currency forward contracts. The Company used current forward rates of the respective foreign currencies to measure the fair value of these contracts. The Company's option agreement relates to an equity method investment in Discovery Family Channel ("Discovery"). The option agreement is included in other liabilities at April 1, 2018, April 2, 2017 and December 31, 2017, and is valued using an option pricing model based on the fair value of the related investment. Inputs used in the option pricing model include the volatility and fair value of the underlying company which are considered unobservable inputs as they reflect 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. There were no changes in these valuation techniques during the three-month period ended April 1, 2018.

The following is a reconciliation of the beginning and ending balances of the fair value measurements of the Company's financial instruments which use significant unobservable inputs (Level 3):

	2018	**2017**
Balance at beginning of year		