

HASBRO INC  
Form 10-Q  
May 07, 2009

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 March 29, 2009

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).

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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 April 20, 2009 was 139,835,080.

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

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

	March 29, 2009 -----	March 30, 2008 -----	Dec. 28, 2008 -----
Assets			
Current assets			
Cash and cash equivalents	\$ 590,388	832,180	630,390
Accounts receivable, less allowance for doubtful accounts of \$31,200, \$33,100 and \$32,400	365,037	388,693	611,766
Inventories	295,248	291,199	300,463
Prepaid expenses and other current assets	199,147	210,739	171,387
	-----	-----	-----
Total current assets	1,449,820	1,722,811	1,714,006
Property, plant and equipment, less accumulated depreciation of \$405,200, \$415,200 and \$403,100	217,919	201,682	211,707
	-----	-----	-----
Other assets			
Goodwill	473,850	479,542	474,497
Other intangibles, less accumulated amortization of \$819,200, \$743,400 and \$799,500	548,485	538,430	568,412
Other	237,748	184,014	200,175
	-----	-----	-----
Total other assets	1,260,083	1,201,986	1,243,084
	-----	-----	-----
Total assets	\$ 2,927,822 =====	3,126,479 =====	3,168,797 =====



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

	March 29, 2009 -----	March 30, 2008 -----	Dec. 28, 2008 -----
Liabilities and Shareholders' Equity			
Current liabilities			
Short-term borrowings	\$ 45,716	171,249	7,586
Current portion of long-term debt	-	135,311	-
Accounts payable	120,591	163,608	184,453
Accrued liabilities	404,945	425,713	607,853
	-----	-----	-----
Total current liabilities	571,252	895,881	799,892
Long-term debt, excluding current portion	709,723	709,723	709,723
Other liabilities	265,992	254,164	268,396
	-----	-----	-----
Total liabilities	1,546,967	1,859,768	1,778,011
	-----	-----	-----
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	441,921	381,330	450,155
Retained earnings	2,448,405	2,271,427	2,456,650
Accumulated other comprehensive earnings	58,785	82,022	62,256
Treasury stock, at cost; 69,867,161 shares at March 29, 2009, 70,089,465 at March 30, 2008 and 70,465,216 at December 28, 2008	(1,673,103 )	(1,572,915 )	(1,683,122 )
	-----	-----	-----
Total shareholders' equity	1,380,855	1,266,711	1,390,786

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	-----	-----	-----
Total liabilities and shareholders' equity	\$ 2,927,822	3,126,479	3,168,797
	=====	=====	=====

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	
	March 29, 2009	March 30, 2008
Net revenues	\$ 621,340	704,220
Cost of sales	244,753	271,161
Gross profit	376,587	433,059
Expenses		
Amortization	19,887	18,438
Royalties	54,453	58,422
Research and product development	37,131	41,770
Advertising	62,309	76,983
Selling, distribution and administration	161,590	176,193
Total expenses	335,370	371,806
Operating profit	41,217	61,253
Nonoperating (income) expense		
Interest expense	9,715	11,428
Interest income	(1,265)	(7,706)
Other (income) expense, net	4,180	1,861
Total nonoperating expense, net	12,630	5,583
Earnings before income taxes	28,587	55,670
Income taxes	8,857	18,200
Net earnings	\$ 19,730	37,470
Net earnings per common share		

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Basic	\$ 0.14	0.26
	=====	=====
Diluted	\$ 0.14	0.25
	=====	=====
Cash dividends declared per common share	\$ 0.20	0.20
	=====	=====

See accompanying condensed notes to consolidated financial statements.



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

	Quarter Ended	
	March 29, 2009	March 30, 2008
Cash flows from operating activities		
Net earnings	\$ 19,730	37,470
Adjustments to reconcile net earnings to net cash (utilized) provided by operating activities:		
Depreciation of plant and equipment	15,228	15,313
Amortization	19,887	18,438
Deferred income taxes	11,725	(606 )
Stock-based compensation	6,020	9,917
Change in operating assets and liabilities:		
Decrease in accounts receivable	225,980	282,789
Decrease (increase) in inventories	320	(18,413 )
(Increase) decrease in prepaid expenses and other current assets	(18,339 )	11,902
Decrease in accounts payable and accrued liabilities	(253,435 )	(197,889 )
Other, including long-term portion of royalty advances	(49,773 )	(5,069 )
Net cash (utilized) provided by operating activities	(22,657 )	153,852
Cash flows from investing activities		
Additions to property, plant and equipment	(24,535 )	(24,764 )
Investments and acquisitions, net of cash acquired	-	(67,166 )
Purchases of short-term investments	-	(42,000 )
Proceeds from sales of short-term investments	-	42,000
Other	1,045	(2,282 )
Net cash utilized by investing activities	(23,490 )	(94,212 )
Cash flows from financing activities		
Net proceeds of other short-term borrowings	37,256	159,829
Purchases of common stock	-	(151,997 )
Stock option transactions	814	10,245
Excess tax benefits from stock-based compensation	1,088	480

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Dividends paid	(27,854 )	(22,917 )
	-----	-----
Net cash provided (utilized) by financing activities	11,304	(4,360 )
	-----	-----
Effect of exchange rate changes on cash	(5,159 )	2,442
	-----	-----
(Decrease) increase in cash and cash equivalents	(40,002 )	57,722
Cash and cash equivalents at beginning of year	630,390	774,458
	-----	-----
Cash and cash equivalents at end of period	\$ 590,388	832,180
	=====	=====

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

	Quarter Ended	
	March 29, 2009	March 30, 2008
Supplemental information		
Cash paid during the period for:		
Interest	\$15,013	19,454
Income taxes	\$31,349	1,931

See accompanying condensed notes to consolidated financial statements.

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

	Quarter Ended	
	March 29, 2009	March 30, 2008
Net earnings	\$ 19,730	37,470
Other comprehensive (loss) earnings	(3,471)	7,084
Total comprehensive earnings	\$ 16,259	44,554

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)** 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 March 29, 2009 and March 30, 2008, 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 March 29, 2009 and March 30, 2008 are both 13-week periods.

The results of operations for the quarter ended March 29, 2009 are not necessarily indicative of results to be expected for the full year.

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 28, 2008 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 for the fiscal year ended December 28, 2008.

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

Certain amounts in the 2008 consolidated financial statements have been reclassified to conform to the 2009 presentation.

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

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

(2) Net earnings per share data for the fiscal quarters ended March 29, 2009 and March 30, 2008 were computed as follows:

	2009		2008	
	----- Basic -----	----- Diluted -----	----- Basic -----	----- Diluted -----
Net earnings	\$ 19,730	19,730	37,470	37,470
Effect of dilutive securities:				
Interest expense on contingent convertible debentures due 2021	-	1,082	-	1,059
Adjusted net earnings	----- \$ 19,730 =====	----- 20,812 =====	----- 37,470 =====	----- 38,529 =====
Average shares outstanding	140,047	140,047	142,314	142,314
Effect of dilutive securities:				
Contingent convertible debentures due 2021	-	11,566	-	11,566
Options	-	1,343	-	2,366
Equivalent shares	----- 140,047 =====	----- 152,956 =====	----- 142,314 =====	----- 156,246 =====
Net earnings per common share	----- \$ 0.14 =====	----- 0.14 =====	----- 0.26 =====	----- 0.25 =====

For the quarters ended March 29, 2009 and March 30, 2008, the effect of the Company's contingent convertible debt was dilutive and, accordingly, for the diluted earnings per share calculation, the numerator includes an adjustment to earnings to exclude the interest expense incurred for these debentures and the denominator includes an adjustment to include the shares issuable upon conversion.

Options to acquire shares totaling 5,535 at March 29, 2009 and 6,768 at March 30, 2008 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 for the quarters ended March 29, 2009 and March 30, 2008 consist of the following:

	2009	2008
	-----	-----
Foreign currency translation adjustments	\$ (16,078)	19,548
Changes in value of available-for-sale securities, net of tax	(806)	(900)
Change in unrecognized pension and postretirement amounts, net of tax	(571)	-
Gain (loss) on cash flow hedging activities, net of tax	22,933	(14,460)
Reclassifications to earnings, net of tax:		
Net (gains) losses on cash flow hedging activities	(8,949)	2,896
	-----	-----
Other comprehensive (loss) earnings	\$ (3,471)	7,084
	=====	=====

At March 29, 2009, the Company had recorded deferred gains on hedging instruments, net of tax, of \$77,497 in accumulated other comprehensive earnings ( AOCE ). These instruments hedge certain anticipated inventory purchases and other cross-border transactions through 2011. These amounts will be reclassified into the consolidated statement of operations upon the sale of the related inventory or receipt or payment of the related royalties and expenses. Of the amount included in AOCE at March 29, 2009, the Company expects approximately \$34,000 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.

(4) The Company, except for certain international subsidiaries, has pension plans covering substantially all of its full-time employees. Substantially all United States employees are covered under at least one of several non-contributory defined benefit pension plans maintained by the Company. Benefits under the two major plans which principally cover non-union employees are based primarily on salary and years of service. One of these major plans is funded. Benefits under the remaining plans are based primarily on fixed amounts for specified years of service. Of these remaining plans, the plan covering union employees is also funded. Effective at the end of December 2007, the Company froze pension benefits being accrued for its non-union employees in the United States. Pension coverage for employees of Hasbro's international subsidiaries is provided, to the extent deemed appropriate, through separate defined benefit and defined contribution plans.





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

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

The components of the net periodic cost of the Company's defined benefit pension and other postretirement plans for the quarters ended March 29, 2009 and March 30, 2008 are as follows:

	Pension		Postretirement	
	-----	-----	-----	-----
	2009	2008	2009	2008
	-----	-----	-----	-----
Service cost	\$ 1,031	1,215	156	142
Interest cost	5,286	5,417	476	517
Expected return on assets	(5,375 )	(7,058 )	-	-
Net amortization and deferrals	1,411	375	3	29
	-----	-----	-----	-----
Pension expense (benefit)	\$ 2,353	(51 )	635	688
	=====	=====	=====	=====

In the first quarter of fiscal 2009, the Company made cash contributions to its defined benefit pension plans of approximately \$10,700. The Company expects to contribute approximately \$17,100 during the remainder of fiscal 2009.

(5) 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 tax authorities as well as international tax authorities in various tax jurisdictions. The Company is no longer subject to U.S. federal tax examinations for years before 2004. 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 2003.

The U.S. Internal Revenue Service has commenced an examination related to the 2004 and 2005 U.S. federal income tax returns. The Company is also under income tax examination in Mexico and in several other U.S. state and foreign jurisdictions. The ultimate resolution of the U.S. and Mexican examinations, as well as other matters that may be resolved in the next twelve months, is not yet determinable. In connection with the Mexican examinations for the years 2000 to 2003, the Company has received tax assessments related to transfer pricing which the Company is vigorously defending. The Company expects to be successful in sustaining its position with respect to these assessments as well as similar positions which may be taken by the Mexican tax authorities in future periods. In order to continue the process of defending its position, the Company was required to guarantee the amount of the

outstanding assessments, as is usual and customary in Mexico in these matters. Accordingly, as of March 29, 2009, bonds totaling \$87,484 have been provided to the Mexican government, allowing the Company to defend its position.

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

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

(6) The Company measures certain assets at fair value in accordance with Statement of Financial Accounting Standards No. 157, Fair Value Measurements ( SFAS No. 157 ). The SFAS No. 157 fair value hierarchy consists of three levels: Level 1 fair values are valuations 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 valuations 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 valuations 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. SFAS No. 157 was not required to be adopted for certain non-financial assets and liabilities until the first day of fiscal 2009. The Company adopted the remaining provisions of SFAS No. 157 for non-financial assets in the first quarter of 2009. The adoption of these provisions did not have an impact on the Company's statements of operations or statement of financial position.

At March 29, 2009, the Company had the following assets measured at fair value in its consolidated balance sheet:

	Fair Value Measurements at			
	March 29, 2009 Using			
	Quoted			
	Prices in			
	Active			
	Markets	Significant		
	for	Other	Significant	
	Identical	Observable	Unobservable	
	Assets	Inputs	Inputs	
	(Level 1)	(Level 2)	(Level 3)	
	-----	-----	-----	-----
Available-for-sale securities	\$ 3,359	51	-	3,308
Derivatives	86,469	-	86,469	-
	-----	-----	-----	-----
Total	\$89,828	51	86,469	3,308

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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. The remaining available-for-sale securities consist of warrants to purchase common stock. 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. The Company's derivatives are measured using inputs that are observable indirectly through corroboration with readily available market data, in this case foreign exchange rates. The Company's derivatives consist of foreign currency forward contracts. The Company uses current forward rates of the respective foreign currencies to measure the fair value of these contracts. There were no changes in these valuation techniques during the first quarter of 2009.

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

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

The following is a reconciliation of the beginning and ending balances of the fair value measurements of the Company's available-for-sale securities that use significant unobservable inputs (Level 3):

Balance at December 28, 2008	\$4,591
Loss included in other comprehensive income	(1,283)
	-----
Balance at March 29, 2009	\$3,308
	=====

(7) In March 2008, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities , ( SFAS 161 ), which requires enhanced disclosures related to derivative instruments and hedging activities. The Company adopted the provisions of SFAS 161 during the quarter ended March 29, 2009.

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, Euros and United Kingdom pound sterling 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.

Cash Flow Hedges

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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 hedging instruments 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 from 2009 through 2011.

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At March 29, 2009, the notional amounts and fair values of the Company's foreign currency forward contracts designated as cash flow hedging instruments were as follows:

Hedged Transaction	Notional Amount	Fair Value
-----	-----	-----
Inventory Purchases	\$ 494,662	62,123
Intercompany Royalty Transactions	190,298	24,569
Other	11,856	(378)
	-----	-----
Total	\$ 696,816	86,314
	=====	=====

**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 sheet at March 29, 2009 as follows:

Prepaid expenses and other current assets	
-----	
Unrealized Gains	\$ 38,707
Unrealized Losses	(1,177)
	-----
Net Unrealized Gain	37,530
	-----
Other Assets	
-----	
Unrealized Gains	48,784
	-----
Total	\$ 86,314
	=====

During the quarter ended March 29, 2009, the Company reclassified net gains from other comprehensive earnings to net earnings of \$10,145. Of this amount, \$8,092 and \$2,053 were reclassified to cost of sales and royalty expense, respectively. There were no reclassifications to earnings as a result of hedge ineffectiveness in the first quarter of 2009.

Undesignated Hedges

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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. As of March 29, 2009, the total notional amount of the Company's undesignated derivative instruments was \$38,175.



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At March 29, 2009, the fair values of the Company's undesignated derivative financial instruments are recorded in prepaid expenses and other current assets in the consolidated balance sheet as follows:

Unrealized Gains	\$ 468
Unrealized Losses	(313)
	-----
Net Unrealized Gain	\$ 155
	=====

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

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

The Company recorded a net loss of \$402 on these instruments to other (income) expense, net for the quarter ended March 29, 2009, relating to the change in fair value of such derivatives, substantially offsetting gains 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 3 and 6.

**(8)** Hasbro is a worldwide leader in children's and family leisure time products and services, including toys, games and licensed products ranging from traditional to high-tech and digital. The Company's segments are U.S. and Canada, International, Global Operations and Other.

The U.S. and Canada segment includes the development, marketing and selling of boys' action figures, vehicles and playsets, girls' toys, electronic toys and games, plush products, preschool toys and infant products, electronic interactive products, toy-related specialty products, traditional board games and puzzles, DVD-based games and trading card and role-playing games within the United States and Canada. Within the International segment, the Company develops, markets and sells both toy and certain game products in markets outside of the U.S. and Canada, primarily the European, Asia Pacific, and Latin and South American regions. The Global Operations segment is responsible for manufacturing and sourcing finished product for the Company's U.S. and Canada and International segments. The Company's Other segment licenses out the rights to certain of its toy and game properties in connection with the sale of non-competing toys and games and non-toy products, as well as consumer promotions and digital gaming.

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 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 are not necessarily representative of those which may be expected for the full year 2009, nor were those of the comparable 2008 first quarter representative of those actually experienced for the full year 2008. 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 ended March 29, 2009 and March 30, 2008 are as follows.

	Quarter Ended			
	March 29, 2009		March 30, 2008	
	External	Affiliate	External	Affiliate
Net revenues				
U.S. and Canada	\$ 404,502	2,461	428,522	4,290
International	189,192	16	248,255	196
Global Operations (a)	413	219,347	1,157	249,463
Other Segment	27,233	-	26,286	-
Corporate and eliminations	-	(221,824 )	-	(253,949 )
	-----	-----	-----	-----
	\$ 621,340	-	704,220	-
	=====	=====	=====	=====

	Quarter ended March 29, 2009	Quarter ended March 30, 2008
	-----	-----
Operating profit (loss)		
U.S. and Canada	\$ 41,550	37,311
International	(14,471)	13,027
Global Operations (a)	(5,443)	270
Other Segment	13,627	12,393
Corporate and eliminations	5,954	(1,748)
	-----	-----
	\$ 41,217	61,253
	=====	=====

March 29, 2009

March 30, 2008

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Total assets	-----	-----
U.S. and Canada	\$3,624,001	3,212,892
International	1,193,849	1,089,948
Global Operations	1,399,454	1,301,466
Other Segment	279,182	201,867
Corporate and eliminations (b)	(3,568,664)	(2,679,694)
	-----	-----
	\$2,927,822	3,126,479
	=====	=====

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

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

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

(b) Certain intangible assets, primarily goodwill, which benefit multiple operating segments are reflected as Corporate assets for segment reporting purposes. For application of SFAS No. 142, 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 the Corporate segment.

The following table presents consolidated net revenues by class of principal products for the quarters ended March 29, 2009 and March 30, 2008. Certain 2008 amounts have been reclassified to conform to the current period presentation.

	2009	2008
	-----	-----
Boys toys	\$229,064	267,179
Games and puzzles	213,087	209,668
Girls toys	111,123	149,294
Preschool toys	66,753	66,577
Other	1,313	11,502
	-----	-----
Net revenues	\$621,340	704,220
	=====	=====

(9) In April 2009, the Company announced the entry into an agreement to form a joint venture with Discovery Communications ( Discovery ) to create a television network in the United States dedicated to high-quality children's and family entertainment and educational programming. Upon the closing of the transaction, the Company will purchase a 50% interest in the joint venture, which will own the DISCOVERY KIDS network in the United States. The Company will purchase the 50% interest in the joint venture from Discovery for an upfront payment of \$300,000 and certain future payments based on the value of certain tax benefits received by the Company. The transaction is expected to close during the second quarter of 2009 and is conditioned on fulfillment of the requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

Upon close, the Company will enter into a license agreement with the venture which will require the payment of royalties by the Company to the joint venture based on a percentage of revenue derived from products related to television shows broadcast by the joint venture. The license agreement will include a minimum royalty guarantee of \$125,000, payable in 5 annual installments of \$25,000 per year, commencing in 2009, which can be earned out over a

10-year period.

Voting control of the joint venture is shared 50/50 between the Company and Discovery. However, the Company believes that the joint venture meets the definition of a variable interest entity pursuant to Financial Accounting Standards Board Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*, and that it will be the primary beneficiary and therefore will be required to consolidate the joint venture.

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

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

In April 2009, the Company entered into a committed 364-day borrowing facility which provides up to \$200,000 in borrowing availability. The interest rate is based on LIBOR plus an applicable margin. The facility contains certain financial covenants setting forth leverage and coverage requirements, and certain other limitations, including with respect to liens, mergers and incurrence of indebtedness.

**(10)** In May 2009, the Company amended its license agreement with Lucas Licensing, Ltd. ( Lucas ) related to the STAR WARS brand. The amendment included the extension of the term of the license for an additional two years, from the end of 2018 to the end of 2020. The fair value of the extension of the license rights, totaling \$45,000, will be paid to Lucas and recorded as an intangible asset during the second quarter of 2009, and amortized over the term of the extension. The amendment also provides for the settlement of certain royalty audit issues, primarily related to contractual interpretations associated with the computation of royalties dating back to 1999, and the clarification of certain terms and interpretations of the agreement on a prospective basis through the end of the term, including the scope of licensed rights to future developed properties by Lucas. As of March 29, 2009, the Company had an accrual of \$30,000 to be paid to Lucas in the second quarter of 2009 related to the settlement of these issues, of which \$10,000 was recorded during the first quarter of 2009 as a component of royalty expense.



**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 plans, anticipated product performance, business opportunities and strategies, financial goals and expectations for achieving the Company's objectives. See Item 1A, in Part II of this report, 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**

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The Company earns revenue and generates cash primarily through the sale of a variety of toy and game products, as well as through the out-licensing of rights for use of its properties in connection with non-competing products, including digital games, offered by third-parties. The Company sells its products both within the United States and in a number of international markets. The Company's business is highly seasonal with a significant amount of revenues occurring in the second half of the year. In 2008, 2007 and 2006, the second half of the year accounted for 63%, 66% and 68% of the Company's net revenues, respectively. While many of the Company's products are based on brands the Company owns or controls, the Company also offers products which are licensed from outside inventors. In addition, the Company licenses rights to produce products based on movie, television, music and other entertainment properties, such as MARVEL and STAR WARS properties.

The Company's business is primarily separated into two principal business segments, U.S. and Canada and International. 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 marketing operations, including Mexico. In addition to these two primary segments, the Company's world-wide manufacturing and product sourcing operations are managed through its Global Operations segment. The Company's Other segment is responsible for the worldwide out-licensing of the Company's intellectual properties and works closely with the U.S. and Canada and International segments on the development and out-licensing of the Company's brands.

**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)**

The Company seeks to make its brands relevant in all areas important to its consumers. Brand awareness is amplified through immersive traditional play, digital applications, publishing and lifestyle licensing experiences presented for the consumers' enjoyment. The Company's focus remains on growing core owned and controlled brands, developing new and innovative products which respond to market insights and optimizing efficiencies within the Company to reduce costs, increase operating profits and strengthen its balance sheet. The Company's core brands represent Company-owned or Company-controlled brands, such as TRANSFORMERS, MY LITTLE PONY, LITTLEST PET SHOP, MONOPOLY, MAGIC: THE GATHERING, PLAYSKOOL, G.I. JOE, NERF and TONKA, which have been successful over the long term. The Company has a large portfolio of owned and controlled brands, which can be introduced in new formats and platforms 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. During the first quarter of 2009 the Company had significant sales of core brand products, namely TRANSFORMERS, LITTLEST PET SHOP, NERF, MONOPOLY, PLAYSKOOL, PLAY-DOH, MY LITTLE PONY, and FURREAL FRIENDS. This strategy of reimagining, reinventing and reigniting its brands has proved instrumental to achieving its overall growth objectives.

The Company also seeks to drive product-related revenues by increasing the visibility of its core brands through entertainment. As an example of this, in July of 2007, the TRANSFORMERS motion picture was released and the Company developed and marketed products based on the motion picture. As a result of pairing this core brand with this type of entertainment, both the movie and the product line benefited. The Company expects to continue this strategy and anticipates increased revenues as a result of the theatrical releases of both TRANSFORMERS: REVENGE OF THE FALLEN and G.I. JOE: RISE OF COBRA motion pictures during 2009. In addition, the Company has entered into a six-year strategic relationship with Universal Pictures to produce at least four motion pictures based on certain of Hasbro's core brands. The first movie is expected to be released in 2010 or 2011, followed by anticipated releases of at least one movie per year thereafter. As part of its strategy, in addition to using theatrical entertainment, the Company continues to seek opportunities to use other entertainment outlets and forms of entertainment as a way to build awareness of its brands and broaden the ability of consumers to experience its brands.

In April 2009, the Company announced the entry into an agreement to form a joint venture with Discovery Communications (Discovery) to create a television network in the United States dedicated to high-quality children's and family entertainment and educational programming. The transaction is subject to regulatory review and is expected to close during the second quarter of 2009. Programming will be based on Hasbro's brands, Discovery's library of children's educational programming, as well as programming developed by third parties. The Company expects the rebranded network to debut in late 2010 and believes that it will reach approximately 60 million homes in the U.S. at that time, with programming targeted to children 14 years of age and under. The Company believes that this effort will support its strategy of growing its core brands well beyond traditional toys and games into brands which consistently provide immersive entertainment experiences for consumers of all ages in any form or format. In connection with this transaction, the Company will commence the start-up of a creative group that will be responsible for the creation and development of television programming based on Hasbro's brands. The Company expects to incur a certain level of investment spending leading up to the debut of the rebranded channel, which is expected to be late in

2010.

**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)**

While the Company believes it has achieved 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. In 2008 and 2007, the Company had significant sales of products related to the Company's license with Marvel Characters B.V. ( Marvel ), primarily due to the theatrical releases of IRON MAN in May 2008, THE INCREDIBLE HULK in June 2008 and SPIDERMAN-3 in May 2007. In addition, the Company had significant sales in 2008 of products related to the movie release of STAR WARS: CLONE WARS in August 2008 as well as sales from the movie release of INDIANA JONES AND THE KINGDOM OF THE CRYSTAL SKULL in May 2008. During the remainder of 2009 the Company expects to continue to have a high level of revenues from entertainment-based licensed properties based on the expected major motion picture release of X-MEN ORIGINS: WOLVERINE as well as products related to television programming based on SPIDER-MAN and STAR WARS.

While gross profits of theatrical entertainment-based products are generally higher than many of the Company's other products, sales from these products, including Company owned or controlled brands based on a movie release, also incur royalty expense. Such royalties reduce the impact of these higher gross margins. In certain instances, such as with Lucasfilm's STAR WARS, the Company may also incur amortization expense on property right-based assets acquired from the licensor of such properties, further impacting operating profits earned on these products.

The Company's long-term strategy also focuses on extending its brands further into the digital world. As part of this strategy, the Company entered into a multi-year strategic agreement with Electronic Arts Inc. ( EA ). The agreement gives EA the exclusive worldwide rights, subject to existing limitations on the Company's rights and certain other exclusions, to create digital games for all platforms, such as mobile phones, gaming consoles and personal computers, based on a broad spectrum of the Company's intellectual properties, including MONOPOLY, SCRABBLE, YAHTZEE, NERF, TONKA, G.I. JOE and LITTLEST PET SHOP. The first major game releases under this agreement were released in 2008, with a full line expected in 2009.

While the Company remains committed to investing in the growth of its business, it also continues to be focused on reducing fixed costs through efficiencies and on profit improvement. Over the last 6 years the Company has improved its full year operating margin from 7.8% in 2002 to 12.3% in 2008. The Company reviews its operations on an ongoing basis and seeks to reduce the cost structure of its underlying business and promote efficiency. The Company is also investing to grow its business in emerging markets. In 2008, the Company expanded its operations in China, Brazil,

Russia, Korea and the Czech Republic. In addition, the Company is seeking to grow its business in entertainment and digital gaming, and 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 and 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 of media. For example, in January of 2008, the Company acquired Cranium, Inc., a developer and marketer of CRANIUM branded games and related products. In the second quarter of 2008, the Company acquired the rights to TRIVIAL PURSUIT, a brand which the Company had previously licensed on a long-term basis. Ownership of the rights will allow the Company to further leverage the brand in different media.

**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)**

In recent years, the Company has been seeking to return excess cash to its shareholders through share repurchases and dividends. As part of this initiative, over the last four years, the Company's Board of Directors (the Board) has adopted four share repurchase authorizations with a cumulative authorized repurchase amount of \$1,700,000. After fully exhausting the prior three authorizations, the fourth authorization was approved on February 7, 2008 for \$500,000. During the first quarter of 2009, there were no repurchases of common stock under these authorizations. For the years ended 2008, 2007 and 2006, the Company spent \$357,589, \$587,004 and \$456,744, respectively, to repurchase 11,736, 20,795 and 22,767 shares, respectively, in the open market. The Company intends to, at its discretion, opportunistically repurchase shares in the future subject to market conditions and the Company's uses of cash. At March 29, 2009, the Company had \$252,364 remaining under the February 2008 authorization.

During the first quarter of 2009, the Company continued to be negatively impacted by both the strengthening of the U.S. dollar relative to foreign currencies as well as the weakened overall economic conditions in 2009 compared to 2008. Accordingly, the Company has sought to mitigate the impact of these conditions by instituting a variety of cost control initiatives, including salary freezes, limitations on new hires, and an effort to reduce its overall SKU count. As of March 29, 2009 the Company had \$590,388 in cash and cash equivalents and had available capacity, if needed, under its revolving credit agreement. In connection with the announcement of a joint venture agreement with Discovery in April 2009, the Company has committed to a \$300,000 initial investment to purchase its 50% share of the joint venture. The Company intends to initially fund its investment through cash on hand, availability under its existing borrowing facilities, and/or the offering of debt. The Company has also entered into a 364-day borrowing facility which provides up to \$200,000 in borrowing availability which it may utilize for liquidity during its peak working capital period. The Company currently has an open authorization from its Board of Directors to issue up to \$425,000 of additional long-term debt. The Company may seek to utilize some or all of this debt authorization during 2009, subject to market conditions. 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, accounts receivable securitization program and other borrowing facilities are adequate to meet its working capital needs for the remainder of 2009.

**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)****SUMMARY OF FINANCIAL PERFORMANCE**

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The components of the results of operations, stated as a percent of net revenues, are illustrated below for the quarters ended March 29, 2009 and March 30, 2008.

	2009	2008
	-----	-----
Net revenues	100.0 %	100.0 %
Cost of sales	39.4	38.5
	-----	-----
Gross profit	60.6	61.5
Amortization	3.2	2.7
Royalties	8.8	8.3
Research and product development	6.0	5.9
Advertising	10.0	10.9
Selling, distribution and administration	26.0	25.0
	-----	-----
Operating profit	6.6	8.7
Interest expense	1.5	1.6
Interest income	(0.2)	(1.1)
Other (income) expense, net	0.7	0.3
	-----	-----
Earnings before income taxes	4.6	7.9
Income taxes	1.4	2.6
	-----	-----
Net earnings	3.2 %	5.3 %
	=====	=====

**RESULTS OF OPERATIONS**

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The quarters ended March 29, 2009 and March 30, 2008 were both 13-week periods. Net earnings for the first quarter

of 2009 were \$19,730, compared to \$37,470 for the first quarter of 2008. Basic and diluted earnings per share for the first quarter of 2009 were each \$0.14 compared to basic and diluted earnings per share in the first quarter of 2008 of \$0.26 and \$0.25, respectively. Consolidated net revenues for the quarter ended March 29, 2009 decreased 12% to \$621,340 compared to \$704,220 for the quarter ended March 30, 2008. Consolidated net revenues were negatively impacted by foreign currency translation in the amount of \$40,200 as the result of the stronger U.S. dollar in 2009. Operating profit for the quarter ended March 29, 2009 was \$41,217 compared to \$61,253 for the quarter ended March 30, 2008.

In January 2008 the Company acquired Cranium, Inc. ( Cranium ). The results of operations for the first quarter of 2008 include the operations of Cranium from the acquisition closing date of January 25, 2008.



**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)**

Most of the Company's revenues and operating profit are derived from its two principal segments: the U.S. and Canada segment and the International segment, which are discussed in detail below. The following table presents net external revenues and operating profit data for the Company's two principal segments for the first quarter of fiscal years 2009 and 2008.

	2009 -----	2008 -----	% Change -----
Net Revenues			
U.S. and Canada segment	\$404,502	428,522	-6 %
International segment	189,192	248,255	-24 %
Operating Profit (Loss)			
U.S. and Canada segment	\$ 41,550	37,311	11 %
International segment	(14,471)	13,027	-211 %

*U.S. AND CANADA SEGMENT*

The U.S. and Canada segment's net revenues for the quarter ended March 29, 2009 decreased 6% to \$404,502 from \$428,522 for the quarter ended March 30, 2008. U.S. and Canada segment net revenues were negatively impacted by currency translation of approximately \$4,100 as the result of the stronger U.S. dollar in the first quarter of 2009. The decrease in net revenues was primarily the result of decreased product sales in the girls' toys and boys' toys categories, primarily relating to LITTLEST PET SHOP and TRANSFORMERS products, respectively. Although revenues from LITTLEST PET SHOP and TRANSFORMERS products decreased, these lines remained significant contributors to U.S. and Canada segment net revenues in the first quarter of 2009. The overall decrease in revenues in the boys' toys category was partially mitigated by increased sales of NERF and STAR WARS products. Revenues from the games and puzzles category increased in the first quarter of 2009 compared to the first quarter of 2008 as a result of increased sales of traditional board games including SORRY, CONNECT 4 and OPERATION. In addition, revenues in the preschool category also increased, driven by increased sales of PLAY DOH and TONKA products, and to a lesser extent, PLAYSKOOL products.

U.S. and Canada segment operating profit increased to \$41,550 for the quarter ended March 29, 2009 compared to \$37,311 for the quarter ended March 30, 2008. Decreased gross profit as a result of lower revenues in the first quarter of 2009 was more than offset by lower levels of expenses, primarily royalties, advertising, and selling, distribution and administrative. The decrease in royalties primarily reflects decreased sales of entertainment-based products, primarily TRANSFORMERS. Decreased selling, distribution and administrative expenses reflect lower shipping and

distribution costs associated with decreased revenues and lower fixed costs in the first quarter of 2009.

**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)***INTERNATIONAL SEGMENT*

International segment net revenues decreased by 24% to \$189,192 for the quarter ended March 29, 2009 from \$248,255 for the quarter March 30, 2008. International segment net revenues were negatively impacted by currency translation of approximately \$36,100, as the result of the stronger U.S. dollar in the first quarter of 2009. The decrease in net revenues for the quarter was primarily the result of decreased product sales in the boys toys category driven by decreased sales of TRANSFORMERS and ACTION MAN products and decreased revenues in the games and puzzles categories as a result of decreased sales of board games, including MONOPOLY and TRIVIAL PURSUIT. Net revenues were also negatively impacted by decreased revenues in the girls toys and preschool categories, primarily as a result of decreased sales of MY LITTLE PONY and IN THE NIGHT GARDEN products, respectively.

International segment operating loss was \$14,471 for the quarter ended March 29, 2009 compared to an operating profit of \$13,027 for the quarter ended March 30, 2008. For the quarter ended March 29, 2009, International segment operating profit was positively impacted by currency translation of approximately \$4,400. The decrease in operating profit for the quarter was due to the decline in revenue as well as the impact of unhedged U.S. dollar denominated costs, primarily resulting from the weakening of the Mexican peso. In addition, international operating profit in 2008 was positively impacted by the recognition of a pension surplus in the United Kingdom of approximately \$6,000.

**GROSS PROFIT**

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The Company's gross profit margin decreased to 60.6% for the quarter ended March 29, 2009 from 61.5% for the quarter ended March 30, 2008. This decrease was primarily due to the mix of products sold in the first quarter of 2009 as compared to the first quarter of 2008, as well as lower royalty income in the first quarter of 2009.

**EXPENSES**

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The Company's operating expenses, stated as percentages of net revenues, are illustrated below for the quarters ended March 29, 2009 and March 30, 2008.

	2009	2008
	-----	-----
Amortization	3.2%	2.7%
Royalties	8.8	8.3

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Research and product development	6.0	5.9
Advertising	10.0	10.9
Selling, distribution and administration	26.0	25.0

Amortization expense increased to \$19,887, or 3.2% of net revenues in the first quarter of 2009 from \$18,438 or 2.7% of net revenues in the first quarter of 2008. The increase is primarily the result of the acquisition of Cranium in January 2008 and the purchase of the intellectual property rights related to Trivial Pursuit in the second quarter of 2008. Property rights of \$68,500 and \$80,800 were recorded as a result of the Cranium acquisition and the purchase of Trivial Pursuit, respectively, and are each being amortized over fifteen years.

**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)**

Royalty expense for the quarter ended March 29, 2009 decreased in dollars to \$54,453 from \$58,422 for the quarter ended March 30, 2008, but increased as a percentage of net revenues to 8.8% of net revenues in 2009 from 8.3% of net revenues in 2008. Absent the effect of foreign exchange in the quarter ended March 29, 2009, royalty expense increased slightly in dollars, and included costs associated with a royalty audit.

Research and product development expenses for the quarter ended March 29, 2009 decreased in dollars to \$37,131 from \$41,770 for the quarter ended March 30, 2008, but remained consistent at 6.0% of net revenues in 2009 compared to 5.9% of net revenues in 2008.

Advertising expense for the quarter ended March 29, 2009 decreased to \$62,309, or 10.0% of net revenues compared to \$76,983, or 10.9% of net revenues for the quarter ended March 30, 2008. The decrease for the quarter is primarily the result of decreased sales volume and the impact of foreign exchange. In addition, in years in which the Company expects significant sales of products related to major motion picture releases, such as in 2009, advertising expense as a percentage of revenue is generally lower.

For the quarter ended March 29, 2009, the Company's selling, distribution and administration expenses were \$161,590 or 26.0% compared to \$176,193 or 25.0% for the quarter ended March 30, 2008. The decrease in dollars for the quarter reflects the impact of foreign exchange and, to a lesser extent, decreased shipping and distribution costs associated with decreased sales volume. In addition, selling, distribution and administration expense in 2008 was positively impacted by the recognition of a pension surplus in the United Kingdom of approximately \$6,000.

**NONOPERATING (INCOME) EXPENSE**  
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Interest expense for the first quarter of 2009 was \$9,715 compared with \$11,428 in the first quarter of 2008. The decrease for the quarter was the result of lower average borrowings in 2009 primarily as a result of the repayment of \$135,092 of notes in July 2008.

Interest income for the quarter ended March 29, 2009 was \$1,265 compared to \$7,706 for the quarter ended March 30, 2008. The decrease in interest income for the quarter was primarily the result of lower returns on invested cash as well as lower average invested balances. Other (income) expense, net, was \$4,180 for the first quarter of 2009, compared to

\$1,861 for the first quarter of 2008. The 2008 results included a gain on the sale of an investment of approximately \$1,100.

INCOME TAXES

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Income tax expense totaled 31.0% of pretax earnings in the first quarter of 2009 compared with 32.7% in the first quarter of 2008. Both quarterly rates are impacted by certain discrete tax events, primarily the accrual of interest and penalties