

HASBRO INC
Form 10-Q
July 26, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 26, 2016

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

Commission File Number 1-6682

HASBRO, INC.

(Exact name of registrant as specified in its charter)

Rhode Island
(State of Incorporation)

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

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

(401) 431-8697

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(Registrant's Telephone Number, Including Area Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 No

The number of shares of Common Stock, par value \$.50 per share, outstanding as of July 18, 2016 was 125,407,912.

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

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

	June 26, 2016	June 28, 2015	December 27, 2015
<u>ASSETS</u>			
Current assets			
Cash and cash equivalents	\$ 924,098	858,458	976,750
Accounts receivable, less allowance for doubtful accounts of \$32,800, \$16,300 and \$14,900	703,821	709,437	1,217,850
Inventories	572,391	403,789	384,492
Prepaid expenses and other current assets	323,046	360,101	286,506
Total current assets	2,523,356	2,331,785	2,865,598
Property, plant and equipment, less accumulated depreciation of \$375,300, \$359,300 and \$363,600			
	242,607	225,911	237,527
Other assets			
Goodwill	592,806	592,802	592,695
Other intangibles, net, accumulated amortization of \$858,700, \$823,800 and \$841,300	263,425	298,231	280,807
Other	722,191	768,960	744,090
Total other assets	1,578,422	1,659,993	1,617,592
Total assets	\$ 4,344,385	4,217,689	4,720,717
<u>LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND SHAREHOLDERS' EQUITY</u>			
Current liabilities			
Short-term borrowings	\$ 5,400	167,877	164,563
Accounts payable	214,243	185,631	241,210
Accrued liabilities	525,377	447,380	658,874
Total current liabilities	745,020	800,888	1,064,647
Long-term debt	1,547,753	1,546,477	1,547,115
Other liabilities	402,614	400,432	404,883
Total liabilities	2,695,387	2,747,797	3,016,645
Redeemable noncontrolling interests	36,465	41,387	40,170

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 at June 26, 2016, June 28, 2015, and December 27,
2015

104,847 104,847 104,847

Additional paid-in capital

945,802 850,582 893,630

Retained earnings

3,825,289 3,583,803 3,852,321

Accumulated other comprehensive loss

(174,301) (103,476) (146,001)

Treasury stock, at cost; 84,241,018 shares at June 26, 2016;
84,781,723

shares at June 28, 2015; and 84,899,200 shares at December 27,
2015

(3,089,104) (3,007,251) (3,040,895)

Total shareholders' equity

1,612,533 1,428,505 1,663,902

Total liabilities, redeemable noncontrolling interests and
shareholders' equity

\$ 4,344,385 4,217,689 4,720,717

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		Six Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Net revenues	\$ 878,945	797,658	1,710,125	1,511,158
Costs and expenses:				
Cost of sales	321,676	295,399	611,916	543,134
Royalties	69,408	57,069	139,377	116,158
Product development	63,671	57,609	120,835	109,506
Advertising	86,957	78,365	166,816	146,107
Amortization of intangibles	8,691	13,348	17,382	26,299
Program production cost amortization	5,033	7,220	11,219	18,316
Selling, distribution and administration	238,635	213,148	471,790	421,933
Total costs and expenses	794,071	722,158	1,539,335	1,381,453
Operating profit	84,874	75,500	170,790	129,705
Non-operating (income) expense:				
Interest expense	23,914	24,186	47,958	48,771
Interest income	(2,312)	(690)	(4,525)	(1,620)
Other (income) expense, net	(3,748)	(1,642)	1,124	(5,407)
Total non-operating expense, net	17,854	21,854	44,557	41,744
Earnings before income taxes	67,020	53,646	126,233	87,961
Income tax expense	17,601	13,364	29,843	21,858
Net earnings	49,419	40,282	96,390	66,103
Net loss attributable to noncontrolling interests	(2,687)	(1,527)	(4,467)	(2,373)
Net earnings attributable to Hasbro, Inc.	\$ 52,106	41,809	100,857	68,476
Net earnings attributable to Hasbro, Inc. per common share:				
Basic	\$ 0.42	0.33	0.80	0.55
Diluted	\$ 0.41	0.33	0.79	0.54
Cash dividends declared per common share	\$ 0.51	0.46	1.02	0.92

See accompanying condensed notes to consolidated financial statements.

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

	Quarter Ended		Six Months Ended	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Net earnings	\$ 49,419	40,282	96,390	66,103
Other comprehensive earnings (loss):				
Foreign currency translation adjustments	7,825	642	19,965	(46,669)
Net (losses) gains on cash flow hedging activities, net of tax	(8,258)	(9,672)	(24,044)	52,628
Unrealized holding (losses) gains on available-for-sale securities, net of tax	(327)	715	1,353	941
Reclassifications to earnings, net of tax:				
Net gains on cash flow hedging activities	(10,363)	(9,458)	(27,924)	(17,419)
Unrecognized pension and postretirement amounts	1,175	1,293	2,350	2,497
Total other comprehensive loss, net of tax	(9,948)	(16,480)	(28,300)	(8,022)
Comprehensive earnings	39,471	23,802	68,090	58,081
Comprehensive loss attributable to noncontrolling interests	(2,687)	(1,527)	(4,467)	(2,373)
Comprehensive earnings attributable to Hasbro, Inc.	\$ 42,158	25,329	72,557	60,454

See accompanying condensed notes to consolidated financial statements.

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

	Six Months Ended	
	June 26, 2016	June 28, 2015
Cash flows from operating activities:		
Net earnings	\$ 96,390	66,103
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation of plant and equipment	57,091	50,749
Amortization of intangibles	17,382	26,299
Program production cost amortization	11,219	18,316
Deferred income taxes	8,702	(5,234)
Stock-based compensation	25,577	21,714
Change in operating assets and liabilities:		
Decrease in accounts receivable	519,376	333,467
Increase in inventories	(185,048)	(100,563)
(Increase) decrease in prepaid expenses and other current assets	(60,483)	435
Program production costs	(25,387)	(21,557)
Decrease in accounts payable and accrued liabilities	(193,785)	(162,483)
Other	(2,193)	8,858
Net cash provided by operating activities	268,841	236,104
Cash flows from investing activities:		
Additions to property, plant and equipment	(66,390)	(67,709)
Other	20,431	8,706
Net cash utilized by investing activities	(45,959)	(59,003)
Cash flows from financing activities:		
Net repayments of other short-term borrowings	(159,136)	(84,420)
Purchases of common stock	(57,337)	(49,156)
Stock option transactions	36,388	34,297
Excess tax benefits from stock-based compensation	18,423	7,947
Dividends paid	(121,311)	(110,902)
Other	762	(81)
Net cash utilized by financing activities	(282,211)	(202,315)
Effect of exchange rate changes on cash	6,677	(9,495)
Decrease in cash and cash equivalents	(52,652)	(34,709)
Cash and cash equivalents at beginning of year	976,750	893,167
Cash and cash equivalents at end of period	\$ 924,098	858,458
Supplemental information		
Cash paid during the period for:		
Interest	\$ 43,682	43,977
Income taxes	\$ 49,297	36,727

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 June 26, 2016 and June 28, 2015, 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 June 26, 2016 and June 28, 2015 are each 13-week periods. The six-month periods ended June 26, 2016 and June 28, 2015 are each 26-week periods.

The results of operations for the quarter and six-month periods ended June 26, 2016 are not necessarily indicative of results to be expected for the full year, nor were those of the comparable 2015 periods representative of those actually experienced for the full year 2015.

These condensed consolidated financial statements have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in the consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. The Company filed audited consolidated financial statements for the fiscal year ended December 27, 2015 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 27, 2015.

(2) Earnings Per Share

Net earnings per share data for the quarters and six-month periods ended June 26, 2016 and June 28, 2015 were computed as follows:

<u>Quarter</u>	2016		2015	
	Basic	Diluted	Basic	Diluted
Net earnings attributable to Hasbro, Inc.	\$ 52,106	52,106	41,809	41,809
Average shares outstanding	125,475	125,475	125,093	125,093
Effect of dilutive securities:				
Options and other share-based awards	-	1,566	-	1,713
Equivalent Shares	125,475	127,041	125,093	126,806
Net earnings attributable to Hasbro, Inc. per common share	\$ 0.42	0.41	0.33	0.33

Six Months	2016		2015	
	Basic	Diluted	Basic	Diluted
Net earnings attributable to Hasbro, Inc.	\$ 100,857	100,857	68,476	68,476
Average shares outstanding	125,371	125,371	124,973	124,973
Effect of dilutive securities:				
Options and other share-based awards	-	1,624	-	1,601
Equivalent Shares	125,371	126,995	124,973	126,574
Net earnings attributable to Hasbro, Inc. per common share	\$ 0.80	0.79	0.55	0.54

For the quarter ended June 26, 2016, options and restricted stock units totaling 492 were excluded from the calculation of diluted earnings per share because to include them would have been antidilutive. No options and restricted stock units were excluded from the calculation of diluted earnings per share for the quarter ended June 28, 2015. For the six-month periods ended June 26, 2016 and June 28, 2015, options and restricted stock units totaling 492 and 391, respectively, were excluded from the calculation of diluted earnings per share because to include them would have been antidilutive.

(3) Other Comprehensive Earnings (Loss)

Components of other comprehensive earnings (loss) are presented within the consolidated statements of comprehensive earnings. The following table presents the related tax effects on changes in other comprehensive earnings (loss) for the quarter and six-month periods ended June 26, 2016 and June 28, 2015.

	Quarter Ended		Six Months Ended	
	June 26,	June 28,	June 26,	June 28,
	2016	2015	2016	2015
Other comprehensive earnings (loss), tax effect:				
Tax benefit (expense) on cash flow hedging activities	\$ 4,747	853	8,003	(3,962)
Tax benefit (expense) on unrealized holding gains (losses)	185	(408)	(768)	(536)
Reclassifications to earnings, tax effect:				
Tax expense on cash flow hedging activities	1,069	708	2,818	1,050
Tax benefit on unrecognized pension and postretirement amounts reclassified to the consolidated statements of operations	(666)	(596)	(1,333)	(1,280)
Total tax effect on other comprehensive earnings (loss)	\$ 5,335	557	8,720	(4,728)

Changes in the components of accumulated other comprehensive loss for the six months ended June 26, 2016 and June 28, 2015 are as follows:

	Pension and Postretirement Amounts	Gains (Losses) on Derivative Instruments	Unrealized Holding Gains on Available- for-Sale Securities	Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Earnings (Loss)
2016					
Balance at December 27, 2015	\$ (102,931)	79,317	1,258	(123,645)	(146,001)
Current period other comprehensive earnings (loss)	2,350	(51,968)	1,353	19,965	(28,300)
Balance at June 26, 2016	\$ (100,581)	27,349	2,611	(103,680)	(174,301)