

HASBRO INC  
Form 10-Q  
November 07, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

Commission file number 1-6682

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 02862  
(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  or 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).

Edgar Filing: HASBRO INC - Form 10-Q

Yes  or No

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

Large accelerated filer

Accelerated filer

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  or No

The number of shares of Common Stock, par value \$.50 per share, outstanding as of October 22, 2012 was 129,926,567.

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

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

	Sept. 30, 2012	Sept. 25, 2011	Dec. 25, 2011
	-----	-----	-----
Assets			
Current assets:			
Cash and cash equivalents	\$ 696,733	186,962	641,688
Accounts receivable, less allowance for doubtful accounts of \$26,000, \$32,700 and \$23,700	1,195,517	1,260,521	1,034,580
Inventories	463,433	518,866	333,993
Prepaid expenses and other current assets	263,297	243,956	243,431
	-----	-----	-----
Total current assets	2,618,980	2,210,305	2,253,692
Property, plant and equipment, less accumulated depreciation of \$480,600, \$447,900 and \$453,700	217,636	220,412	218,021
	-----	-----	-----
Other assets:			
Goodwill	474,741	475,043	474,792
Other intangibles, less accumulated amortization of \$650,900, \$608,300 and \$622,500	432,402	479,818	467,293
Other	702,528	699,148	716,976
	-----	-----	-----
Total other assets	1,609,671	1,654,009	1,659,061
	-----	-----	-----
Total assets	\$ 4,446,287	4,084,726	4,130,774

=====

=====

=====

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

	Sept. 30, 2012 -----	Sept. 25, 2011 -----	Dec. 25, 2011 -----
Liabilities and Shareholders' Equity			
Current liabilities:			
Short-term borrowings	\$ 264,745	13,168	180,430
Accounts payable	237,400	246,461	134,864
Accrued liabilities	624,474	682,814	627,050
	-----	-----	-----
Total current liabilities	1,126,619	942,443	942,344
Long-term debt	1,398,906	1,405,071	1,400,872
Other liabilities	393,873	355,970	370,043
	-----	-----	-----
Total liabilities	2,919,398	2,703,484	2,713,259
	-----	-----	-----
Shareholders' equity:			
Preference stock of \$2.50 par value. Authorized 5,000,000 shares; none issued	-	-	-
Common stock of \$.50 par value. Authorized 600,000,000 shares; issued 209,694,630	104,847	104,847	104,847
Additional paid-in capital	648,235	641,214	630,044
Retained earnings	3,270,534	3,104,738	3,205,420
Accumulated other comprehensive loss	(38,235 )	(14,965 )	(35,943 )
Treasury stock, at cost; 79,295,919 shares at September 30, 2012, 80,228,053 at September 25, 2011 and 81,061,373 at December 25, 2011	(2,458,492 )	(2,454,592 )	(2,486,853 )
	-----	-----	-----
Total shareholders' equity	1,526,889	1,381,242	1,417,515
	-----	-----	-----

Edgar Filing: HASBRO INC - Form 10-Q

Total liabilities and shareholders' equity	\$ 4,446,287	4,084,726	4,130,774
	=====	=====	=====

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		Nine Months Ended	
	Sept. 30, 2012	Sept. 25, 2011	Sept. 30, 2012	Sept. 25, 2011
Net revenues	\$ 1,345,137	1,375,811	2,805,454	2,956,251
Costs and expenses:				
Cost of sales	586,516	599,524	1,155,536	1,244,780
Royalties	89,224	109,257	212,551	234,680
Product development	48,472	49,504	143,511	150,287
Advertising	134,997	130,396	279,339	278,703
Amortization of intangibles	12,636	11,084	34,792	32,378
Program production cost amortization	12,794	7,844	25,950	18,082
Selling, distribution and administration	210,876	220,130	602,145	619,939
Total costs and expenses	1,095,515	1,127,739	2,453,824	2,578,849
Operating profit	249,622	248,072	351,630	377,402
Non-operating (income) expense:				
Interest expense	23,043	22,479	68,568	66,702
Interest income	(1,270 )	(3,017 )	(5,434 )	(5,893 )
Other expense, net	2,900	7,153	8,754	19,344
Total non-operating expense, net	24,673	26,615	71,888	80,153
Earnings before income taxes	224,949	221,457	279,742	297,249
Income tax expense	60,097	50,467	74,042	51,012
Net earnings	\$ 164,852	170,990	205,700	246,237

Net earnings per common share:

Basic	\$	1.26	1.29	1.58	1.82
		=====	=====	=====	=====
Diluted	\$	1.24	1.27	1.56	1.78
		=====	=====	=====	=====
Cash dividends declared per common share	\$	0.36	0.30	1.08	0.90
		=====	=====	=====	=====

See accompanying condensed notes to consolidated financial statements.



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

	Quarter Ended		Nine Months Ended	
	Sept. 30, 2012	Sept. 25, 2011	Sept. 30, 2012	Sept. 25, 2011
Net earnings	\$ 164,852	170,990	205,700	246,237
Other comprehensive earnings (loss):				
Foreign currency translation adjustments	9,020	(42,789)	1,113	(9,767)
Net (losses) gains on cash flow hedging activities, net of tax	(5,989)	20,755	974	(16,585)
Reclassifications to earnings, net of tax:				
Net (gains) losses on cash flow hedging activities	(1,623)	2,900	(4,379)	3,238
Total other comprehensive earnings (loss), net of tax	1,408	(19,134)	(2,292)	(23,114)
Total comprehensive earnings	\$ 166,260	151,856	203,408	223,123

See accompanying condensed notes to consolidated financial statements.

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

	Nine Months Ended	
	----- Sept. 30, 2012	Sept. 25, 2011 -----
Cash flows from operating activities:		
Net earnings	\$ 205,700	246,237
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation of plant and equipment	75,113	85,039
Amortization of intangibles	34,792	32,378
Program production cost amortization	25,950	18,082
Deferred income taxes	(1,694)	(23,344)
Stock-based compensation	18,040	24,190
Change in operating assets and liabilities:		
Increase in accounts receivable	(141,259)	(316,896)
Increase in inventories	(125,472)	(167,726)
Increase in prepaid expenses and other current assets	(196)	(63,408)
Program production costs	(41,195)	(60,603)
Increase in accounts payable and accrued liabilities	72,486	228,805
Other, including long-term advances	21,351	(1,708)
	-----	-----
Net cash provided by operating activities	143,616	1,046
	-----	-----
Cash flows from investing activities:		
Additions to property, plant and equipment	(74,896)	(71,675)
Investments and acquisitions, net of cash acquired	-	(11,585)
Other	2,558	4,902
	-----	-----
Net cash utilized by investing activities	(72,338)	(78,358)
	-----	-----
Cash flows from financing activities:		
Net proceeds (repayments) from short-term borrowings	83,380	(13)
Purchases of common stock	(15,079)	(384,800)
Stock option transactions	40,661	25,721

Edgar Filing: HASBRO INC - Form 10-Q

Excess tax benefits from stock-based compensation	8,521	8,969
Dividends paid	(132,231)	(115,330)
	-----	-----
Net cash utilized by financing activities	(14,748)	(465,453)
	-----	-----
Effect of exchange rate changes on cash	(1,485)	1,931
	-----	-----
Increase (decrease) in cash and cash equivalents	55,045	(540,834)
Cash and cash equivalents at beginning of year	641,688	727,796
	-----	-----
Cash and cash equivalents at end of period	\$ 696,733	186,962
	=====	=====
Supplemental information		
Cash paid during the period for:		
Interest	\$ 79,724	77,023
Income taxes	\$ 50,446	26,897

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 financial statements contain all normal and recurring adjustments necessary to present fairly the financial position of Hasbro, Inc. and all majority-owned subsidiaries ( Hasbro or the Company ) as of September 30, 2012 and September 25, 2011, 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, 2012 and September 25, 2011 are 13-week periods. The nine-month periods ended September 30, 2012 and September 25, 2011 are 40-week and 39-week periods, respectively.

The results of operations for the quarter and nine months ended September 30, 2012 are not necessarily indicative of results to be expected for the full year, nor were those of the comparable 2011 periods representative of those actually experienced for the full year 2011.

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 year ended December 25, 2011 in its Annual Report on Form 10-K, which includes all such information and disclosures and, accordingly, should be read in conjunction with the financial information included herein.

The Company's accounting policies are the same as those described in Note 1 to the Company's consolidated financial statements in its Annual Report on Form 10-K for the fiscal year ended December 25, 2011.

Substantially all of the Company's inventories consist of finished goods.

**HASBRO, INC. AND SUBSIDIARIES**  
**Condensed Notes to Consolidated Financial Statements (continued)**

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

**(2) Earnings Per Share**

Net earnings per share data for the quarters and nine months ended September 30, 2012 and September 25, 2011 were computed as follows:

Quarter -----	2012		2011	
	Basic	Diluted	Basic	Diluted
Net earnings	\$ 164,852	164,852	170,990	170,990
	=====	=====	=====	=====
Average shares outstanding	130,619	130,619	132,448	132,448
Effect of dilutive securities:				
Options and other share-based awards	-	1,864	-	2,476
	-----	-----	-----	-----
Equivalent shares	130,619	132,483	132,448	134,924
	=====	=====	=====	=====
Net earnings per common share	\$ 1.26	1.24	1.29	1.27
	=====	=====	=====	=====

Nine Months -----	2012		2011	
	Basic	Diluted	Basic	Diluted
Net earnings	\$ 205,700	205,700	246,237	246,237
	=====	=====	=====	=====
Average shares outstanding	130,146	130,146	135,388	135,388
Effect of dilutive securities:				
Options and other share-based awards	-	1,893	-	2,985
	-----	-----	-----	-----
Equivalent shares	130,146	132,039	135,388	138,373

Edgar Filing: HASBRO INC - Form 10-Q

	=====	=====	=====	=====
Net earnings per common share	\$ 1.58	1.56	1.82	1.78
	=====	=====	=====	=====

For the quarters ended September 30, 2012 and September 25, 2011, options to acquire shares totaling 3,478 and 1,851, 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, 2012 and September 25, 2011, options to acquire shares totaling 3,508 and 1,394, respectively, were excluded from the calculation of diluted earnings per share because to include them would have been antidilutive.

**HASBRO, INC. AND SUBSIDIARIES**  
**Condensed Notes to Consolidated Financial Statements (continued)**

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

**(3) Other Comprehensive Earnings (Loss)**

Components of other comprehensive earnings are presented within the consolidated statements of comprehensive earnings. The related tax benefit (expense) of gains (losses) on cash flow hedging activities within other comprehensive earnings was \$861 and \$(1,000) for the quarter and nine-month periods ended September 30, 2012, respectively. The income tax expense related to reclassification adjustments of net gains on cash flow hedging activities from other comprehensive earnings was \$501 and \$1,063 for the quarter and nine-month periods ended September 30, 2012, respectively.

The related tax (expense) benefit of gains (losses) on cash flow hedging activities within other comprehensive earnings were \$(3,377) and \$2,308 for the quarter and nine-month periods ended September 25, 2011, respectively. The income tax benefit related to reclassification adjustments for net losses on cash flow hedging activities from other comprehensive earnings were \$477 and \$251 for the quarter and nine-month periods ended September 25, 2011, respectively.

At September 30, 2012, the Company had remaining deferred gains on hedging instruments, net of tax, of \$6,676 in accumulated other comprehensive earnings ( AOCE ). These instruments hedge certain forecasted inventory purchases and other cross-border transactions through 2013. These amounts will be reclassified into the consolidated statement of operations upon the sale of the related inventory or receipt or payment of other cross-border transactions. Of the amount included in AOCE at September 30, 2012, the Company expects approximately \$5,843 to be reclassified to earnings within the next twelve months. However, the amount ultimately realized in earnings is dependent on the fair value of the contracts on the settlement dates.

Changes in the components of accumulated other comprehensive earnings (loss) for the nine months ended September 30, 2012 and September 25, 2011 are as follows:

Pension and Postretirement	Gains (Losses) on Derivative	Foreign Currency	Total Accumulated Other
-------------------------------	---------------------------------	---------------------	----------------------------

Edgar Filing: HASBRO INC - Form 10-Q

	Amounts	Instruments	Translation Adjustments	Comprehensive Earnings (Loss)
	-----	-----	-----	-----
<u>2012</u>				
Balance at Dec. 25, 2011	\$ (86,822)	10,081	40,798	(35,943)
Current period other comprehensive earnings (loss)	-	(3,405)	1,113	(2,292)
	-----	-----	-----	-----
Balance at Sept. 30, 2012	\$ (86,822)	6,676	41,911	(38,235)
	=====	=====	=====	=====
<u>2011</u>				
Balance at Dec. 26, 2010	\$ (69,925)	15,432	62,642	8,149
Current period other comprehensive earnings (loss)	-	(13,347)	(9,767)	(23,114)
	-----	-----	-----	-----
Balance at Sept. 25, 2011	\$ (69,925)	2,085	52,875	(14,965)
	=====	=====	=====	=====



**HASBRO, INC. AND SUBSIDIARIES**  
**Condensed Notes to Consolidated Financial Statements (continued)**

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

**(4) Financial Instruments**

Hasbro's financial instruments include cash and cash equivalents, accounts receivable, short-term borrowings, accounts payable and certain accrued liabilities. At September 30, 2012, September 25, 2011 and December 25, 2011, the carrying cost of these instruments approximated their fair value. The Company's financial instruments at September 30, 2012, September 25, 2011 and December 25, 2011 also include certain assets and liabilities measured at fair value (see Notes 6 and 8) as well as long-term borrowings. The carrying costs and fair values of the Company's long-term borrowings as of September 30, 2012, September 25, 2011 and December 25, 2011 are as follows:

	Sept. 30, 2012		Sept. 25, 2011		Dec. 25, 2011	
	Carrying Cost	Fair Value	Carrying Cost	Fair Value	Carrying Cost	Fair Value
6.35% Notes Due 2040	\$ 500,000	599,300	500,000	547,200	500,000	540,850
6.125% Notes Due 2014	439,011	459,680	445,176	467,245	440,977	462,868
6.30% Notes Due 2017	350,000	409,325	350,000	402,780	350,000	400,400
6.60% Debentures						
Due 2028	109,895	127,478	109,895	120,775	109,895	120,148
Total long-term debt	\$1,398,906	1,595,783	1,405,071	1,538,000	1,400,872	1,524,266

The carrying cost of the 6.125% Notes Due 2014 includes principal amounts of \$425,000 as well as fair value adjustments of \$14,011, \$20,176, and \$15,977 at September 30, 2012, September 25, 2011 and December 25, 2011, respectively, related to interest rate swaps. All other carrying costs represent principal amounts. Total principal amount of long-term debt at September 30, 2012, September 25, 2011 and December 25, 2011 was \$1,384,895.

The fair values of the Company's long-term debt are considered Level 3 fair values (see Note 6 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.

The Company is party to a series of interest rate swap agreements which effectively adjust the interest rates on a portion of the Company's long-term debt from fixed to variable. The interest rate swaps are matched with a portion of the 6.125% Notes Due 2014 and accounted for as fair value hedges of those notes. The interest rate swaps have a total notional amount of \$400,000 with maturities in 2014 which match the maturity date of the related notes. In each of the contracts, the Company receives payments based upon a fixed interest rate of 6.125%, which matches the interest rate of the notes being hedged, and makes payments based upon a floating rate based on Libor. These contracts are designated and effective as hedges of the

**HASBRO, INC. AND SUBSIDIARIES**  
**Condensed Notes to Consolidated Financial Statements (continued)**

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

change in the fair value of the associated debt. At September 30, 2012, September 25, 2011 and December 25, 2011, the fair values of these contracts were \$14,011, \$20,176, and \$15,977, respectively, which are recorded in other assets with a corresponding fair value adjustment to increase long-term debt. The Company recorded losses of \$651 and \$1,966 for the quarter and nine months ended September 30, 2012, respectively and gains of \$2,040 and \$7,390 for the quarter and nine months ended September 25, 2011, respectively, on these instruments in other (income) expense, net relating to the change in fair value of such derivatives, wholly offsetting (gains) losses from the change in fair value of the associated long-term debt, also included in other (income) expense.

**(5) 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. The Company is no longer subject to U.S. federal income tax examinations for years before 2008. 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 2006. The U.S. Internal Revenue Service has commenced an examination related to the 2008 and 2009 U.S. federal income tax returns. The Company is also under income tax examination in several U.S. state and local and non-U.S. jurisdictions.

In connection with tax examinations in Mexico for the years 2000 to 2005, the Company has received tax assessments totaling approximately \$195,760 (at September 30, 2012 exchange rates), which include interest, penalties and inflation updates, related to transfer pricing which the Company is vigorously defending. In order to continue the process of defending its position, the Company was required to guarantee the amount of the assessments for the years 2000 to 2004, as is usual and customary in Mexico with respect to these matters. Accordingly, as of September 30, 2012, bonds totaling approximately \$165,960 (at September 30, 2012 exchange rates) have been provided to the Mexican government related to the 2000 to 2004 assessments, allowing the Company to defend its positions. The Company is not currently required to guarantee the amount of the 2005 assessment. The Company expects to be successful in sustaining its position with respect to these assessments as well as similar positions that may be taken by the Mexican tax authorities for periods subsequent to 2005.

At September 30, 2012, the Company has a liability for uncertain tax benefits, including potential interest and penalties, totaling \$108,228 which is a component of other liabilities. The Company believes it is reasonably possible that it may make approximately \$5,900 of net tax payments and reduce its liability for uncertain tax benefits within the next 12 months related to the resolution of an uncertain tax position.



**HASBRO, INC. AND SUBSIDIARIES**  
**Condensed Notes to Consolidated Financial Statements (continued)**

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

**(6) 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, 2012, September 25, 2011 and December 25, 2011, these investments totaled \$23,403, \$20,095 and \$19,657 respectively, and are included in prepaid expenses and other current assets in the consolidated balance sheet. The Company recorded net gains of \$1,082 and \$1,847 on these investments in other (income) expense, net for the quarter and nine months ended September 30, 2012, respectively, related to the change in fair value of such investments. For the quarter and nine months ended September 25, 2011, the Company recorded net (losses) gains of \$(24) and \$499, respectively, on these investments in other (income) expense, net, related to the change in fair value of such investments.

**HASBRO, INC. AND SUBSIDIARIES**  
**Condensed Notes to Consolidated Financial Statements (continued)**

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

At September 30, 2012, September 25, 2011 and December 25, 2011, the Company had the following assets and liabilities measured at fair value in its consolidated balance sheets:

	Fair Value Measurements Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Fair Value	-----	-----	-----	-----
September 30, 2012				
-----				
Assets:				
Available-for-sale securities	\$ 23,415	12	18,403	5,000
Derivatives	22,088	-	19,699	2,389
	-----	-----	-----	-----
Total assets	\$ 45,503	12	38,102	7,389
	=====	=====	=====	=====
Liabilities:				
Derivatives	\$ 2,312	-	2,312	-
	=====	=====	=====	=====
September 25, 2011				
-----				
Assets:				
Available-for-sale securities	\$ 20,119	24	20,095	-

Edgar Filing: HASBRO INC - Form 10-Q

Derivatives	35,346	-	32,466	2,880
	-----	-----	-----	-----
Total assets	\$ 55,465	24	52,561	2,880
	=====	=====	=====	=====
Liabilities:				
Derivatives	\$ 7,262	-	7,262	-
	=====	=====	=====	=====
December 25, 2011				
-----				
Assets:				
Available-for-sale securities	\$ 19,669	12	19,657	-
Derivatives	29,500	-	25,776	3,724
	-----	-----	-----	-----
Total assets	\$ 49,169	12	45,433	3,724
	=====	=====	=====	=====
Liabilities:				
Derivatives	\$ 1,908	-	1,908	-
	=====	=====	=====	=====

**HASBRO, INC. AND SUBSIDIARIES**  
**Condensed Notes to Consolidated Financial Statements (continued)**

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

For a portion of the Company's available-for-sale securities, the Company is able to obtain quoted prices from stock exchanges to measure the fair value of these securities. Certain other available-for-sale securities held by the Company are valued at the net asset value which is quoted on a private market that is not active; however, the unit price is predominantly based on underlying investments which are traded on an active market. In 2012 the Company purchased an available-for-sale investment which invests in hedge funds which contain financial instruments that are valued using certain estimates which are considered unobservable in that they reflect the investment manager's own assumptions about the inputs that market participants would use in pricing the asset or liability. The Company believes that these estimates are the best information available for use in the fair value of this investment. The Company's derivatives consist primarily of foreign currency forward contracts. The Company uses current forward rates of the respective foreign currencies to measure the fair value of these contracts. The Company's derivatives also include interest rate swaps used to effectively adjust the interest rates on a portion of the Company's long-term debt from fixed to variable. The fair values of the interest rate swaps are measured based on the present value of future cash flows using the swap curve as of the valuation date. The remaining derivative instruments consist of warrants to purchase common stock of an unrelated company. The Company uses the Black-Scholes model to value these warrants. One of the inputs used in the Black-Scholes model, historical volatility, 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. There were no changes in these valuation techniques during 2012.

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):

	2012	2011
	-----	-----
Balance at beginning of year	\$ 3,724	9,155
Purchases	5,000	-
Loss from change in fair value	(1,335)	(6,275)
	-----	-----
Balance at end of third quarter	\$ 7,389	2,880
	=====	=====



**HASBRO, INC. AND SUBSIDIARIES**  
**Condensed Notes to Consolidated Financial Statements (continued)**

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

**(7) Pension and Postretirement Benefits**

The components of the net periodic cost of the Company's defined benefit pension and other postretirement plans for the quarters and nine months ended September 30, 2012 and September 25, 2011 are as follows:

	Quarter Ended			
	Pension		Postretirement	
	Sept. 30, 2012	Sept. 25, 2011	Sept. 30, 2012	Sept. 25, 2011
Service cost	\$ 1,001	1,023	183	171
Interest cost	5,104	5,144	440	440
Expected return on assets	(5,377 )	(6,172 )	-	-
Net amortization and deferrals	1,788	1,288	20	18
Curtailement loss	673	-	-	-
Net periodic benefit cost	\$ 3,189	1,283	643	629

	Nine Months Ended			
	Pension		Postretirement	
	Sept. 30, 2012	Sept. 25, 2011	Sept. 30, 2012	Sept. 25, 2011
Service cost	\$ 3,280	3,192	551	513
Interest cost	15,650	15,598	1,320	1,320

Edgar Filing: HASBRO INC - Form 10-Q

Expected return on assets	(16,280 )	(18,679 )	-	-
Net amortization and deferrals	5,457	3,878	60	54
Curtailement loss	673	-	-	-
	-----	-----	-----	-----
Net periodic benefit cost	\$ 8,780	3,989	1,931	1,887
	=====	=====	=====	=====

During the first three quarters of fiscal 2012, the Company made cash contributions to its defined benefit pension plans of approximately \$5,500 in the aggregate. The Company expects to contribute approximately \$1,600 during the remainder of fiscal 2012.

**HASBRO, INC. AND SUBSIDIARIES**  
**Condensed Notes to Consolidated Financial Statements (continued)**

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

**(8) Derivative Financial Instruments**

Hasbro uses foreign currency forward contracts to mitigate the impact of currency rate fluctuations on firmly committed and projected future foreign currency transactions. These over-the-counter contracts, which hedge future currency requirements related to purchases of inventory and other cross-border transactions not denominated in the functional currency of the business unit, are primarily denominated in United States and Hong Kong dollars and Euros and are entered into with a number of counterparties, all of which are major financial institutions. The Company believes that a default by a single counterparty would not have a material adverse effect on the financial condition of the Company. Hasbro does not enter into derivative financial instruments for speculative purposes.

The Company also has warrants to purchase common stock of an unrelated company that constitute and are accounted for as derivatives. For additional information related to these warrants see Note 6. In addition, the Company is party to several interest rate swap agreements to effectively adjust the interest rates on a portion of the Company's long-term debt from fixed to variable. For additional information related to these interest rate swaps see Note 4.

Cash Flow Hedges

-----

Hasbro uses foreign currency forward contracts to reduce the impact of currency rate fluctuations on firmly committed and projected future foreign currency transactions. All of the Company's designated foreign currency forward contracts are considered to be cash flow hedges. These instruments hedge a portion of the Company's currency requirements associated with anticipated inventory purchases and other cross-border transactions in 2012 and 2013.

At September 30, 2012, September 25, 2011 and December 25, 2011, the notional amounts and fair values of the Company's foreign currency forward contracts designated as cash flow hedging instruments were as follows.

Sept. 30, 2012		Sept. 25, 2011		Dec. 25, 2011	
-----		-----		-----	
Notional	Fair	Notional	Fair	Notional	Fair

Edgar Filing: HASBRO INC - Form 10-Q

Hedged transaction	Amount	Value	Amount	Value	Amount	Value
-----	-----	-----	-----	-----	-----	-----
Inventory purchases	\$ 431,666	4,569	500,863	965	379,688	7,974
Intercompany royalty						
transactions	156,358	1,297	164,456	1,616	117,192	2,126
Sales	152,763	(2,925)	53,310	242	-	-
Other	9,956	273	6,957	5	29,517	(360)
	-----	-----	-----	-----	-----	-----
Total	\$ 750,743	3,214	725,586	2,828	526,397	9,740
	=====	=====	=====	=====	=====	=====

**HASBRO, INC. AND SUBSIDIARIES**  
**Condensed Notes to Consolidated Financial Statements (continued)**  
**(Thousands of Dollars and Shares Except Per Share Data)**  
**(Unaudited)**

The Company has a master agreement with each of its counterparties that allows for the netting of outstanding forward contracts. The fair values of the Company's foreign currency forward contracts designated as cash flow hedges are recorded in the consolidated balance sheets at September 30, 2012, September 25, 2011 and December 25, 2011 as follows:

	Sept. 30, 2012	Sept. 25, 2011	Dec. 25, 2011
	-----	-----	-----
Prepaid expenses and other current assets			
-----			
Unrealized gains	\$ 5,677	15,313	11,965
Unrealized losses	(2,692)	(4,936)	(4,187)
	-----	-----	-----
Net unrealized gain	2,985	10,377	7,778
	-----	-----	-----
Other assets			
-----			
Unrealized gains	2,448	1,913	2,113
Unrealized losses	(360)	-	(92)
	-----	-----	-----
Net unrealized gain	2,088	1,913	2,021
	-----	-----	-----
Total asset derivatives	\$ 5,073	12,290	9,799
	=====	=====	=====
Accrued liabilities			
-----			
Unrealized gains	\$ 2,816	415	12
Unrealized losses	(4,617)	(3,712)	(50)
	-----	-----	-----
Net unrealized loss	(1,801)	(3,297)	(38)
	-----	-----	-----
Other liabilities			

-----			
Unrealized gains	104	739	-
Unrealized losses	(162)	(6,904)	(21)
	-----	-----	-----
Net unrealized loss	(58)	(6,165)	(21)
	-----	-----	-----
Total liability derivatives	\$ (1,859)	(9,462)	(59)
	=====	=====	=====

During the quarter and nine months ended September 30, 2012, the Company reclassified gains from other comprehensive earnings to net earnings of \$2,124 and \$5,442, respectively. Of the amount reclassified during the quarter ended September 30, 2012, \$3,431 was reclassified to cost of sales, \$824 was reclassified to royalty expense and \$(2,178) was reclassified to sales. Of the amount reclassified during the nine months ended September 30, 2012, \$6,372, \$1,830 and \$(2,821) were reclassified to cost of sales, royalty expense and sales, respectively. In addition, net gains of

**HASBRO, INC. AND SUBSIDIARIES**  
**Condensed Notes to Consolidated Financial Statements (continued)**  
**(Thousands of Dollars and Shares Except Per Share Data)**  
**(Unaudited)**

\$47 and \$61 were reclassified to earnings as a result of hedge ineffectiveness for the quarter and nine months ended September 30, 2012, respectively.

During the quarter and nine months ended September 25, 2011, the Company reclassified net losses from other comprehensive earnings to net earnings of \$(3,377) and \$(3,489), respectively. Of the amount reclassified during the quarter ended September 25, 2011, \$(4,424) was reclassified to cost of sales, \$535 was reclassified to royalty expense and \$562 was reclassified to sales. Of the amount reclassified during the nine months ended September 25, 2011, \$(4,775), \$833 and \$562 were reclassified to cost of sales, royalty expense and sales, respectively. In addition, net losses of \$(50) and \$(109) were reclassified to earnings as a result of hedge ineffectiveness for the quarter and nine months ended September 25, 2011, respectively. Other income (expense) for the nine months ended September 25, 2011 included a loss of approximately \$3,700 in other (income) expense related to certain derivatives which no longer qualified for hedge accounting.

Undesignated Hedges

-----

The Company also enters into foreign currency forward contracts to minimize the impact of changes in the fair value of intercompany loans due to foreign currency changes. Due to the short-term nature of the derivative contracts involved, the Company does not use hedge accounting for these contracts. At September 30, 2012, September 25, 2011 and December 25, 2011, the total notional amounts of the Company's undesignated derivative instruments were \$184,555, \$90,077 and \$218,122, respectively.

**HASBRO, INC. AND SUBSIDIARIES**  
**Condensed Notes to Consolidated Financial Statements (continued)**

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

At September 30, 2012, September 25, 2011 and December 25, 2011, the fair values of the Company's undesignated derivative financial instruments were recorded in the consolidated balance sheets as follows:

	Sept. 30, 2012	Sept. 25, 2011	Dec. 25, 2011
	-----	-----	-----
Prepaid expenses and other current assets			
-----			
Unrealized gains	\$ 1,119	-	-
Unrealized losses	(504)	-	-
	-----	-----	-----
Net unrealized gain	615	-	-
	-----	-----	-----
 Accrued liabilities			
-----			
Unrealized gains	-	3,234	41
Unrealized losses	-	(1,034)	(786)
	-----	-----	-----
Net unrealized gain (loss)	-	2,200	(745)
	-----	-----	-----
 Other liabilities			
-----			
Unrealized gains	74	-	-
Unrealized losses	(527)	-	(1,104)
	-----	-----	-----
Net unrealized loss	(453)	-	(1,104)
	-----	-----	-----
Total unrealized gain (loss), net	\$ 162	2,200	(1,849)
	=====	=====	=====



The Company recorded net (gains) losses of \$726 and \$2,194 on these instruments to other (income) expense, net for the quarter and nine months ended September 30, 2012, respectively, and \$(1,528) and \$1,740 on these instruments to other (income) expense, net for the quarter and nine months ended September 25, 2011, respectively, relating to the change in fair value of such derivatives, substantially offsetting gains and losses from the change in fair value of intercompany loans to which the contracts relate.

For additional information related to the Company's derivative financial instruments see Notes 4 and 6.

**HASBRO, INC. AND SUBSIDIARIES**  
**Condensed Notes to Consolidated Financial Statements (continued)**

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

**(9) Segment Reporting**

Hasbro is a worldwide leader in children's and family leisure time products with a broad portfolio of brands and entertainment properties. The Company earns revenue and generates cash primarily through the sale of a broad variety of toy and game products, distribution of television programming based on the Company's properties, and through the out-licensing of rights for use of its properties in connection with complementary products, including digital media and games and lifestyle products, offered by third-parties. The Company's segments are (i) U.S. and Canada; (ii) International; (iii) Entertainment and Licensing; and (iv) Global Operations.

The U.S. and Canada segment develops, markets and sells both toy and game products in the U.S. and Canada. The International segment consists of the Company's European, Asia Pacific and Latin and South American toy and game marketing and sales operations. The Company's Entertainment and Licensing segment includes the Company's lifestyle licensing, digital gaming, movie, television and online entertainment operations. The Global Operations segment is responsible for manufacturing and sourcing finished product for the Company's U.S. and Canada and International segments.

Segment performance is measured at the operating profit level. Included in Corporate and eliminations are certain corporate expenses, the elimination of intersegment transactions and certain assets benefiting more than one segment. Intersegment sales and transfers are reflected in management reports at amounts approximating cost. Certain shared costs, including global product development and marketing expenses, are allocated to segments based upon foreign exchange rates fixed at the beginning of the year, with adjustments to actual foreign exchange rates included in Corporate and eliminations. The accounting policies of the segments are the same as those referenced in Note 1.

Results shown for the quarter and nine months are not necessarily representative of those which may be expected for the full year 2012, nor were those of the comparable 2011 periods representative of those actually experienced for the full year 2011. Similarly, such results are not necessarily those which would be achieved were each segment an unaffiliated business enterprise.

**HASBRO, INC. AND SUBSIDIARIES**  
**Condensed Notes to Consolidated Financial Statements (continued)**

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

Information by segment and a reconciliation to reported amounts for the quarters and nine months ended September 30, 2012 and September 25, 2011 are as follows.

	Quarter Ended			
	Sept. 30, 2012		Sept. 25, 2011	
	External	Affiliate	External	Affiliate
Net revenues	-----	-----	-----	-----
U.S. and Canada	\$ 774,539	1,814	764,562	4,554
International	524,144	110	563,310	9
Entertainment and Licensing	43,066	3,179	46,316	1,047
Global Operations (a)	3,388	578,528	1,623	635,081
Corporate and Eliminations	-	(583,631 )	-	(640,691 )
	-----	-----	-----	-----
	\$ 1,345,137	-	1,375,811	-
	=====	=====	=====	=====

	Nine Months Ended			
	Sept. 30, 2012		Sept. 25, 2011	
	External	Affiliate	External	Affiliate
Net revenues	-----	-----	-----	-----
U.S. and Canada	\$ 1,510,112	4,076	1,660,664	13,738
International	1,174,366	285	1,192,113	108
Entertainment and Licensing	115,618	6,009	98,144	1,735
Global Operations (a)	5,358	1,134,727	5,330	1,240,428
Corporate and Eliminations	-	(1,145,097 )	-	(1,256,009 )
	-----	-----	-----	-----
	\$ 2,805,454	-	2,956,251	-
	=====	=====	=====	=====



**HASBRO, INC. AND SUBSIDIARIES**  
**Condensed Notes to Consolidated Financial Statements (continued)**

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

	Quarter Ended		Nine Months Ended	
	Sept. 30, 2012	Sept. 25, 2011	Sept. 30, 2012	Sept. 25, 2011
Operating profit (loss)	----- 2012 -----	----- 2011 -----	----- 2012 -----	----- 2011 -----
U.S. and Canada	\$ 154,239	128,789	229,578	227,526
International	85,498	100,739	110,265	132,756
Entertainment and Licensing	10,722	15,251	26,652	21,294
Global Operations (a)	8,720	8,802	(12,996 )	(4,522 )
Corporate and Eliminations (b)	(9,557 )	(5,509 )	(1,869 )	348
	----- \$ 249,622 =====	----- 248,072 =====	----- 351,630 =====	----- 377,402 =====
Total assets	----- Sept. 30, 2012 -----	----- Sept. 25, 2011 -----	----- Sept. 25, 2011 -----	----- Dec. 25, 2011 -----
U.S. and Canada	\$ 5,888,392	5,159,977	5,159,977	5,225,099
International	2,161,186	1,969,676	1,969,676	2,062,928
Entertainment and Licensing	1,127,569	1,003,345	1,003,345	1,022,008
Global Operations	2,336,528	1,832,306	1,832,306	1,974,951
Corporate and Eliminations (b)	(7,067,388 )	(5,880,578 )	(5,880,578 )	(6,154,212)
	----- \$ 4,446,287 =====	----- 4,084,726 =====	----- 4,084,726 =====	----- 4,130,774 =====

(a) The Global Operations segment derives substantially all of its revenues, and thus its operating results, from intersegment activities.

(b) Certain intangible assets, primarily goodwill, which benefit multiple operating segments are reflected as Corporate assets for segment reporting purposes. In accordance with accounting standards related to impairment testing, these

amounts have been allocated to the reporting unit which benefits from their use. In addition, allocations of certain expenses related to these assets to the individual operating segments are done at the beginning of the year based on budgeted amounts. Any difference between actual and budgeted amounts is reflected in Corporate and Eliminations.

**HASBRO, INC. AND SUBSIDIARIES**  
**Condensed Notes to Consolidated Financial Statements (continued)**

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

The following table represents consolidated International segment net revenues by major geographic region for the quarters and nine months ended September 30, 2012 and September 25, 2011.

	Quarter Ended		Nine Months Ended	
	Sept. 30, 2012	Sept. 25, 2011	Sept. 30, 2012	Sept. 25, 2011
Europe	\$ 345,281	383,734	751,547	790,286
Latin America	115,342	105,696	237,090	209,620
Asia Pacific	63,521	73,880	185,729	192,207
Net revenues	\$ 524,144	563,310	1,174,366	1,192,113

The following table presents consolidated net revenues by class of principal products for the quarters and nine months ended September 30, 2012 and September 25, 2011. Effective for the second half of fiscal 2012, the Company has reclassified certain of its products from the Other category to the Boys and Games categories. The table below presents the 2011 net revenues reclassified to reflect the 2012 product category classifications.

	Quarter Ended		Nine Months Ended	
	Sept. 30, 2012	Sept. 25, 2011	Sept. 30, 2012	Sept. 25, 2011
Boys	\$ 471,125	534,595	1,162,958	1,285,273
Games	365,714	364,740	763,460	796,393
Girls	302,304	259,113	499,731	491,412
Preschool	205,994	217,363	379,305	383,173
Net revenues	\$ 1,345,137	1,375,811	2,805,454	2,956,251

=====

**(10) Subsequent Events**

On October 25, 2012, the Company amended and restated its revolving credit agreement, which provides the Company with an unsecured committed line of credit (the Amended Agreement ). The Amended Agreement provides the Company with an additional \$200,000 to the previous committed borrowing facility, for a total committed borrowing facility of \$700,000 under the Amended Agreement. In addition, the Amended Agreement extends the committed borrowing facility through October 2017 and reduces certain fees. The commitment fee to be paid by the Company based on the unused portion of the facility is reduced to 0.15% from 0.225% and the interest rate was amended to a Base Rate or Eurocurrency Rate plus 1.25% from Eurocurrency Rate plus 1.50% on borrowings under the facility. Under the Amended Agreement, the commitment fee and the amount of the spread to the Base Rate or Eurocurrency Rate will continue to vary based on the Company's long-term debt ratings and the Company's leverage. There were no changes to existing financial covenants.



**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

**HASBRO, INC. AND SUBSIDIARIES**  
**Management's Discussion and Analysis of Financial**  
**Condition and Results of Operations**

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

This Quarterly Report on Form 10-Q, including the following section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements expressing management's current expectations, goals, objectives and similar matters. These forward-looking statements may include statements concerning the Company's product and entertainment plans, anticipated product and entertainment performance, business opportunities and strategies, financial goals and expectations for achieving the Company's financial goals and other objectives. See Item 1A, in Part II of this report and Item 1A, in Part I of the Annual Report on Form 10-K for the year ended December 25, 2011, for a discussion of factors which may cause the Company's actual results or experience to differ materially from that anticipated in these forward-looking statements. The Company undertakes no obligation to revise the forward-looking statements in this report after the date of the filing.

**EXECUTIVE SUMMARY**

-----

Hasbro, Inc. ( Hasbro or the Company ) is a worldwide leader in branded entertainment and play for children and families. With a consumer focus, Hasbro applies its brand blueprint to its broad portfolio of properties. The objectives of the brand blueprint are continuously re-imagining, re-inventing, and re-igniting the Company's existing brands, imagining, inventing and igniting new brands and offering consumers the ability to experience the Company's brands in all areas of their lives.

To accomplish these objectives, the Company offers consumers the ability to experience its branded play through innovative toys and games, digital media, lifestyle licensing and publishing and entertainment, including television programming and motion pictures. The Company's focus remains on growing core owned and controlled brands, developing new and innovative products which respond to market insights, offering entertainment experiences which allow consumers to experience the Company's brands across multiple forms and formats and optimizing efficiencies within the Company to increase operating margins and maintain a strong balance sheet.

The Company earns revenue and generates cash primarily through the sale of a broad variety of toy and game products, distribution of television programming based on the Company's properties and through the out-licensing of rights for use of its properties in connection with complementary products, including digital media and games and lifestyle products, offered by third-parties. The Company's core brands represent Company-owned brands or brands which if not entirely owned, are broadly controlled by the Company, and which have been successful over the long

term. The Company's core brands include TRANSFORMERS, NERF, MY LITTLE PONY, LITTLEST PET SHOP, MONOPOLY, FURREAL FRIENDS, MAGIC: THE GATHERING, PLAY-DOH, PLAYSKOOL, BABY ALIVE and G.I. JOE. The Company has a large portfolio of owned and controlled brands, which can be introduced in new forms and formats over time. These brands may also be further extended by pairing a licensed concept with a core brand. By focusing on core brands, the Company is working to build a more consistent revenue stream and basis for future growth, and to leverage profitability. During the first nine months of 2012 the

**HASBRO, INC. AND SUBSIDIARIES**  
**Management's Discussion and Analysis of Financial**  
**Condition and Results of Operations (continued)**

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

Company had strong revenues from many core brands, including NERF, MAGIC: THE GATHERING, TRANSFORMERS, PLAY-DOH, FURREAL FRIENDS, LITTLEST PET SHOP, PLAYSKOOL and MY LITTLE PONY.

The Company's innovative product offerings encompass a broad variety of toys including boys' action figures, vehicles and play sets, girls' toys, electronic toys, plush products, preschool toys and infant products, electronic interactive products, creative play and toy-related specialty products. Games offerings include board, card, electronic, trading card, boys action and role-playing games.

While the Company believes it has built a more sustainable revenue base by developing and maintaining its core brands and avoiding reliance on licensed entertainment properties, it continues to opportunistically enter into or leverage existing strategic licenses which complement its brands and key strengths and allow the Company to offer innovative products based on movie, television, music and other entertainment properties owned by third parties. The Company's primary licenses include its agreements with Marvel Characters B.V. ( *Marvel* ) for characters in the *Marvel* universe, including SPIDER-MAN and AVENGERS; Lucas Licensing, Ltd. ( *Lucas* ), related to the STAR WARS brand; and Sesame Workshop, related to the SESAME STREET characters. The third quarter of 2011 commenced the first period of significant sales under the Company's license with Sesame Workshop. During 2012 the Company's offerings include products related to two theatrical motion picture releases based on MARVEL properties, *THE AVENGERS* and *THE AMAZING SPIDER-MAN*, as well as the 3D theatrical re-release of the STAR WARS-branded *STAR WARS: EPISODE 1 - THE PHANTOM MENACE*. The Company also had significant sales of BEYBLADE products in 2011 and although these sales have declined in 2012, BEYBLADE products have continued to provide a high level of sales in 2012. In addition to offering products based on licensed entertainment properties, the Company offers products which are licensed from outside inventors.

The Company seeks to build brand experiences and drive product-related revenues by increasing the visibility of its core brands through entertainment such as motion pictures and television programming. Since 2007, the Company has had three major motion pictures based on its TRANSFORMERS brand and one major motion picture based on its G.I. JOE brand released by major studios. This included the release of the third TRANSFORMERS motion picture,

*TRANSFORMERS: DARK OF THE MOON*, in 2011. In 2012, the motion picture, *BATTLESHIP*, based on the Company's property, was released during the second quarter by Universal Pictures. The Company has motion picture projects based on other brands in development for potential release in future years including another major motion picture based on its G.I. JOE brand, *G.I. JOE: RETALIATION* which is expected to be released in March 2013.

In addition to using motion pictures to provide entertainment experiences for its brands, the Company has an internal wholly-owned production studio responsible for the creation and development of television programming based primarily on Hasbro's brands. This programming is currently aired throughout the world. The Company is also a 50% partner in a joint venture with Discovery Communications, Inc. which runs THE HUB, a cable television network in the United States dedicated to high-quality children's and family entertainment and educational programming. Programming on THE HUB includes content based on Hasbro's brands as well

**HASBRO, INC. AND SUBSIDIARIES**  
**Management's Discussion and Analysis of Financial**  
**Condition and Results of Operations (continued)**

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

as programming developed by third parties. Hasbro-branded television programming is distributed in the U.S. to THE HUB and is distributed internationally to leading children's networks and major broadcasters around the world. The Company's television initiatives support its strategy of growing its core brands well beyond traditional toys and games and providing entertainment experiences for consumers of all ages in multiple forms and formats. The Company also distributes its programming through digital and home entertainment distribution channels.

The Company's strategic brand blueprint also focuses on extending its brands into digital media and gaming, including through the licensing of the Company's properties to a number of partners who develop and offer digital games based on those brands. An example of these digital gaming relationships is the Company's agreement with Electronic Arts Inc. (EA), which provides EA the exclusive worldwide rights, subject to existing limitations on the Company's rights and certain other exclusions, to create digital games based on a number of the Company's intellectual properties, including MONOPOLY, SCRABBLE, YAHTZEE and TONKA. Similarly, the Company has an agreement with Activision under which Activision offers digital games based on the TRANSFORMERS brand. The Company continues to seek and develop additional relationships and outlets for its brands in digital gaming, including casual, social, mobile and online gaming.

In recent years the Company has expanded its lifestyle licensing business and this remains a key focal area for future development and growth. Under its lifestyle licensing programs, the Company enters into relationships with a broad spectrum of apparel, food, bedding, publishing and other lifestyle products companies for the global marketing and distribution of licensed products based on the Company's brands. These relationships further broaden and amplify the consumer's ability to experience the Company's brands.

As the Company seeks to grow its business in entertainment, licensing and digital gaming, the Company will continue to evaluate strategic alliances and acquisitions which may complement its current product offerings, allow it entry into an area which is adjacent to or complementary to the toy and game business, or allow it to further develop awareness of its brands and expand the ability of consumers to experience its brands in different forms and formats.

During 2011, the Company incurred approximately \$14,400 in connection with establishing Hasbro's Gaming Center of Excellence in Rhode Island. The Gaming Center of Excellence centralizes games marketing and development while building on Hasbro's strategy of re-imagining, re-inventing and re-igniting core brands as well as inventing new brands.

During the first quarter of 2012, the Company took certain measures to strengthen its organization and right size certain businesses and functions, resulting in employee termination and recognition of severance costs of approximately \$11,100.

The Company's business is highly seasonal with a significant amount of revenues occurring in the second half of the year. In 2011, 2010 and 2009, the second half of the year accounted for 63%, 65% and 65% of the Company's net revenues, respectively. However, the Company expects net revenues in the second half of 2012 as a percentage of full year 2012 net revenues to be a greater percentage than the 2011 percentage based on the Company's strategy to more

**HASBRO, INC. AND SUBSIDIARIES**  
**Management's Discussion and Analysis of Financial**  
**Condition and Results of Operations (continued)**

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

closely align shipments in its U.S. and Canada business with consumer demand as well as the increased significance of the International business, which has historically had a higher concentration of its business in the second half of the year. The Company sells its products both within the United States and in a number of international markets. In recent years, the Company's international net revenues have experienced growth as the Company has sought to increase its international presence. One of the ways the Company has driven international growth is by opportunistically opening offices in certain markets to develop a greater presence. Since 2006, the Company has opened operations in eight new markets around the world namely China, Brazil, Russia, Korea, Romania, Czech Republic, Peru and Colombia. These represent emerging markets where the Company believes that it can achieve higher revenue growth rates than it could achieve in more mature markets. Net revenues of the Company's International segment represented 43%, 39% and 36% of total net revenues in 2011, 2010 and 2009, respectively.

The Company's business is separated into three principal business segments: U.S. and Canada, International and Entertainment and Licensing. The U.S. and Canada segment develops, markets and sells both toy and game products in the U.S. and Canada. The International segment consists of the Company's European, Asia Pacific and Latin and South American toy and game marketing and sales operations. The Company's Entertainment and Licensing segment includes the Company's lifestyle licensing, digital gaming, movie, television and online entertainment operations. In addition to these three primary segments, the Company's world-wide manufacturing and product sourcing operations are managed through its Global Operations segment.

The Company is committed to returning excess cash to its shareholders through share repurchases and dividends. As part of this initiative, from 2005 to 2011, the Company's Board of Directors (the Board) adopted six successive share repurchase authorizations with a cumulative authorized repurchase amount of \$2,825,000. The sixth authorization was approved in May 2011 for \$500,000. At September 30, 2012, the Company had \$212,198 remaining on this authorization. For the quarter and nine month periods ended September 30, 2012, the Company invested \$5,153 and \$15,079, respectively, to repurchase approximately 142 and 422 shares of common stock in the open market, respectively. During the three years ended 2011, the Company spent \$1,150,683 to repurchase 29,395 shares in the open market. The Company intends, at its discretion to, opportunistically repurchase shares in the future subject to market conditions, the Company's other potential uses of cash and the Company's levels of cash generation. In addition to the share repurchase program, the Company also seeks to return cash through the payment of quarterly dividends. Effective for the dividend paid in May 2012, the Company's Board of Directors increased the Company's quarterly dividend rate 20% to \$0.36 per share from \$0.30 per share. This was the sixth dividend increase since 2005. Since then the Company has increased its quarterly cash dividend 300%, from \$0.09 to \$0.36 per share.

**HASBRO, INC. AND SUBSIDIARIES**  
**Management's Discussion and Analysis of Financial**  
**Condition and Results of Operations**

(Thousands of Dollars and Shares Except Per Share Data)

**SUMMARY OF FINANCIAL PERFORMANCE**

-----

The components of the results of operations, stated as a percent of net revenues, are illustrated below for the quarters and nine months ended September 30, 2012 and September 25, 2011.

	<u>Quarter</u>		<u>Nine Months</u>	
	2012	2011	2012	2011
	-----	-----	-----	-----
Net revenues	100.0%	100.0%	100.0%	100.0%
Costs and expenses:				
Cost of sales	43.6	43.6	41.2	42.1
Royalties	6.6	7.9	7.6	7.9
Product development	3.6	3.6	5.1	5.1
Advertising	10.0	9.5	10.0	9.4
Amortization of intangibles	0.9	0.8	1.2	1.1
Program production cost amortization	1.0	0.6	0.9	0.6
Selling, distribution and administration	15.7	16.0	21.5	21.0
	-----	-----	-----	-----
Operating profit	18.6	18.0	12.5	12.8
Interest expense	1.7	1.6	2.4	2.3
Interest income	(0.1)	(0.2)	(0.2)	(0.2)
Other (income) expense, net	0.2	0.5	0.3	0.7
	-----	-----	-----	-----
Earnings before income taxes	16.8	16.1	10.0	10.0
Income tax expense	4.5	3.7	2.7	1.7
	-----	-----	-----	-----
Net earnings	12.3%	12.4%	7.3%	8.3%
	=====	=====	=====	=====

**RESULTS OF OPERATIONS**

-----

The quarters ended September 30, 2012 and September 25, 2011 were each 13-week periods. The nine month period ended September 30, 2012 was a 40-week period whereas the nine month period ended September 25, 2011 was a 39-week period. Net earnings for the quarter and nine months ended September 30, 2012 were \$164,852 and \$205,700, respectively, compared to \$170,990 and \$246,237 for the respective periods of 2011. Diluted earnings per share were \$1.24 and \$1.56 for the quarter and nine months ended September 30, 2012, compared with diluted earnings per share of \$1.27 and \$1.78 for the respective periods in 2011. Net earnings for the nine months ended September 30, 2012 include severance costs, net of tax, of \$7,675, or \$0.06 per share related to a restructuring of certain business units and functions. Net earnings for the quarter and nine months ended September 25, 2011 include expenses, net of tax, of \$1,155, or \$0.01 per share, and \$9,538, or \$0.07 per share, respectively, related to a reorganization of the Company's global games business. Net earnings for the nine months ended September 25, 2011 also include a favorable tax adjustment of approximately \$20,500, or \$0.15 per share, related to

**HASBRO, INC. AND SUBSIDIARIES**  
**Management's Discussion and Analysis of Financial**  
**Condition and Results of Operations**

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

the recognition of previously unrecognized tax benefits and reversal of related accrued interest due to the completion of a tax audit.

Consolidated net revenues for the quarter ended September 30, 2012 decreased 2% to \$1,345,137 compared to \$1,375,811 for the quarter ended September 25, 2011. For the nine months ended September 30, 2012, consolidated net revenues decreased 5% to \$2,805,454 from \$2,956,251 for the nine months ended September 25, 2011. Consolidated net revenues were negatively impacted by foreign currency translation in the amount of approximately \$47,400 and \$90,300 for the quarter and nine months ended September 30, 2012, respectively, as a result of the stronger U.S. dollar in 2012. The following table presents net revenues by product category for the quarter and nine month periods ended September 30, 2012 and September 25, 2011.

	Quarter Ended			Nine Months Ended		
	Sept. 30, 2012	Sept. 25, 2011	%	Sept. 30, 2012	Sept. 25, 2011	%
	-----	-----	Change	-----	-----	Change
			-----			-----
Boys	\$ 471,125	534,595	-12 %	1,162,958	1,285,273	-10 %
Games	365,714	364,740	0 %	763,460	796,393	-4 %
Girls	302,304	259,113	17 %	499,731	491,412	2 %



Edgar Filing: HASBRO INC - Form 10-Q

Preschool		205,994	217,363	-5 %	379,305	383,173	-1 %
		-----	-----		-----	-----	
Net revenues	\$	1,345,137	1,375,811		2,805,454	2,956,251	
		=====	=====		=====	=====	

For the quarter ended September 30, 2012, decreased net revenues in the boys and preschool categories were partially offset by increases in the girls category. Net revenues in the games category were flat in the quarter. For the nine-month period ended September 30, 2012, decreased net revenues in the boys, games and preschool categories were partially offset by increases in the girls category.

*BOYS:* Net revenues in the boys category decreased 12% and 10% in the third quarter and nine months of 2012, respectively, as a result of lower revenue from TRANSFORMERS and BEYBLADE products, which were partially offset by higher sales of MARVEL products, primarily due to products based on the theatrical releases of *THE AVENGERS* in May 2012 and *THE AMAZING SPIDER-MAN* in July 2012. During the quarter and nine months ended September 25, 2011, TRANSFORMERS revenues were positively impacted by the motion picture release of *TRANSFORMERS: DARK OF THE MOON* in June 2011. TRANSFORMERS movie-related product revenues have declined during both the quarter and nine months of 2012, partially offset by increased revenues from TRANSFORMERS PRIME products, supported by global television programming.

*GAMES:* Net revenues in the games category were flat for the quarter and down 4% for the nine months ended September 30, 2012. Higher revenue from MAGIC: THE GATHERING, BATTLESHIP, TWISTER and boys action gaming, including TRANSFORMERS BOT SHOTS, for both the third quarter and nine months were offset in the quarter and more than offset in the

**HASBRO, INC. AND SUBSIDIARIES**  
**Management's Discussion and Analysis of Financial**  
**Condition and Results of Operations**

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

nine months by declines in other game brands. Revenues from DUEL MASTERS were flat in the quarter but increased for the nine months ended September 30, 2012.

*GIRLS:* Net revenues in the girls category increased 17% and 2% for the quarter and nine month periods ended September 30, 2012, respectively, primarily due to new initiatives in the third quarter of 2012, mainly shipments of FURBY products and, to a lesser extent, newly launched ONE DIRECTION products. Higher revenues from MY LITTLE PONY and EASY-BAKE products also contributed to the category's growth in the quarter and nine months. These higher revenues were partially offset by lower revenues from FURREAL FRIENDS, LITTLEST PET SHOP and STRAWBERRY SHORTCAKE products.

*PRESCHOOL:* The preschool category declined 5% and 1% for the third quarter and nine months of 2012, respectively. Increased revenues from PLAYSKOOL, PLAY-DOH and PLAYSKOOL HEROES, which includes MARVEL products and TRANSFORMERS RESCUE BOTS, and new initiatives including KOOSH and PLAYSKOOL ROCKTIVITY, were more than offset by lower sales of SESAME STREET and TONKA products for the quarter and nine months ended September 30, 2012. The third quarter of 2011 included the initial launch of the Company's SESAME STREET products.

Operating profit for the quarter ended September 30, 2012 was \$249,622 compared to \$248,072 for the quarter ended September 25, 2011. Operating profit for the nine-month period ended September 30, 2012 was \$351,630 compared to an operating profit of \$377,402 for the comparable nine-month period of 2011. Operating profit was negatively impacted by foreign currency translation in the amount of approximately \$7,600 and \$11,600 for the quarter and nine months ended September 30, 2012, respectively as a result of the stronger U.S. dollar in 2012. Additionally, operating profit for the nine months ended September 30, 2012 includes severance costs of \$11,100 and an increase in certain expenses as a result of the extra week in the first nine months of 2012 compared to 2011. Operating profit for both the quarter and nine months ended September 30, 2011 also included costs associated with the games restructuring and formation of the Gaming Center of Excellence totaling \$1,811 and \$14,950, respectively.

**HASBRO, INC. AND SUBSIDIARIES**  
**Management's Discussion and Analysis of Financial**  
**Condition and Results of Operations**

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

Most of the Company's revenues and operating profit are derived from its three principal business segments: the U.S. and Canada segment, the International segment and the Entertainment and Licensing segment, which are discussed in detail below. The following table presents net external revenues and operating profit data for the Company's three principal segments for the quarters and nine months ended September 30, 2012 and September 25, 2011.

	<u>Quarter</u>			<u>Nine Months</u>		
	2012	2011	%	2012	2011	%
	-----	-----	-----	-----	-----	-----
Net Revenues						
U.S. and Canada segment	\$ 774,539	764,562	1 %	\$ 1,510,112	1,660,664	-9 %
International segment	524,144	563,310	-7 %	1,174,366	1,192,113	-1 %
Entertainment and Licensing segment	43,066	46,316	-7 %	115,618	98,144	18 %
Operating Profit						
U.S. and Canada segment	\$ 154,239	128,789	20 %	\$ 229,578	227,526	1 %
International segment	85,498	100,739	-15 %	110,265	132,756	-17 %
Entertainment and Licensing segment	10,722	15,251	-30 %	26,652	21,294	25 %

***U.S. AND CANADA SEGMENT***

The U.S. and Canada segment net revenues for the quarter ended September 30, 2012 increased 1% to \$774,539 from \$764,562 for the quarter ended September 25, 2011. Net revenues for the nine months ended September 30, 2012 were \$1,510,112 compared to \$1,660,664 for the nine months ended September 25, 2011. The impact of currency translation was not material for the quarter or nine-month periods of 2012. The decline in net revenues for the nine months ended September 30, 2012 is consistent with the Company's expectation in 2012 that a higher portion of U.S. and Canada sales will shift to the second half of the year as part of a strategy to more closely align shipments with consumer demand.

For the quarter ended September 30, 2012, increased net revenues in the girls category were partially offset by declines in the boys and preschool categories. Net revenues in the games category for the quarter ended September 30,

2012 were flat with the quarter ended September 25, 2011. The launch of FURBY and ONE DIRECTION products, along with higher sales of MY LITTLE PONY and EASY-BAKE products, contributed to growth in the girls category, more than offsetting lower sales of FURREAL FRIENDS, LITTLEST PET SHOP and STRAWBERRY SHORTCAKE products. The boys category declined due to lower sales of TRANSFORMERS movie-related products and STAR WARS, NERF and BEYBLADE products, partially offset by higher sales of MARVEL products. The preschool category declined due to lower sales of SESAME STREET, partially offset by higher sales of PLAYSKOOL HEROES, PLAYSKOOL and KOOSH products. In the games category, revenue growth in MAGIC: THE GATHERING, TWISTER, BATTLESHIP and boys action

**HASBRO, INC. AND SUBSIDIARIES**  
**Management's Discussion and Analysis of Financial**  
**Condition and Results of Operations**

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

gaming offerings, including TRANSFORMERS BOT SHOTS, were offset by declines in other games brands.

For the nine months ended September 30, 2012, increased net revenues in the girls category were offset by declines in the boys, games and preschool categories. The launch of FURBY and ONE DIRECTION products in the third quarter of 2012, along with higher sales of MY LITTLE PONY and EASY-BAKE products, contributed to growth in the girls category, offsetting declines in FURREAL FRIENDS, LITTLEST PET SHOP and STRAWBERRY SHORTCAKE products. The boys category declined due to lower sales of TRANSFORMERS movie-related products and STAR WARS, BEYBLADE and NERF products, partially offset by higher sales of MARVEL products. The preschool category declined due to lower sales of SESAME STREET products, partially offset by higher sales of PLAYSKOOL HEROES, PLAYSKOOL and KOOSH products. The games category declined as growth in MAGIC: THE GATHERING, TWISTER, BATTLESHIP, DUEL MASTERS and boys action gaming, including TRANSFORMERS BOT SHOTS, were more than offset by declines in the other game brands.

U.S. and Canada segment operating profit increased to \$154,239, or 19.9% of net revenues, for the quarter ended September 30, 2012 compared to \$128,789, or 16.8% of net revenues, for the quarter ended September 25, 2011. The increase in operating profit was due to higher revenues as discussed above, along with lower overall expense levels, as declines in product development and selling, distribution and administration expenses were partially offset by higher advertising expense. The increase in operating profit margin for the quarter was primarily due to favorable product mix as well as the lower expense levels.

U.S. and Canada segment operating profit increased to \$229,578, or 15.2% of net revenues, for the nine months ended September 30, 2012 from \$227,526, or 13.7% of net revenues, for the nine months ended September 25, 2011. The increase in operating profit was due to lower royalties, product development and selling, distribution and administration expenses in 2012 compared to 2011, partially offset by the impact of lower net revenues and higher advertising costs. The increase in operating profit margin for the nine month period includes the impact of favorable product mix, partially offset by an increased level of advertising based on the Company's strategy to increase its

spending in 2012 compared to 2011.

#### *INTERNATIONAL SEGMENT*

International segment net revenues decreased by 7% to \$524,144 for the quarter ended September 30, 2012 from \$563,310 for the quarter ended September 25, 2011. Net revenues for the nine months ended September 30, 2012 decreased 1% to \$1,174,366 from \$1,192,113 for the nine months ended September 25, 2011. For the quarter and nine months ended September 30, 2012, International segment net revenues were negatively impacted by currency translation of approximately \$47,100 and \$88,800, respectively, as a result of the stronger U.S. dollar during 2012. Net revenues in Latin America increased 9% in the third quarter 2012 compared to 2011, while Europe and Asia Pacific declined 10% and 14%, respectively. For the nine-month period ended September 30, 2012, net revenues grew 13% in Latin America compared to 2011, while Europe and Asia Pacific declined 5% and 3%, respectively.

### **HASBRO, INC. AND SUBSIDIARIES** **Management's Discussion and Analysis of Financial** **Condition and Results of Operations**

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

Decreased International segment net revenues in the quarter were the result of lower sales in the boys and girls categories. Net revenues from the games and preschool categories were flat in the quarter. In the boys category, higher sales of MARVEL products were more than offset by lower sales of BEYBLADE and TRANSFORMERS movie-related products. Lower net revenues in the girls category were the result of a decline in sales of LITTLEST PET SHOP and FURREAL FRIENDS products, partially offset by higher sales of MY LITTLE PONY products as well as initial sales of FURBY products. Higher sales of BATTLESHIP, TWISTER and boys action gaming in the games category were offset by decreased sales in other game brands. In the preschool category, higher sales from PLAYSKOOL HEROES and PLAY-DOH products were almost wholly offset by lower sales of SESAME STREET products, which were initially launched in the third quarter of last year.

Decreased International segment net revenues for the nine months ended September 30, 2012 resulted from lower sales in the girls and games categories, partially offset by higher sales in the preschool category. Net revenues from the boys category were flat in the nine months. In the girls category, higher sales of MY LITTLE PONY products and initial sales of FURBY products were more than offset by lower sales of LITTLEST PET SHOP and FURREAL FRIENDS products. The games category benefitted from higher sales of MAGIC: THE GATHERING, BATTLESHIP, TWISTER and boys action gaming products. However, these increases were more than offset by lower revenues from other game brands. Increases in the preschool category were driven by higher sales of PLAYSKOOL HEROES and PLAY-DOH products which were partially offset by lower sales of TONKA products. In the boys category, higher sales of MARVEL, STAR WARS and KRE-O products were offset by lower sales of BEYBLADE and TRANSFORMERS movie-related products.

International segment operating profit decreased to \$85,498, or 16.3% of net revenues, for the quarter ended September 30, 2012 from \$100,739, or 17.9% of net revenues, for the quarter ended September 25, 2011. International segment operating profit was negatively impacted by currency translation of \$7,200 for the quarter ended September 30, 2012. Operating profit also decreased as a result of lower net revenues discussed above, as well as higher selling, distribution and administration expenses, partially offset by lower advertising and royalty expenses. Operating profit margin for the quarter was impacted by the lower net revenues in 2012, lower royalties and the timing of certain costs and expenses in 2011 compared to 2012.

For the nine months ended September 30, 2012, operating profit decreased to \$110,265, or 9.4% of net revenues, from \$132,756, or 11.1% of net revenues, for the nine months ended September 25, 2011. International segment operating profit was negatively impacted by currency translation of approximately \$9,600 for the nine months ended September 30, 2012, respectively. Operating profit was negatively impacted by the decreased net revenues discussed above as well as higher selling, distribution and administration expenses. These were partially offset by lower royalty and advertising expenses. Operating profit margin for the nine months of 2012 declined due to lower revenue and higher selling, distribution and administration expense, partially offset by lower royalty and advertising expenses.

**HASBRO, INC. AND SUBSIDIARIES**  
**Management's Discussion and Analysis of Financial**  
**Condition and Results of Operations (continued)**

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

*ENTERTAINMENT AND LICENSING SEGMENT*

Entertainment and Licensing segment net revenues for the quarter ended September 30, 2012 decreased 7% to \$43,066 from \$46,316 for the quarter ended September 25, 2011. Increased net revenues from the sale and distribution of television programming was more than offset by declines in licensing revenues, primarily related to TRANSFORMERS movie-related programs in 2011, as well as lower revenue from motion pictures. The quarter ended September 25, 2011 included a \$5,000 movie-related payment from Universal Studios.

Net revenues for the nine months ended September 30, 2012 were \$115,618 compared to \$98,144 for the nine months ended September 25, 2011. The increase in net revenues was primarily due to higher sales of television programming, which included global television distribution, digital distribution and home entertainment. These were partially offset by lower TRANSFORMERS movie-related licensing revenues.

Entertainment and Licensing segment operating profit decreased to \$10,722 for the quarter ended September 30, 2012 compared to \$15,251 for the quarter ended September 25, 2011. The decrease in operating profit in the quarter primarily reflects the \$5,000 movie-related payment received in 2011. For the nine months ended September 30, 2012, operating profit increased to \$26,652 from \$21,294 for the nine months ended September 25, 2011. The increase in operating profit for the nine months in 2012 primarily reflects the increased net revenues during the nine-month period. While the Company's participation in THE HUB is a component of the Company's television operations, the Company's 50% share in the earnings (loss) is included in other (income) expense and therefore is not a component of operating profit of the segment.

**COSTS AND EXPENSES**

The Company's costs and expenses, stated as percentages of net revenues, are illustrated below for the quarters and nine months ended September 30, 2012 and September 25, 2011.

	Quarter		Nine Months	
	2012	2011	2012	2011
Cost of sales	43.6%	43.6%	41.2%	42.1%
Royalties	6.6	7.9	7.6	7.9

Edgar Filing: HASBRO INC - Form 10-Q

Product development	3.6	3.6	5.1	5.1
Advertising	10.0	9.5	10.0	9.4
Amortization of intangibles	0.9	0.8	1.2	1.1
Program production cost amortization	1.0	0.6	0.9	0.6
Selling, distribution and administration	15.7	16.0	21.5	21.0

Cost of sales decreased in dollars but remained flat as a percent of net revenues to \$586,516, or 43.6% of net revenues, for the quarter ended September 30, 2012 from \$599,524, or 43.6% of net revenues, for the quarter ended September 25, 2011. For the nine months ended September 30, 2012, cost of sales decreased to \$1,155,536, or 41.2% of net revenues, from \$1,244,780, or 42.1% of net revenues for the nine months ended September 25, 2011. Cost of

**HASBRO, INC. AND SUBSIDIARIES**  
**Management's Discussion and Analysis of Financial**  
**Condition and Results of Operations (continued)**

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

sales for the nine month period of 2012 includes severance cost of approximately \$2,800. The decrease in cost of sales for the quarter and nine months primarily reflects the decreased net revenues for those periods. The reduction in cost of sales as a percent of net revenues for the nine months ended September 30, 2012 is a result of favorable revenue mix during the period.

Royalty expense for the quarter ended September 30, 2012 decreased to \$89,224, or 6.6% of net revenues, from \$109,257, or 7.9% of net revenues, for the quarter ended September 25, 2011. Royalty expense for the nine months ended September 30, 2012 decreased to \$212,551, or 7.6% of net revenues, from \$234,680, or 7.9% of net revenues, for the comparable period of 2011. Lower royalty expense for the quarter and nine months was the result of lower sales of certain royalty-bearing entertainment-based products, primarily TRANSFORMERS movie products as well as lower sales of BEYBLADE, STAR WARS and SESAME STREET products. Partially offsetting these declines were increased royalties from higher sales of MARVEL products in both the quarter and nine months of 2012.

Product development expense for the quarter ended September 30, 2012 decreased in dollars but remained flat as percentage of net revenues to \$48,472, or 3.6% of net revenues, from \$49,504, or 3.6% of net revenues, for the quarter ended September 25, 2011. For the nine months ended September 30, 2012, product development expense decreased in dollars but remained flat as a percentage of net revenues to \$143,511, or 5.1% of net revenues compared to \$150,287, or 5.1% of net revenues, for the comparable period of 2011. Product development expense for the quarter and nine month period in 2011 included approximately \$600 and \$7,100, respectively, of expense related to the Company's reorganization of its games business in the third quarter and nine months of 2011. Product development expense for the nine month period in 2012 includes approximately \$2,400 of severance costs incurred in the first quarter of 2012, as well as higher employee costs due to the extra week in 2012 compared to 2011.



Advertising expense for the quarter ended September 30, 2012 increased to \$134,997, or 10.0% of net revenues, compared to \$130,396, or 9.5% of net revenues, for the quarter ended September 25, 2011. For the nine months ended September 30, 2012 advertising expense increased to \$279,339, or 10.0% of net revenues, compared to \$278,703, or 9.4% of net revenues, for the comparable period of 2011. The increase in advertising expense as a percentage of net revenues in 2012 reflects the Company's strategy of increasing its spend in consumer-facing marketing and advertising.

Amortization of intangibles increased to \$12,636, or 0.9% of net revenues, in the third quarter of 2012 from \$11,084, or 0.8% of net revenues, in the third quarter of 2011. For the nine months ended September 30, 2012, amortization expense was \$34,792 or 1.2% of net revenues compared to \$32,378 or 1.1% of net revenues in the nine months ended September 25, 2011.

Program production cost amortization increased to \$12,794, or 1.0% of net revenues, for the quarter ended September 30, 2012 from \$7,844, or 0.6% of net revenues, for the quarter ended September 25, 2011. Program production cost amortization increased to \$25,950, or 0.9% of net revenues, for the nine months ended September 30, 2012, from \$18,082, or 0.6%, of net revenues, for the nine months ended September 25, 2011. Program production

**HASBRO, INC. AND SUBSIDIARIES**  
**Management's Discussion and Analysis of Financial**  
**Condition and Results of Operations (continued)**

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

costs are capitalized as incurred and amortized using the individual-film-forecast method. The increase reflects the higher number of television programs produced and distributed.

For the quarter ended September 30, 2012, the Company's selling, distribution and administration expenses decreased to \$210,876, or 15.7% of net revenues, from \$220,130, or 16.0% of net revenues, for the quarter ended September 25, 2011. For the nine months ended September 30, 2012, selling, distribution and administration expenses decreased in dollars but increased as a percentage of net revenues to \$602,145, or 21.5% of net revenues, from \$619,939, or 21.0% of net revenues, for the nine months ended September 25, 2011. The nine months ended September 30, 2012 includes approximately \$5,900 of severance costs related to the Company's reorganization of its U.S. and Canada segment. The quarter and nine months ended September 25, 2011 includes \$1,200 and \$7,800, respectively, related to the Company's reorganization of its games business in the second quarter of 2011. The decrease for the quarter and nine months also reflects lower administration expense as well as positive impact of foreign currency translation due to the stronger U.S. dollar in 2012 compared to 2011.

NON-OPERATING (INCOME) EXPENSE  
-----

Interest expense for the third quarter of 2012 increased 2.5% to \$23,043 from \$22,479 in the third quarter of 2011. For the nine months ended September 30, 2012 interest expense increased to \$68,568 from \$66,702 in 2011. The increase in interest expense for the nine months ended September 30, 2012 primarily reflects higher average short-term borrowings as well as the impact of the extra week of interest expense on long-term debt in the first quarter of 2012 compared to 2011.

Interest income for the third quarter of 2012 was \$1,270 compared to \$3,017 for the quarter ended September 25, 2011. Interest income for the nine months ended September 30, 2012 was \$5,434 compared to \$5,893 in 2011. Interest income for the quarter and nine months ended September 25, 2011 includes approximately \$1,100 in interest received from the U.S. Internal Revenue Service related to prior years.

Other expense, net, was \$2,900 for the third quarter of 2012 compared to \$7,153 for the third quarter of 2011. Other expense, net, for the nine months ended September 30, 2012 was \$8,754 compared to \$19,344 in 2011. The decrease in other expense, net in both the quarter and nine months of 2012 is primarily due to lower foreign currency losses and investment gains in 2012 compared to losses in 2011. These decreases were partially offset by higher losses from the Company's 50% share of THE HUB. During the third quarter of 2012, the Company recognized losses from THE HUB of approximately \$1,800 compared to \$1,500 during the third quarter of 2011. During the nine months ended September 30, 2012, the Company recognized losses from THE HUB of approximately \$6,000 compared to a loss of approximately \$3,300 in 2011. Foreign currency losses for the nine months ended September 25, 2011 include a loss of approximately \$3,700 related to the termination of certain hedging instruments.

**HASBRO, INC. AND SUBSIDIARIES**  
**Management's Discussion and Analysis of Financial**  
**Condition and Results of Operations (continued)**

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

INCOME TAXES

-----

Income taxes totaled 26.7% of pretax earnings in the third quarter of 2012 compared with 22.8% in the third quarter of 2011. For the nine month period, income taxes totaled 26.5% of pretax earnings in 2012 compared to 17.2% of pretax earnings in 2011. Both periods, as well as the full year 2011, are impacted by certain discrete tax events including the accrual of potential interest and penalties on certain tax positions. Income tax expense for the nine months ended September 25, 2011 also includes a \$20,477 tax benefit as a result of the effective settlement of the 2006 and 2007 IRS exam during the second quarter of 2011. Absent these tax benefits and other discrete tax events, the effective nine month income tax rates for 2012 and 2011 were 26.6% and 25.1%, respectively. The adjusted rate of 26.6% for the nine months ended September 30, 2012 is comparable to the full year 2011 adjusted rate of 26.2%, increasing primarily due to our expectations of a higher portion of earnings in higher tax jurisdictions.

OTHER INFORMATION

-----

Historically, the Company's revenue pattern has shown the second half of the year to be more significant to its overall business than the first half. The Company expects that this concentration will continue, particularly as more of its business has shifted to larger customers with order patterns concentrated in the second half of the year and as the Company shifts more of its U.S. and Canada segment shipments to the second half of the year to better align with consumer demand. The concentration of sales in the second half of the year increases the risk of (a) underproduction of popular items, (b) overproduction of less popular items, and (c) failure to achieve compressed shipping schedules.

The toy and game business is characterized by customer order patterns which vary from year to year largely because of differences each year in the degree of consumer acceptance of product lines, product availability, marketing strategies and inventory policies of retailers, the dates of theatrical releases of major motion pictures for which the Company has product licenses, and changes in overall economic conditions. As a result, comparisons of the Company's unshipped orders on any date with those at the same date in a prior year are not necessarily indicative of the Company's expected sales for that year. Moreover, quick response inventory management practices result in fewer orders being placed significantly in advance of shipment and more orders being placed for immediate delivery. Although the Company may receive orders from customers in advance, it is a general industry practice that these orders are subject to amendment or cancellation by customers prior to shipment and, as such, the Company does not believe that these unshipped orders, at any given date, are indicative of future sales.

**LIQUIDITY AND CAPITAL RESOURCES**

-----

The Company has historically generated a significant amount of cash from operations. In 2011 the Company funded its operations and liquidity needs primarily through cash flows from operations, and, when needed, using borrowings under its available lines of credit, primarily under its commercial paper program.

**HASBRO, INC. AND SUBSIDIARIES**  
**Management's Discussion and Analysis of Financial**  
**Condition and Results of Operations (continued)**

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

During the first three quarters of 2012, the Company continued to fund its working capital needs primarily through cash flows from operations and, when needed, sale of commercial paper. The Company believes that the funds available to it, including cash expected to be generated from operations and funds available through its available lines of credit and commercial paper program are adequate to meet its working capital needs for the remainder of 2012. However, unexpected events or circumstances such as material operating losses or increased capital or other expenditures may reduce or eliminate the availability of external financial resources. In addition, significant disruptions to credit markets may also reduce or eliminate the availability of external financial resources. Although management believes the risk of nonperformance by the counterparties to the Company's financial facilities is not significant, in times of severe economic downturn in the credit markets it is possible that one or more sources of external financing may be unable or unwilling to provide funding to us.

As of September 30, 2012 the Company's cash and cash equivalents totaled \$696,733, substantially all of which is held outside of the United States. Deferred income taxes have not been provided on the majority of undistributed earnings of international subsidiaries as the majority of such earnings are indefinitely reinvested by the Company. Such international cash balances are not available to fund U.S. cash requirements unless the Company decided to repatriate such funds. The Company currently has sufficient sources of cash in the U.S. to fund U.S. cash requirements without the need to repatriate any funds. If the Company's assessment of indefinite reinvestment of international earnings changes, it would be required to accrue for any additional income taxes representing the difference between the tax rates in the U.S. and the applicable tax jurisdiction of the international subsidiaries. If the Company repatriated the funds from its international subsidiaries, it would then be required to pay the additional U.S. income tax. The majority of the Company's cash and cash equivalents held outside of the U.S. as of September 30, 2012 is denominated in the U.S. dollar.

Because of the seasonality in the Company's cash flow, management believes that on an interim basis, rather than discussing only its cash flows, a better understanding of its liquidity and capital resources can be obtained through a discussion of the various balance sheet categories as well. Also, as several of the major categories, including cash and cash equivalents, accounts receivable, inventories and short-term borrowings, fluctuate significantly from quarter to quarter, again due to the seasonality of its business, management believes that a comparison to the comparable period in the prior year is generally more meaningful than a comparison to the prior quarter or prior year-end.

Net cash provided by operating activities in the first nine months of 2012 was \$143,616 compared to net cash provided of \$1,046 in the first nine months of 2011. Accounts receivable decreased 5% to \$1,195,517 at September 30, 2012 from \$1,260,521 at September 25, 2011. The accounts receivable balance at September 30, 2012 includes a decrease of approximately \$12,100 as a result of a stronger U.S. dollar at September 30, 2012 as compared to September 25, 2011. Absent the impact of foreign currency translation, decreases in accounts receivable are primarily the result of lower net revenues for the quarter ended September 30, 2012 compared to net revenues for the quarter ended September 25, 2011 as well as the timing of collections. Days sales outstanding decreased to 80 days at

September 30, 2012 compared to

**HASBRO, INC. AND SUBSIDIARIES**  
**Management's Discussion and Analysis of Financial**  
**Condition and Results of Operations (continued)**

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

82 days at September 25, 2011 reflecting both the timing of sales in the quarter and improved collections in 2012 compared to 2011.

Inventories decreased approximately 11% to \$463,433 at September 30, 2012 from \$518,866 at September 25, 2011. Decreased inventory in the U.S. and Canada was partially offset by higher international inventory balances as a result of expanding international operations.

Prepaid expenses and other current assets increased to \$263,297 at September 30, 2012 from \$243,956 at September 25, 2011, primarily due to increased prepaid royalties, partially offset by lower deferred income taxes. Prepaid royalties increased \$38,400 due to higher current royalty advances related to MARVEL products and THE HUB as well as royalty advances made in 2012 related to license agreements for ONE DIRECTION products and ZYNGA.

Accounts payable and accrued liabilities decreased to \$861,874 at September 30, 2012 from \$929,275 at September 25, 2011. The accounts payable and accrued liabilities balance at September 30, 2012 includes a decrease of approximately \$5,800 as a result of a stronger U.S. dollar at September 30, 2012 as compared to September 25, 2011. Absent the impact of foreign exchange, accounts payable and accrued expenses decreased approximately \$61,600 primarily related to decreased accrued royalties due to lower sales of royalty-bearing BEYBLADE and TRANSFORMERS products as well as lower accrued income taxes due to decreased earnings and timing of payments in 2012 compared to 2011. These decreases were partially offset by higher accrued dividends.

Property, plant, and equipment, net decreased to \$217,636 at September 30, 2012 from \$220,412 at September 25, 2011. Goodwill and other intangible assets, net decreased to \$907,143 at September 30, 2012 from \$954,861 at September 25, 2011. This decrease is entirely due to amortization of intangibles.

Other assets increased to \$702,528 at September 30, 2012 from \$699,148 at September 25, 2011. Other assets at September 30, 2012 included an increase of approximately \$9,800 related to television programming from September 25, 2011. The Company incurs certain costs in connection with the production of television programming which are capitalized by the Company as they are incurred and amortized based on the proportion of revenues related to the program recognized for such period to the estimated remaining ultimate revenues relating to the program. In addition to television programming, royalty advances to THE HUB and other receivables also contributed to the increase. These increases were partially offset by decreases in long-term royalty advances from the Company's relationship with Marvel as well as in the Company's equity investment in THE HUB which decreased to \$330,746 at September 30, 2012 from \$347,297 at September 25, 2011. The decrease in THE HUB investment was due to the Company's share of

THE HUB's losses during the past year as well as cash distributions related to income taxes received by the Company during the first quarter of 2012.

Other liabilities increased to \$393,873 at September 30, 2012 from \$355,970 at September 25, 2011. Higher non-current liabilities are primarily the result of higher uncertain income tax positions at September 30, 2012 compared to September 25, 2011 as well as higher pension liabilities.



**HASBRO, INC. AND SUBSIDIARIES**  
**Management's Discussion and Analysis of Financial**  
**Condition and Results of Operations (continued)**

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

Net cash utilized by investing activities was \$72,338 in the first nine months of 2012 compared to \$78,358 in 2011. Additions to property, plant and equipment were \$74,896 in 2012 compared to \$71,675 in 2011. The 2011 utilization also includes the Company's purchase of intellectual property for approximately \$11,585. These uses of cash were partially offset by cash distributions from THE HUB of approximately \$7,100 and \$4,000 during the first nine months of 2012 and 2011, respectively.

Net cash utilized by financing activities was \$14,748 in the first nine months of 2012 compared to net cash utilized by financing activities of \$465,453 in the first nine months of 2011. Cash payments related to purchases of the Company's common stock were \$15,079 for the first nine months of 2012 compared to \$384,800 in 2011. At September 30, 2012, the Company had \$212,198 remaining available under a \$500,000 May 2011 Board of Directors share repurchase authorization. Dividends paid were \$132,231 for the nine months ended September 30, 2012 compared to \$115,330 in 2011 which reflects the increase in the quarterly dividend rates paid in 2012. Proceeds from short-term borrowings were \$83,380 for the nine months ended September 30, 2012 compared to repayments of short-term borrowings of \$13 for the nine months ended September 25, 2011.

In January 2011, the Company entered into an agreement with a group of banks to establish a commercial paper program (the Program). Under the Program, at the request of the Company and subject to market conditions, the banks may either purchase from the Company, or arrange for the sale by the Company, of unsecured commercial paper notes. Under the Program, the Company may issue notes from time to time up to an aggregate principal amount outstanding at any given time of \$500,000. The maturities of the notes will vary but may not exceed 397 days. The notes will be sold under customary terms in the commercial paper market and will be issued at a discount or par, or alternatively, will be sold at par and will bear varying interest rates based on a fixed or floating rate basis. The interest rates will vary based on market conditions and the ratings assigned to the notes by the credit rating agencies at the time of issuance. Subject to market conditions, the Company intends to utilize the Program as its primary short-term borrowing facility and does not intend to sell unsecured commercial paper notes in excess of the available amount under the revolving credit agreement, discussed below. If, for any reason, the Company is unable to access the commercial paper market, the Company intends to use the revolving credit agreement to meet the Company's short-term liquidity needs. At September 30, 2012, the Company had approximately \$253,400 in borrowings outstanding related to the Program.

The Company has a revolving credit agreement (the Agreement), which provides it with a \$500,000 committed borrowing facility. The Agreement contains certain financial covenants setting forth leverage and coverage requirements, and certain other limitations typical of an investment grade facility, including with respect to liens, mergers and incurrence of indebtedness. The Company was in compliance with all covenants as of and for the quarter ended September 30, 2012. The Company had no borrowings outstanding under its committed revolving credit facility at September 30, 2012. However, the Company had letters of credit outstanding under this facility of approximately \$1,100 at September 30, 2012. Amounts available and unused under the committed line at September 30, 2012 were

approximately \$498,900. The Company intends to utilize the Agreement as a secondary funding facility and to support the Program noted above. Subsequent to September 30, 2012, the Agreement was

**HASBRO, INC. AND SUBSIDIARIES**  
**Management's Discussion and Analysis of Financial**  
**Condition and Results of Operations (continued)**

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

Amended and restated to provide an additional \$200,000 to the existing \$500,000 committed borrowing facility, and the term was extended to October 2017. The Company also has other uncommitted lines from various banks, of which approximately \$34,300 was utilized at September 30, 2012. Of the amount utilized under the uncommitted lines, approximately \$11,300 and \$23,500 represent outstanding borrowings and letters of credit, respectively.

The Company has principal amounts of long-term debt at September 30, 2012 of \$1,384,895 due at varying times from 2014 through 2040. The Company also had letters of credit and other similar instruments of approximately \$190,600 and purchase commitments of \$301,620 outstanding at September 30, 2012. Letters of credit and similar instruments include \$166,000 related to the defense of tax assessments in Mexico. These assessments relate to transfer pricing that the Company is defending and expects to be successful in sustaining its position.

Other contractual obligations and commercial commitments, as detailed in the Company's Annual Report on Form 10-K for the year ended December 25, 2011, did not materially change outside of payments made in the normal course of business and as otherwise set forth in this report. The table of contractual obligations and commercial commitments, as detailed in the Company's Annual Report on Form 10-K for the year ended December 25, 2011, does not include certain tax liabilities recorded related to uncertain tax positions because the Company does not know the ultimate resolution of these liabilities and as such, does not know the ultimate timing of payments, if required, related to these liabilities. These liabilities were \$108,228 at September 30, 2012, and are included as a component of other liabilities in the accompanying consolidated balance sheets.

The Company believes that cash from operations, and, if necessary, its committed line of credit and other borrowing facilities, will allow the Company to meet these and other obligations listed.

**HASBRO, INC. AND SUBSIDIARIES**  
**Management's Discussion and Analysis of Financial**  
**Condition and Results of Operations (continued)**

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

**CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES**

-----

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. As such, management is required to make certain estimates, judgments and assumptions that it believes are reasonable based on the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the periods presented. The significant accounting policies which management believes are the most critical to aid in fully understanding and evaluating the Company's reported financial results include sales allowances, program production costs, recoverability of goodwill and intangible assets, recoverability of royalty advances and commitments, pension costs and obligations and income taxes. These critical accounting policies are the same as those detailed in the Annual Report on Form 10-K for the year ended December 25, 2011.

**FINANCIAL RISK MANAGEMENT**

-----

The Company is exposed to market risks attributable to fluctuations in foreign currency exchange rates, primarily as the result of sourcing products priced in U.S. dollars, Hong Kong dollars and Euros while marketing those products in more than twenty currencies. Results of operations may be affected primarily by changes in the value of the U.S. dollar, Hong Kong dollar, Euro, British pound, Swiss franc, Canadian dollar, Brazilian real and Mexican peso and, to a lesser extent, other currencies in Europe, Latin American and Asia Pacific countries.

To manage this exposure, the Company has hedged a portion of its forecasted foreign currency transactions for fiscal years 2012 through 2013 using foreign exchange forward contracts. The Company is also exposed to foreign currency risk with respect to its net cash and cash equivalents or short-term borrowing positions in currencies other than the U.S. dollar. The Company believes, however, that the on-going risk on the net exposure should not be material to its financial condition. In addition, the Company's revenues and costs have been, and will likely continue to be, affected by changes in foreign currency rates. A significant change in foreign exchange rates can materially impact the Company's revenues and earnings due to translation of foreign-denominated revenues and expenses. The Company does not hedge against translation impacts of foreign exchange. From time to time, affiliates of the Company may make or receive intercompany loans in currencies other than their functional currency. The Company manages this exposure at the time the loan is made by using foreign exchange contracts. Other than as set forth above, the Company does not hedge foreign currency exposures.

The Company reflects all forward contracts at their fair value as an asset or liability on the balance sheet. The Company does not speculate in foreign currency exchange contracts. At September 30, 2012, these contracts had net unrealized gains of \$3,376, of which \$3,600 are recorded in prepaid expenses and other current assets, \$2,088 are recorded in other assets, \$1,801 are recorded in accrued liabilities and \$511 are recorded in other liabilities.

**HASBRO, INC. AND SUBSIDIARIES**  
**Management's Discussion and Analysis of Financial**  
**Condition and Results of Operations (continued)**

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

Included in accumulated other comprehensive income at September 30, 2012 are deferred gains, net of tax, of \$6,676, related to these derivatives.

At September 30, 2012, the Company had fixed rate long-term debt, excluding fair value adjustments, of \$1,384,895. Also at September 30, 2012, the Company had fixed-for-floating interest rate swaps with notional amounts of \$400,000. The interest rate swaps are designed to effectively adjust the interest rates on a portion of the Company's long-term debt from fixed to variable. The interest rate swaps are matched with specific long-term debt issues and are designated and effective as hedges of the change in the fair value of the associated debt. Changes in fair value of these contracts are wholly offset in earnings by changes in the fair value of the related long-term debt. At September 30, 2012, these contracts had a fair value of \$14,011, which was included in other assets, with a corresponding fair value adjustment to increase long-term debt.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

The information required by this item is included in Part I Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and is incorporated herein by reference.

**Item 4. Controls and Procedures.**

The Company maintains disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"), that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 30, 2012. Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

There were no changes in the Company's internal control over financial reporting, as defined in Rule 13a-15(f) promulgated under the Exchange Act, during the quarter ended September 30, 2012, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

The Company has outstanding tax assessments in Mexico relating to the years 2000 through 2005. These tax assessments, which total approximately \$196 million in aggregate (including interest, penalties, and inflation updates) at September 30, 2012 exchange rates, relate to transfer pricing issues between the Company's subsidiaries with respect to the Company's operations in Mexico. The Company has filed suit in the Federal Tribunal of Fiscal and Administrative Justice in Mexico challenging the 2000 through 2004 assessments. The Company filed the suit related to the 2000 and 2001 assessments in May 2009; the 2002 assessment in June 2008; the 2003 assessment in March 2009; and the 2004 assessment in July 2011. The Company is challenging the 2005 assessment through administrative appeals. The Company expects to be successful in sustaining its positions for all of these years. However, in order to challenge the outstanding tax assessments related to 2000 through 2004, as is usual and customary in Mexico in these matters, the Company was required to either make a deposit or post a bond in the full amount of the assessments. The Company elected to post bonds and accordingly, as of September 30, 2012, bonds totaling approximately \$166 million (at September 30, 2012 exchange rates) have been posted related to the 2000 through 2004 assessments. These bonds guarantee the full amounts of the outstanding tax assessments in the event the Company is not successful in its challenge to them. The Company does not currently expect that it will be required to make a deposit or post bonds related to the 2005 assessment as the Company is challenging it through administrative appeals.

The Company is currently party to certain other legal proceedings, none of which it believes to be material to its business or financial condition.

### **Item 1A. Risk Factors.**

This Quarterly Report on Form 10-Q contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, concerning management's expectations, goals, objectives, and similar matters. These forward-looking statements may include statements concerning the Company's product and entertainment plans, anticipated product and entertainment performance, business opportunities and strategies, financial and business goals, expectations for achieving the Company's financial and business goals and other objectives and anticipated uses of cash and may be identified by the use of forward-looking words or phrases such as "anticipate," "believe," "could," "expect," "intend," "look forward," "may," "planned," "potential," "should," "will," and "would" or any variations of words with similar meanings. These forward-looking statements are inherently subject to known and unknown risks and uncertainties.

The Company's actual results or experience may differ materially from those expected or anticipated in the forward-looking statements. The Company has included, under Item 1A. of its Annual Report on Form 10-K, for the year ended December 25, 2011 (the "Annual Report"), a discussion of factors which may impact these

forward-looking statements. In furtherance, and not in limitation, of the more detailed discussion set forth in the Annual Report, specific factors that might cause such a difference include, but are not limited to:

the Company's ability to successfully re-imagine, re-invent and re-ignite its existing products and product lines, including through the use of immersive entertainment experiences, to maintain and further their success and to successfully develop and introduce new brands, products and product lines which achieve and sustain interest from retailers and consumers;

the Company's ability to manufacture, source and ship new and continuing products in a timely and cost-effective manner and customers' and consumers' acceptance and purchase of those products in quantities and at prices that will be sufficient to profitably recover development, manufacturing, marketing, royalty and other costs;

recessions or other economic downturns affecting the U.S., Europe, or any of the Company's other major markets which can negatively impact the retail and credit markets, and the financial health of the Company's retail customers and consumers, and which can result in lower employment levels, less consumer disposable income, lower consumer confidence and, as a consequence, lower consumer spending, including lower spending on purchases of the Company's products;

currency fluctuations, including movements in foreign exchange rates, which can lower the Company's net revenues and earnings, and significantly impact the Company's costs;

other economic and public health conditions in the various markets in which the Company and its customers and suppliers operate throughout the world, which impact the Company's ability and cost to manufacture and deliver products, such as higher fuel and other commodity prices, higher labor costs, higher transportation costs, outbreaks of diseases which affect public health and the movement of people and goods, and other factors, including government regulations, which can create potential manufacturing and transportation delays or impact costs;

unexpected costs, difficulties or delays associated with the operation of Hasbro's Gaming Center of Excellence in Rhode Island and execution of the Company's plans to reinvent our gaming business;

delays, increased costs or difficulties associated with the development and release of planned entertainment for which we intend to offer products;



the concentration of the Company's customers, potentially increasing the negative impact to the Company of difficulties experienced by any of the Company's customers or changes by the Company's customers in their purchasing or selling patterns;

the Company's ability to generate sales during the fourth quarter, particularly during the relatively brief holiday shopping season, which is the period in which the Company derives a substantial portion of its revenues and earnings;

the inventory policies of the Company's retail customers, including the retailers' potential decisions to lower the inventories they are willing to carry, even if it results in lost sales, as well as the concentration of the Company's revenues in the second half and fourth quarter of the year, which coupled with reliance by retailers on quick response inventory management techniques, increases the risk of underproduction of popular items, overproduction of less popular items and failure to achieve compressed shipping schedules;

work stoppages, slowdowns or strikes, which may impact the Company's ability to manufacture or deliver product in a timely and cost-effective manner;

concentration of manufacturing of the substantial majority of the Company's products by third party vendors in the People's Republic of China and the associated impact to the Company of health conditions and other factors affecting social and economic activity in China, affecting the movement of people and products into and out of China, impacting the cost of producing products in China and the cost of exporting them to the Company's other markets or affecting the exchange rates for the Chinese Renminbi, including, without limitation, the impact of tariffs or other trade restrictions being imposed upon goods manufactured in China;

greater than expected costs or difficulties associated with the Company's investment in its television joint venture with Discovery Communications, LLC to run THE HUB network and the creation of new programming content to appear on the network and elsewhere;

consumer interest in and acceptance of the joint venture network, THE HUB, the programming appearing on THE HUB, products related to THE HUB's programming, and other factors impacting the financial performance of THE HUB;

consumer interest in and acceptance of programming and entertainment created by Hasbro Studios, as well as products related to Hasbro Studios' programming and entertainment;

the ability of the Company to hire and retain key officers and employees who are critical to the Company's success;

the costs of complying with product safety and consumer protection requirements worldwide, including the risk that greater regulation in the future may increase such costs, may require changes in the Company's products and/or may impact the Company's ability to sell some products in particular markets in the absence of making changes to such products;

the risk that one of the Company's third-party manufacturers will not comply with applicable labor, consumer protection, product safety or other laws or regulations, or with aspects of the Company's Global Business Ethics Principles, and that such noncompliance will not be promptly detected, either of which could cause damage to the Company's reputation, harm sales of its products and potentially create liability for the Company;

an adverse change in purchasing policies or promotional programs or the bankruptcy or other lack of success of one or more of the Company's significant retailers comprising its relatively concentrated retail customer base, which could negatively impact the Company's revenues or bad debt exposure;

the risk that the market appeal of the Company's licensed products will be less than expected or that sales revenue generated by these products will be insufficient to cover the minimum guaranteed royalties;

the risk that the Company may face product recalls or product liability suits relating to products it manufactures or distributes which may have significant direct costs to the Company and which may also harm the reputation of the Company and its products, potentially harming future product sales;

the impact of competition on revenues, margins and other aspects of the Company's business, including the ability to secure, maintain and renew popular licenses and the ability to attract and retain employees in a competitive environment;

the risk that anticipated benefits of acquisitions may not occur or be delayed or reduced in their realization;

the Company's ability to obtain and enforce intellectual property rights both in the United States and other worldwide territories;

.  
the risk that any litigation or arbitration disputes or regulatory investigations could entail significant expense and result in significant fines or other harm to the Company's business;

.  
the Company's ability to maintain or obtain external financing on terms acceptable to it in order to meet working capital needs;

.  
the risk that one or more of the counterparties to the Company's financing arrangements may experience financial difficulties or otherwise be unable or unwilling to allow the Company to access financing under such arrangements;

.  
the Company's ability to generate sufficient available cash flow to service its outstanding debt;

.  
restrictions that the Company is subject to under its credit agreement;

.  
unforeseen circumstances, such as severe softness in or collapse of the retail environment that may result in a significant decline in revenues and operating results of the Company, thereby causing the Company to be in non-compliance with its debt covenants and the Company being unable to utilize borrowings under its revolving credit facility, a circumstance likely to occur when operating shortfalls would result in the Company being in the greatest need of such supplementary borrowings;

.  
market conditions, third party actions or approvals, the impact of competition and other factors that could delay or increase the cost of implementation of the Company's programs, or alter the Company's actions and reduce actual results;

.  
the risk that the Company may be subject to governmental sanctions for failure to comply with applicable regulations;

.  
failure to operate our information systems and implement new technology effectively, as well as maintain the systems and processes designed to protect our electronic data;

the risk that the Company's reported goodwill may become impaired, requiring the Company to take a charge against its income; or

other risks and uncertainties as are or may be detailed from time to time in the Company's public announcements and filings with the SEC, such as filings on Forms 8-K, 10-Q and 10-K.

The Company undertakes no obligation to revise the forward-looking statements contained in this Quarterly Report on Form 10-Q to reflect events or circumstances occurring after the date of the filing of this report.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Repurchases Made in the Quarter (in whole dollars and number of shares)

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
July 2012 7/2/12 7/29/12	54,400	\$33.85	54,400	\$215,507,344
August 2012 7/30/12 9/2/12	53,950	\$37.24	53,950	\$213,498,421
September 2012 9/3/12 9/30/12	33,986	\$38.25	33,986	\$212,198,430
Total	142,336	\$36.18	142,336	\$212,198,430

On May 19, 2011, the Company announced that its Board of Directors authorized the repurchase of \$500 million in common stock. Purchases of the Company's common stock may be made from time to time, subject to market conditions. These shares may be repurchased in the open market or through privately negotiated transactions. The Company has no obligation to repurchase shares under the authorization, and the timing, actual number, and value of the shares that are repurchased will depend on a number of factors, including the price of the Company's stock. The Company may suspend or discontinue the program at any time and there is no expiration date.

## Item 3. Defaults Upon Senior Securities.

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

- 3.1 Restated Articles of Incorporation of the Company. (Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended July 2, 2000, File No. 1-6682.)
- 3.2 Amendment to Articles of Incorporation, dated June 28, 2000. (Incorporated by reference to Exhibit 3.4 to the Company's Quarterly Report on Form 10-Q for the period ended July 2, 2000, File No. 1-6682.)
- 3.3 Amendment to Articles of Incorporation, dated May 19, 2003. (Incorporated by reference to Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q for the period ended June 29, 2003, File No. 1-6682.)
- 3.4 Amended and Restated Bylaws of the Company, as amended. (Incorporated by reference to Exhibit 3(d) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, File No. 1-6682.)
- 3.5 Certificate of Designations of Series C Junior Participating Preference Stock of Hasbro, Inc. dated June 29, 1999. (Incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the period ended July 2, 2000, File No. 1-6682.)
- 3.6 Certificate of Vote(s) authorizing a decrease of class or series of any class of shares. (Incorporated by reference to Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q for the period ended July 2, 2000, File No 1-6682.)
- 4.1 Indenture, dated as of July 17, 1998, by and between the Company and Citibank, N.A. as Trustee. (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated July 14, 1998, File No. 1-6682.)
- 4.2 Indenture, dated as of March 15, 2000, by and between the Company and the Bank of Nova Scotia Trust Company of New York. (Incorporated by reference to Exhibit 4(b)(i) to the Company's Annual Report on Form 10-K for the fiscal year ended December 26, 1999, File No. 1-6682.)

- 4.3 First Supplemental Indenture, dated as of September 17, 2007, between the Company and the Bank of Nova Scotia Trust Company of New York. (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed September 17, 2007, File No. 1-6682.)

**Item 6. Exhibits (continued)**

- |          |  |
|----------|--|
| 4.4      | Second Supplemental Indenture, dated as of May 13, 2009, between the Company and the Bank of Nova Scotia Trust Company of New York. (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed May 13, 2009, File No. 1-6682.)    |
| 4.5      | Third Supplemental Indenture, dated as of March 11, 2010, between the Company and the Bank of Nova Scotia Trust Company of New York. (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed March 11, 2010, File No. 1-6682.) |
| 31.1     | Certification of the Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.   |
| 31.2     | Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.   |
| 32.1*    | Certification of the Chief Executive Officer Pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934.   |
| 32.2*    | Certification of the Chief Financial Officer Pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934.   |
| 101.INS* | XBRL Instance Document   |
| 101.SCH* | XBRL Taxonomy Extension Schema Document  |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.LAB* | XBRL Taxonomy Extension Labels Linkbase Document   |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document   |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document   |

\* Furnished herewith.



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HASBRO, INC.

-----  
(Registrant)

Date: November 7, 2012

By: /s/ Deborah Thomas

-----  
Deborah Thomas

Senior Vice President and  
Chief Financial Officer  
(Duly Authorized Officer and  
Principal Financial Officer)

Edgar Filing: HASBRO INC - Form 10-Q

HASBRO, INC. AND SUBSIDIARIES

Quarterly Report on Form 10-Q

For the Period Ended September 30, 2012

Exhibit Index

Exhibit No. -----	Exhibits -----
3.1	Restated Articles of Incorporation of the Company. (Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended July 2, 2000, File No. 1-6682.)
3.2	Amendment to Articles of Incorporation, dated June 28, 2000. (Incorporated by reference to Exhibit 3.4 to the Company's Quarterly Report on Form 10-Q for the period ended July 2, 2000, File No. 1-6682.)
3.3	Amendment to Articles of Incorporation, dated May 19, 2003. (Incorporated by reference to Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q for the period ended June 29, 2003, File No. 1-6682.)
3.4	Amended and Restated Bylaws of the Company, as amended. (Incorporated by reference to Exhibit 3(d) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, File No. 1-6682.)
3.5	Certificate of Designations of Series C Junior Participating Preference Stock of Hasbro, Inc. dated June 29, 1999. (Incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the period ended July 2, 2000, File No. 1-6682.)
3.6	Certificate of Vote(s) authorizing a decrease of class or series of any class of shares. (Incorporated by reference to Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q for the period ended July 2, 2000, File No 1-6682.)
4.1	

Edgar Filing: HASBRO INC - Form 10-Q

	Indenture, dated as of July 17, 1998, by and between the Company and Citibank, N.A. as Trustee. (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated July 14, 1998, File No. 1-6682.)
4.2	Indenture, dated as of March 15, 2000, by and between the Company and the Bank of Nova Scotia Trust Company of New York. (Incorporated by reference to Exhibit 4(b)(i) to the Company's Annual Report on Form 10-K for the year ended December 26, 1999, File No. 1-6682.)
4.3	First Supplemental Indenture, dated as of September 17, 2007, between the Company and the Bank of Nova Scotia Trust Company of New York. (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed September 17, 2007, File No. 1-6682.)
4.4	Second Supplemental Indenture, dated as of May 13, 2009, between the Company and the Bank of Nova Scotia Trust Company of New York. (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed May 13, 2009, File No. 1-6682.)
4.5	Third Supplemental Indenture, dated as of March 11, 2010, between the Company and the Bank of Nova Scotia Trust Company of New York. (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed March 11, 2010, File No. 1-6682.)
31.1	Certification of the Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
31.2	Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
32.1*	Certification of the Chief Executive Officer Pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934.
32.2*	Certification of the Chief Financial Officer Pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document

Edgar Filing: HASBRO INC - Form 10-Q

101.CAL*	XBRL Taxonomy Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

\* Furnished herewith.