

HASBRO INC
Form 10-K
February 26, 2015
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

Form 10-K

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

For the fiscal year ended December 28, 2014

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
(Address of Principal Executive Offices)

02861
(Zip Code)

Registrant's telephone number, including area code (401) 431-8697

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes or No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes or No .

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 Website, 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

Edgar Filing: HASBRO INC - Form 10-K

the registrant was required to submit and post such files). Yes or No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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. (Check one:)

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

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

The aggregate market value on June 26, 2014 (the last business day of the Company's most recently completed second quarter) of the voting common stock held by non-affiliates of the registrant, computed by reference to the closing price of the stock on that date, was approximately \$5,864,425,000. The registrant does not have non-voting common stock outstanding.

The number of shares of common stock outstanding as of February 10, 2015 was 124,311,655.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our definitive proxy statement for our 2015 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report.

Table of Contents

	Page
PART I	
Item 1. <u>Business</u>	1
Item 1A. <u>Risk Factors</u>	11
Item 1B. <u>Unresolved Staff Comments</u>	25
Item 2. <u>Properties</u>	25
Item 3. <u>Legal Proceedings</u>	26
Item 4. <u>Mine Safety Disclosures</u>	26
PART II	
Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	27
Item 6. <u>Selected Financial Data</u>	28
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	29
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	53
Item 8. <u>Financial Statements and Supplementary Data</u>	54
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	98
Item 9A. <u>Controls and Procedures</u>	98
Item 9B. <u>Other Information</u>	100
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	100
Item 11. <u>Executive Compensation</u>	100
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	101
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	101
Item 14. <u>Principal Accountant Fees and Services</u>	101
PART IV	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	101
<u>Signatures</u>	110

Table of Contents

From time to time, including in this Annual Report on Form 10-K and in our annual report to shareholders, we publish forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may relate to such matters as our business and marketing strategies, anticipated financial performance or business prospects in future periods, including with respect to our planned cost savings initiative, expected technological and product developments, the expected content of and timing for scheduled new product introductions or our expectations concerning the future acceptance of products by customers, the content and timing of planned entertainment releases including motion pictures, television and digital products; and marketing and promotional efforts, research and development activities, liquidity, and similar matters. Forward-looking statements are inherently subject to risks and uncertainties. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. These statements may be identified by the use of forward-looking words or phrases such as anticipate, believe, could, expect, intend, looking forward, may, planned, potential, would or any variations of words with similar meanings. We note that a variety of factors could cause our actual results and experience to differ materially from the anticipated results or other expectations expressed or anticipated in our forward-looking statements. The factors listed below are illustrative and other risks and uncertainties may arise as are or may be detailed from time to time in our public announcements and our filings with the Securities and Exchange Commission, such as on Forms 8-K, 10-Q and 10-K. We undertake no obligation to make any revisions to the forward-looking statements contained in this Annual Report on Form 10-K or in our annual report to shareholders to reflect events or circumstances occurring after the date of the filing of this report. Unless otherwise specifically indicated, all dollar or share amounts herein are expressed in thousands of dollars or shares, except for per share amounts.

PART I

Item 1. Business.

General Development and Description of Business and Business Segments

Except as expressly indicated or unless the context otherwise requires, as used herein, Hasbro, the Company, we, or us, means Hasbro, Inc., a Rhode Island corporation organized on January 8, 1926, and its subsidiaries.

Overview

We are a global company committed to Creating the World's Best Play Experiences. We strive to do this through deep consumer engagement and the application of consumer insights, the use of immersive storytelling to build our brands, product innovation and development of global business reach. We apply these principles to leverage our beloved owned and controlled brands, including LITTLEST PET SHOP, MAGIC: THE GATHERING, MONOPOLY, MY LITTLE PONY, NERF, PLAY-DOH and TRANSFORMERS, as well as our premier partner brands. From toys and games to television programming, motion pictures, digital gaming and a comprehensive licensing program, Hasbro fulfills the fundamental need for play and connection for children and families around the world. The Company's wholly-owned Hasbro Studios creates entertainment brand-driven storytelling across mediums, including television, film and more. Successful execution of our brand blueprint involves re-imagining, re-inventing, and re-igniting our owned and controlled brands, and imagining, inventing and igniting new brands, through toy and game innovation, immersive entertainment offerings, including television programming and motion pictures, and a broad range of licensed products, ranging from traditional to high-tech and digital, all informed by storytelling and consumer insights.

The Company's brand architecture identifies franchise brands, challenger brands, gaming mega brands, key partner brands and new brands. The Company's franchise and challenger 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. Franchise brands are the Company's most significant owned or controlled brands which it believes have the ability to deliver significant revenue over the long-term. Challenger brands are brands

which have not yet achieved franchise brand status, but which the Company believes have the potential to do so

Table of Contents

with investment and time. The Company's franchise brands are LITTLEST PET SHOP, MAGIC: THE GATHERING, MONOPOLY, MY LITTLE PONY, NERF, PLAY-DOH and TRANSFORMERS, while challenger brands include BABY ALIVE, FURBY, FURREAL FRIENDS, KRE-O, PLAYSKOOL and PLAYSKOOL HEROES. The Company's gaming mega brands are CONNECT 4, ELEFUN & FRIENDS, JENGA, THE GAME OF LIFE, OPERATION, SCRABBLE, TRIVIAL PURSUIT and TWISTER. Hasbro also seeks to imagine, invent and ignite new or archived brands by offering engaging branded play experiences. In addition to product offerings under Hasbro-owned brands or brands, which if not entirely owned, are broadly controlled by the Company, offerings may also include products which are branded and developed under key licenses from our partners. Significant partner brands include MARVEL characters, including SPIDER-MAN and THE AVENGERS, STAR WARS, DISNEY DESCENDANTS, JURASSIC WORLD, and SESAME STREET. Both MARVEL and STAR WARS are owned by The Walt Disney Company (Disney).

Our innovative product offerings encompass a broad variety of toys including boys' action figures, vehicles and playsets, girls' toys, electronic toys, plush products, preschool toys and infant products, electronic interactive products, creative play and toy-related specialty products. Games offerings include face to face, trading card and digital game experiences played as board, off-the-board, digital, card, electronic, trading card and role-playing games.

As part of our brand blueprint, we seek to build our brands through entertainment-based storytelling, including television and movies, digital gaming and out-licensing. Hasbro Studios LLC (Hasbro Studios) is our wholly-owned production studio, which is responsible for entertainment brand-driven storytelling across mediums, including the development and global distribution of television programming primarily based on our brands. This programming currently airs in markets throughout the world. Domestically, Hasbro Studios primarily distributes programming to Hub Television Network, LLC, formerly known as Hub Network and, as of October 13, 2014, now the Discovery Family Channel (the Network). The Network is a joint venture with Discovery Communications, Inc. (Discovery) which operates a cable television network in the United States dedicated to high-quality children's and family entertainment and educational programming. Beginning in 2015, Hasbro Studios will begin distributing certain programming domestically to other outlets, including Cartoon Network. Internationally, Hasbro Studios distributes to various broadcasters and cable networks. Lastly, Hasbro Studios distributes programming globally on various digital platforms, including Netflix and iTunes. During 2014, we formed Allspark Pictures, Hasbro's film label, and anticipate producing both animated and live action theatrical releases based on our brands. The Company's storytelling initiatives support its strategy of growing its brands well beyond traditional toys and games and providing entertainment experiences for consumers of all ages accessible anytime in many forms and formats.

In July 2013, the Company acquired a 70% majority stake in Backflip Studios, LLC (Backflip), a mobile game developer, based in Boulder, Colorado. The acquisition allows us to leverage Backflip's existing and new intellectual properties while extending our own brands through mobile digital gaming. Finally, we license certain of our trademarks, characters and other property rights to third parties for use in connection with digital gaming, consumer promotions, and for the sale of non-competing toys and games and lifestyle products, or in certain situations, to utilize them for toy products where we consider the out-licensing of brands to be more effective.

As we seek to grow our business in entertainment, licensing and digital gaming, we will continue to evaluate strategic alliances, acquisitions and investments, like Hasbro Studios, the Network and Backflip, which may complement our current product offerings, allow us entry into an area which is adjacent or complementary to our toy and game business, or allow us to further develop awareness of our brands and expand the ability of consumers to experience our brands in different forms and formats.

Product Categories

Our brand blueprint focuses on reinforcing storylines associated with our brands through several outlets, including television, motion pictures and digital media. Digital media encompasses digital gaming applications and the creation of digital environments for analog products through the use of complementary digital applications and websites which extend storylines and enhance play. While certain media-based entertainment benefit only one particular product category, others, specifically major motion pictures, can impact more than one product category.

Table of Contents

During 2014, the Company released products based on the theatrical release of *TRANSFORMERS: AGE OF EXTINCTION* from Paramount Pictures as well as three theatrical releases based on MARVEL properties, *CAPTAIN AMERICA: THE WINTER SOLDIER*, *THE AMAZING SPIDER-MAN 2*, and *GUARDIANS OF THE GALAXY*. In 2015, the Company anticipates product offerings based on the following planned theatrical releases: *AVENGERS: AGE OF ULTRON* from Marvel Studios, *STAR WARS: THE FORCE AWAKENS* from Lucasfilm Ltd. and *JURASSIC WORLD* from Universal Pictures.

We market our brands under the following primary product categories: (1) boys; (2) games; (3) girls; and (4) preschool toys. Descriptions of these product categories are as follows:

Boys franchise brands include the NERF line of sports and action products and TRANSFORMERS action figures and accessories. Our boys category also includes SUPER SOAKER water blasters, G.I. JOE action figures and accessories and entertainment-based licensed products based on popular movie, television and comic book characters, such as MARVEL and STAR WARS toys and accessories. In 2014, the TRANSFORMERS brand was supported by the major motion picture release of *TRANSFORMERS: AGE OF EXTINCTION* as well as an animated television series produced by Hasbro Studios which was distributed on a global basis. MARVEL products, particularly those based on CAPTAIN AMERICA and SPIDER-MAN, were supported by the 2014 major motion picture releases of *CAPTAIN AMERICA: THE WINTER SOLDIER* and *THE AMAZING SPIDER-MAN 2*, respectively. MARVEL products were also supported by the re-introduction of archived MARVEL characters with the 2014 major motion picture release of *GUARDIANS OF THE GALAXY*. AVENGERS, SPIDER-MAN and STAR WARS products were also each supported by animated television series produced and distributed by third parties in 2014 and 2013. In 2015, the Company expects to market products supported by the following major motion picture releases: *AVENGERS: AGE OF ULTRON*, *STAR WARS: THE FORCE AWAKENS* and *JURASSIC WORLD*. In addition to marketing and developing action figures and accessories for traditional play, the Company also develops and markets products designed for collectors, which has been a key component of the success of the TRANSFORMERS, STAR WARS and MARVEL brands.

Our games category includes an assortment of well-known brands delivered on various platforms, including board, off-the-board, digital, trading card and role-playing games. Franchise brands included MAGIC: THE GATHERING and MONOPOLY, and other major game brands included BATTLESHIP, BOP-IT, CANDYLAND, CLUE, CONNECT 4, CRANIUM, DUEL MASTERS, ELEFUN & FRIENDS, GAME OF LIFE, JENGA, OPERATION, RISK, SORRY!, TRIVIAL PURSUIT, TWISTER, and YAHTZEE. In recent years, we have focused on investing more heavily in fewer initiatives and have centralized our games marketing and development. In conjunction with our focus on fewer initiatives, we focus on brands that can capitalize on the trend-driven nature of the gaming industry. We also continue to evolve our approach to gaming using consumer insights and offering gaming experiences relevant to consumer demand for face-to-face, off-the-board and other game play including the launch of new play patterns. In 2014, the game brands we focused on included SIMON, with the introduction of SIMON SWIPE, as well as THE GAME OF LIFE, TROUBLE, OPERATION, ELEFUN & FRIENDS, CONNECT 4 and CHUTES & LADDERS. Furthermore, and as mentioned above, in July 2013, we acquired a 70% majority stake in Backflip to expand our expertise and product offerings in the mobile gaming arena. Backflip's game titles are distributed primarily through the Apple APP Store and GOOGLE Play Store. In 2014, Backflip game titles included DWARVEN DEN, PLUNDERNAUTS, SPELLFALL and SEABEARD. In 2015 and beyond, Backflip plans to introduce additional game titles based on Hasbro brands.

In our girls category, we seek to provide a variety of contemporary and engaging play experiences. Girls franchise brands include LITTLEST PET SHOP, MY LITTLE PONY, NERF REBELLE and PLAY-DOH DOH VINCI. Girls challenger brands include BABY ALIVE, EASY BAKE, FURBY and FURREAL FRIENDS. The LITTLEST PET SHOP and MY LITTLE PONY brands were supported by television programming produced by Hasbro Studios in 2013 and 2014 and will continue to be supported by television programming in future years. These brands are further supported by digital gaming with licensed partners. In 2013, the MY LITTLE PONY brand was re-imagined with the successful launch of the brand extension MY LITTLE PONY EQUESTRIA GIRLS product line which was supported by the release of animated movies in 2013 and 2014. 2013 also marked expansion of our NERF brand into the girls category with the introduction of the popular NERF REBELLE

Table of Contents

brand, a line of action performance products marketed to girls. In 2014, we launched DOH VINCI, a new line of arts and crafts products, in the second quarter and re-launched our LITTLEST PET SHOP brand in the fourth quarter. Additionally, in September 2014, the Company's strategic merchandising relationship with The Walt Disney Company expanded to include additional future product offerings, specifically small and fashion dolls, based on the DISNEY PRINCESS and FROZEN brands, commencing in 2016 and products based on the DISNEY DESCENDANTS brand beginning in 2015.

Our preschool category encompasses a range of products for infants and preschoolers in various stages of development. In the preschool category, we are focused on our franchise brands and story-led initiatives where we believe we can differentiate our offerings and deliver higher profitability. Franchise brand offerings in the preschool category include PLAY-DOH and TRANSFORMERS. PLAY-DOH products include modeling compound and playsets. Other major preschool brands include PLAYSKOOL as well as products based on the MARVEL, STAR WARS and SESAME STREET portfolios of characters. MARVEL, STAR WARS and TRANSFORMERS RESCUE BOTS action figures and playsets included in the preschool category are marketed under the brand name PLAYSKOOL HEROES and are supported by television programming and theatrical entertainment. Our PLAYSKOOL brand also includes well-known core products such as MR. POTATO HEAD, SIT 'N SPIN and GLOWORM, along with a line of infant toys including STEP START WALK 'N RIDE and ELEFUN BUSY BALL POPPER. In 2015, the Company plans to introduce a line of MY LITTLE PONY preschool products.

Segments

Organizationally, our three principal segments are U.S. and Canada, International and Entertainment and Licensing. The U.S. and Canada and International segments engage in the marketing and selling of various toy and game products described above. Our toy and game products are primarily developed by cross-functional teams, including members of our global development and global marketing groups, which also establish brand direction and assist the segments in establishing certain local marketing programs. The costs of these groups are allocated to the principal segments. Our U.S. and Canada segment covers the United States and Canada while the International segment primarily includes Europe, the Asia Pacific region and Latin and South America. The Entertainment and Licensing segment engages in the out-licensing of our trademarks, characters and other brand and intellectual property rights to third parties for non-competing products and also conducts our movie, television and digital gaming entertainment operations, including the operations of Hasbro Studios and Backflip. Our Global Operations segment is responsible for arranging product manufacturing and sourcing for the U.S. and Canada and International segments. Financial information with respect to our segments and geographic areas is included in note 18 to our consolidated financial statements, which are included in Item 8 of this Form 10-K.

The Company's strategy focuses on re-imagining, re-inventing, and re-igniting its existing brands, and imagining, inventing, and igniting new brands, globally through the development and marketing of innovative toy and game products, providing immersive entertainment experiences for our consumers, and expansion of our brands into other consumer products through broad licensing programs, including digital media and lifestyle products, all supported by storytelling and consumer insights. The following is a discussion of each segment.

U.S. and Canada

This segment engages in the marketing and sale of our product categories in the United States and Canada. The U.S. and Canada segment's strategy is based on promoting our brands through innovation and reinvention of toys and games. This is accomplished through introducing new products and initiatives driven by consumer and marketplace insights and leveraging opportunistic toy and game lines and licenses. This strategy leverages efforts to increase consumer awareness of the Company's brands through entertainment experiences, including motion pictures and television programming.

International

The International segment engages in the marketing and sale of our product categories to retailers and wholesalers in most countries in Europe, Latin and South America, and the Asia Pacific region and through

Table of Contents

distributors in those countries where we have no direct presence. We have offices in more than 35 countries contributing to sales in more than 120 countries. In addition to growing brands and leveraging opportunistic toy lines and licenses, we seek to grow our international business by continuing to expand into emerging markets in Eastern Europe, Asia and Latin and South America. Emerging markets are an area of high priority for Hasbro as they offer greater opportunities for revenue growth than developed markets. Key emerging markets include Russia, Brazil and the People's Republic of China (China). In 2014, 2013 and 2012, net revenues in emerging markets grew 20%, 25% and 16%, respectively, from the prior years and represented more than 15% of our total consolidated net revenues in 2014.

Entertainment and Licensing

Our Entertainment and Licensing segment includes our lifestyle licensing, digital gaming, television and movie entertainment operations. Our lifestyle licensing category seeks to promote our brands through the out-licensing of our intellectual properties to third parties for promotional and merchandising uses in businesses which do not compete directly with our own product offerings, such as apparel, publishing, home goods and electronics, or in certain situations, to utilize them for toy products where we consider the out-licensing of brands to be more effective.

Our digital gaming business seeks to promote our brands largely through the out-licensing of our intellectual properties to a number of partners who develop and offer digital games for play on mobile devices, personal computers, and video game consoles based on those brands. In support of this strategy, in 2013, the Company acquired a 70% majority ownership in Backflip Studios, LLC (Backflip), a mobile game developer based in Boulder, Colorado, as we seek to complement out-licensing of certain of our brands with the development of internal digital gaming resources. Backflip's product offerings include games for tablets and mobile devices including DRAGONVALE, NINJUMP and PAPER TOSS. New game brands released during 2014 include DWARVEN DEN, PLUNDERNAUTS, SPELLFALL and SEABEARD. Backflip also introduced two game brands under Hasbro brands, specifically NERFHOOPS and TWISTER TAP. In 2015 and beyond, Backflip intends to continue focusing on its existing game titles, particularly DRAGONVALE, and to launch new games, including more game offerings based on Hasbro brands. To further extend its brands into digital media and gaming, the Company also out-licenses its properties to a number of partners who develop and offer digital games and other gaming experiences based on those brands. One example of these digital gaming relationships is the Company's agreement with Electronic Arts Inc. (EA) under which EA has the rights to develop several of Hasbro's best-selling gaming brands for mobile platforms globally. Similarly, the Company has an agreement with Activision under which Activision offers digital games based on the TRANSFORMERS brand and with Ubisoft under which Ubisoft offers console games based on MONOPOLY, SCRABBLE, TRIVIAL PURSUIT and others. Lastly, we also license our brands to third parties engaged in other forms of gaming, including Scientific Games Corporation.

To support our strategic objective of further developing our brands through television entertainment, we operate a wholly-owned studio, Hasbro Studios, which produces storytelling across mediums. This includes television programming primarily based on our brands, which is distributed on a global basis. In addition, Hasbro Studios has a coordinated development process which aligns with our 40% interest in a joint venture with Discovery that operates Discovery Family Channel, a cable television network in the United States. Discovery Family Channel is dedicated to providing high-quality children's and family entertainment.

In addition to the above, we also seek to promote and leverage our brands through major motion pictures. In October 2015, the Company plans to re-ignite an archived brand with the expected release of *JEM AND THE HOLOGRAMS* by Hasbro's own, recently established film label, Allspark Pictures, in partnership with Universal Studios. In 2014, Paramount Pictures released the fourth major motion picture based on the TRANSFORMERS brand, *TRANSFORMERS: AGE OF EXTINCTION*, and Universal Pictures released a second motion picture based on a games brand, *OUIJA*. In 2013, *G.I. JOE: RETALIATION*, the second major motion picture based on the G.I. JOE brand, was released by Paramount Pictures. In May 2012, *BATTLESHIP* was released by Universal Pictures.

Table of Contents

Major motion pictures and television programming based on our owned and controlled brands provide both storytelling and the ability for our consumers to experience these properties in a different format, which we believe can result in increased product sales, royalty revenues, and overall brand awareness. To a lesser extent, we can also earn revenue from our participation in the financial results of motion pictures and related home entertainment releases and through the distribution of television programming. Revenue from toy and game product sales is a component of the U.S. and Canada and International segments, while royalty revenues, including revenues earned from movies and television programming, is included in the Entertainment and Licensing segment.

Global Operations

In our Global Operations segment, we manufacture and source production of substantially all of our toy and game products. The Company owns and operates manufacturing facilities in East Longmeadow, Massachusetts and Waterford, Ireland which predominantly produce game products. Sourcing of our other production is done through unrelated third party manufacturers in various Far East countries, principally China, using a Hong Kong based wholly-owned subsidiary operation for quality control and order coordination purposes. See Manufacturing and Importing below for more details concerning overseas manufacturing and sourcing.

Other Information

To further extend our range of products in the various segments of our business, we sell a portion of our toy and game products to retailers on a direct import basis from the Far East. These sales are reflected in the revenue of the related segment where the customer is geographically located.

Certain of our products are licensed to other companies for sale in selected countries where we do not otherwise have a direct business presence.

Each of our four product categories, namely boys, games, girls and preschool, generate greater than 10% of our net revenues. For more information, including the amount of net revenues attributable to each of our four product categories, see note 18 to our consolidated financial statements, which are included in Item 8 of this Form 10-K.

Working Capital Requirements

Our working capital needs are financed primarily through cash generated from operations and, when necessary, proceeds from short-term borrowings. Our borrowings generally reach peak levels during the third or fourth quarter of each year. This corresponds to the time of year when our receivables also generally reach peak levels as part of the production and shipment of product in preparation for the holiday season. The strategy of retailers has generally been to make a higher percentage of their purchases of toy and game products within or close to the fourth quarter holiday consumer buying season, which includes Christmas. We expect that retailers will continue to follow this strategy. Our historical revenue pattern is one in which the second half of the year is more significant to our overall business than the first half. In 2014, the second half of the year accounted for approximately 65% of full year revenues with the third and fourth quarters accounting for 35% and 30% of full year net revenues, respectively.

The toy and game business is also 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 we offer products, and changes in overall economic conditions. As a result, comparisons of our unshipped orders on any date with those at the same date in a prior year are not necessarily indicative of our 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. Retailers generally time their orders so that they are being filled by suppliers, such as us, closer to the time of purchase by consumers. 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,

Table of Contents

as such, the Company does not believe that these unshipped orders, at any given date, are indicative of future sales. The types of programs that we plan to employ to promote sales in 2015 are substantially the same as those we employed in 2014 and in prior years.

Historically, we commit to the majority of our inventory production and advertising and marketing expenditures for a given year prior to the peak fourth quarter retail selling season. Our accounts receivable increase during the third and fourth quarter as customers increase their purchases to meet expected consumer demand in the holiday season. Due to the concentrated timeframe of this selling period, payments for these accounts receivable are generally not due until later in the fourth quarter or early in the first quarter of the subsequent year. The timing difference between expenses paid and revenues collected sometimes makes it necessary for us to borrow varying amounts during the year. During 2014, we utilized cash from our operations, borrowings under our commercial paper program and uncommitted lines of credit as well as excess proceeds from the 2014 issuance of long-term debt to meet our cash flow requirements.

Royalties and Product Development

Our success is dependent on continuous innovation in our product and entertainment offerings, including both the continuing development of new brands and products and the redesign of existing products to drive consumer interest and market acceptance. Our toy and game products are developed by a global development group and the costs of this group are allocated to the selling entities which comprise our principal operating segments. In 2014, 2013 and 2012, we incurred expenses of \$222,556, \$207,591 and \$201,197, respectively, on activities relating to the development, design and engineering of new products and their packaging (including products brought to us by independent designers) and on the improvement or modification of ongoing products. Much of this work is performed by our internal staff of designers, artists, model makers and engineers.

In addition to the design and development work performed by our own staff, we deal with a number of independent toy and game designers for whose designs and ideas we compete with other toy and game manufacturers. Rights to such designs and ideas, when acquired by us, are usually exclusive and the agreements require us to pay the designer a royalty on our net sales of the item. These designer royalty agreements, in some cases, also provide for advance royalties and minimum guarantees.

We also produce a number of toys and games under trademarks and copyrights utilizing the names or likenesses of characters from movies, television shows and other entertainment media, for whose rights we compete with other toy and game manufacturers. Licensing fees for these rights are generally paid as a royalty on our net sales of the item. Licenses for the use of characters are generally exclusive for specific products or product lines in specified territories. In many instances, advance royalties and minimum guarantees are required by these license agreements.

In 2014, 2013 and 2012, we incurred \$305,317, \$338,919 and \$302,066, respectively, of royalty expense. In 2013, royalty expense included \$63,801 related to the settlement of an arbitration award for a dispute between the Company and an inventor as well as the amendment of its license agreement with Zynga. Our royalty expense in any given year may also vary depending upon the timing of movie releases and other entertainment media.

Marketing and Sales

As we are focused on re-imagining, re-inventing and re-igniting our many brands and imagining, inventing and igniting new brands, we have a global marketing function which establishes brand direction and messaging, as well as assists the selling entities in establishing certain local marketing programs. This global marketing group works cross-functionally with the global development function to deliver a unified product and message. The costs of this group are allocated to the selling entities which comprise our principal operating segments. We also maintain sales and marketing functions in our selling entities which are responsible for local market activities and execution. Our products are sold globally to a broad spectrum of customers, including wholesalers, distributors, chain stores, discount stores, drug stores, mail order houses, catalog stores, department stores and other traditional retailers, large and small, as well as internet-based e-tailers. Our own sales forces account for the majority of sales of our products. Remaining sales are generated by independent distributors who sell our

Table of Contents

products, for the most part, in areas of the world where we do not otherwise maintain a direct presence. While we have thousands of customers, the majority of our sales are to large chain stores, distributors and wholesalers. While this concentration of customers provides us with certain benefits, such as potentially more efficient product distribution and other decreased costs of sales and distribution, this also creates additional risks to our business associated with a major customer having financial difficulties or reducing its business with us. In addition, customer concentration may decrease the prices we are able to obtain for some of our products and reduce the number of products we would otherwise be able to bring to market. During 2014, net revenues from our three largest customers, Wal-Mart Stores, Inc., Toys R Us, Inc. and Target Corporation represented 16%, 9% and 8%, respectively, of consolidated global net revenues, and sales to our top five customers, including Wal-Mart, Toys R Us, Inc. and Target, accounted for approximately 38% of our consolidated global net revenues. In the U.S. and Canada segment, approximately 59% of our net revenues were derived from these top three customers.

We advertise many of our toy and game products extensively on television. In addition, we engage in digital marketing and advertising for our brands. Generally our advertising highlights selected items in our various product groups in a manner designed to promote the sale of not only the selected item, but also other items we offer in those product groups as well. Hasbro Studios produces entertainment based primarily on our brands which appears on Discovery Family Channel in the U.S., other major networks internationally and on various other digital platforms, such as Netflix and iTunes. Beginning in 2015, Hasbro Studios will begin distributing certain programming domestically to other outlets, including Cartoon Network. We introduce many of our new products to major customers during the year prior to the year of introduction of such products for retail sale. In addition, we showcase certain of our new products in New York City at the time of the American International Toy Fair in February, as well as at other international toy shows, including in Hong Kong and Nuremburg, Germany. In 2014, 2013 and 2012, we incurred \$420,256, \$398,098 and \$422,239, respectively, in expense related to advertising and promotion programs. Certain entertainment-based products, such as products based on major motion pictures, generally do not require the same level of advertising that we spend on other non-entertainment based products.

Manufacturing and Importing

During 2014 substantially all of our products were manufactured in third party facilities in the Far East, primarily China, as well as in our two owned facilities located in East Longmeadow, Massachusetts and Waterford, Ireland.

Most of our products are manufactured from basic raw materials such as plastic, paper and cardboard, although certain products also make use of electronic components. All of these materials are readily available but may be subject to significant fluctuations in price. There are certain chemicals (including phthalates and BPA) that national, state and local governments have restricted or are seeking to restrict or limit the use of; however, we do not believe these restrictions have or will materially impact our business. We generally enter into agreements with suppliers at the beginning of a fiscal year that establish prices for that year. However, significant volatility in the prices of any of these materials may require renegotiation with our suppliers during the year. Our manufacturing processes and those of our vendors include injection molding, blow molding, spray painting, printing, box making and assembly. The countries of the Far East, particularly China, constitute the largest manufacturing center of toys in the world and the substantial majority of our toy products are manufactured in China. The 1996 implementation of the General Agreement on Tariffs and Trade reduced or eliminated customs duties on many of the products imported by us. We purchase most of our raw materials and component parts used in our owned manufacturing facilities from suppliers in the United States and certain other countries.

We believe that the manufacturing capacity of our third party manufacturers, together with our own facilities, as well as the supply of components, accessories and completed products which we purchase from unaffiliated manufacturers, are adequate to meet the anticipated demand in 2015 for our products. Our reliance on designated external sources of manufacturing could be shifted, over a period of time, to alternative sources of supply for our products, should such changes be necessary or desirable. However, if we were to be prevented from obtaining products from a substantial number of our current Far East suppliers due to political, labor or

Table of Contents

other factors beyond our control, our operations and our ability to obtain products would be severely disrupted while alternative sources of product were secured and production shifted to those new sources. The imposition of trade sanctions by the United States or the European Union against a class of products imported by us from, or the loss of normal trade relations status with, China, or other factors which increase the cost of manufacturing in China, such as higher Chinese labor costs or an appreciation in the Chinese Yuan, could significantly disrupt our operations and/or significantly increase the cost of the products which are manufactured in China and imported into other markets.

Competition

We are a worldwide leader in the design, manufacture and marketing of toys and games and other entertainment offerings, but our business is highly competitive. We compete with several large toy and game companies in our product categories, as well as many smaller United States and international toy and game designers, manufacturers and marketers. We also compete with companies that offer branded entertainment focused on children and their families. Competition is based primarily on meeting consumer entertainment preferences and on the quality and play value of our products. To a lesser extent, competition is also based on product pricing. In entertainment, Hasbro Studios and Discovery Family Channel compete with other children's television networks and entertainment producers, such as Nickelodeon, Cartoon Network and Disney Channel, for viewers, advertising revenue and distribution.

In addition to contending with competition from other toy and game and branded-play entertainment companies, we contend with the phenomenon that children are increasingly sophisticated and have been moving away from traditional toys and games at a younger age. Thereby, the variety of product and entertainment offerings available for children has expanded and product life cycles have shrunk as children move on to more sophisticated offerings at younger ages. This has been referred to as children getting older younger but may also be referred to as developmental compression. As a result, our products not only compete with those offerings produced by other toy and game manufacturers, we also compete, particularly in meeting the demands of older children, with entertainment offerings of many technology companies, such as makers of tablets, mobile devices, video games and other consumer electronic products.

The volatility in consumer preferences with respect to family entertainment and low barriers to entry as well as the emergence of new technologies continually creates new opportunities for existing competitors and start-ups to develop products that compete with our entertainment and toy and game offerings.

Employees

At December 28, 2014, we employed approximately 5,200 persons worldwide, approximately 2,700 of whom were located in the United States.

Trademarks, Copyrights and Patents

We seek to protect our products, for the most part, and in as many countries as practical, through registered trademarks, copyrights and patents to the extent that such protection is available, cost effective, and meaningful. The loss of such rights concerning any particular product is unlikely to result in significant harm to our business, although the loss of such protection for a number of significant items might have such an effect.

Government Regulation

Our toy and game products sold in the United States are subject to the provisions of The Consumer Product Safety Act, as amended by the Consumer Product Safety Improvement Act of 2008, (as amended, the CPSA), The Federal Hazardous Substances Act (the FHSA), The Flammable Fabrics Act (the FFA), and the regulations promulgated thereunder. In addition, a few of our products, such as the food mixes for our EASY-BAKE ovens, are also subject to regulation by the Food and Drug Administration.

The CPSA empowers the Consumer Product Safety Commission (the CPSC) to take action against hazards presented by consumer products, including the formulation and implementation of regulations and uniform safety standards. The CPSC has the authority to seek to declare a product a banned hazardous

Table of Contents

substance under the CPSA and to ban it from commerce. The CPSC can file an action to seize and condemn an imminently hazardous consumer product under the CPSA and may also order equitable remedies such as recall, replacement, repair or refund for the product. The FHSA provides for the repurchase by the manufacturer of articles that are banned.

Consumer product safety laws also exist in some states and cities within the United States and in many international markets including Canada, Australia and Europe. We utilize independent third party laboratories that employ testing and other procedures intended to maintain compliance with the CPSA, the FHSA, the FFA, other applicable domestic and international product standards, and our own standards. Notwithstanding the foregoing, there can be no assurance that our products are or will be hazard free. Any material product recall or other safety issue impacting our product could have an adverse effect on our results of operations or financial condition, depending on the product and scope of the recall, could damage our reputation and could negatively affect sales of our other products as well.

The Children's Television Act of 1990 and the rules promulgated thereunder by the United States Federal Communications Commission, the rules and regulations of the Federal Trade Commission, as well as the laws of certain other countries, also place limitations on television commercials during children's programming and on advertising in other forms to children, and on the collection of information from children, such as restrictions on collecting information from children under the age of thirteen subject to the provisions of the Children's Online Privacy Protection Act.

We maintain programs to comply with various United States federal, state, local and international requirements relating to the environment, health, safety and other matters.

Financial Information about Segments and Geographic Areas

The information required by this item is included in note 18 of the Notes to Consolidated Financial Statements included in Item 8 of Part II of this report and is incorporated herein by reference.

Executive Officers of the Registrant

The following persons are the executive officers of the Company. Such executive officers are elected annually. The position(s) and office(s) listed below are the principal position(s) and office(s) held by such persons with the Company. The persons listed below generally also serve as officers and directors of certain of the Company's various subsidiaries at the request and convenience of the Company.

Name	Age	Position and Office Held	Period Serving in Current Position
Brian D. Goldner(1)	51	President and Chief Executive Officer	Since 2008
David D. R. Hargreaves(2)	62	Executive Vice President and Chief Strategy Officer	Since 2013
Deborah M. Thomas(3)	51	Executive Vice President and Chief Financial Officer	Since 2013
Duncan J. Billing(4)	56	Executive Vice President, Global Operations and Business Development	Since 2014
Barbara Finigan(5)	53	Executive Vice President, Chief Legal Officer and Secretary	Since 2014
John A. Frascotti(6)	54	President, Hasbro Brands	Since 2014
Wiebe Tinga(7)	54	Executive Vice President and Chief Commercial Officer	Since 2013
Martin R. Trueb	62	Senior Vice President and Treasurer	Since 1997

(1) Prior thereto, Chief Operating Officer from 2006 to 2008.

Table of Contents

- (2) Prior thereto, Chief Operating Officer from 2009 to 2013; prior thereto, Chief Operating Officer and Chief Financial Officer from 2008 to 2009. Mr. Hargreaves is retiring as an officer and employee of the Company effective at the end of February 2015.
- (3) Prior thereto, Senior Vice President and Chief Financial Officer from 2009 to 2013; prior thereto, Senior Vice President, Head of Corporate Finance from 2008 to 2009.
- (4) Prior thereto, Executive Vice President and Chief Development Officer from 2013 to 2014; prior thereto, Senior Vice President and Global Chief Development Officer from 2008 to 2013.
- (5) Prior thereto, Senior Vice President, Chief Legal Officer and Secretary from 2010 to 2014; prior thereto, Vice President, Employment, Litigation and Compliance since 2006.
- (6) Prior thereto, Executive Vice President and Chief Marketing Officer from 2013 to 2014; prior thereto, Senior Vice President and Global Chief Marketing Officer from 2008 to 2013.
- (7) Prior thereto, President, North America from 2012 to 2013; prior thereto, President, Latin America, Asia Pacific and Emerging Markets from 2006 to 2012.

Availability of Information

Our internet address is <http://www.hasbro.com>. We make our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, available free of charge on or through our website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

Item 1A. Risk Factors.

Forward-Looking Information and Risk Factors That May Affect Future Results

From time to time, including in this Annual Report on Form 10-K and in our annual report to shareholders, we publish forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may relate to such matters as our business and marketing strategies, anticipated financial performance or business prospects in future periods, including with respect to our planned cost savings initiative, expected technological and product developments, the expected content of and timing for scheduled new product introductions or our expectations concerning the future acceptance of products by customers, the content and timing of planned entertainment releases including motion pictures, television and digital products; and marketing and promotional efforts, research and development activities, liquidity, and similar matters. Forward-looking statements are inherently subject to risks and uncertainties. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. These statements may be identified by the use of forward-looking words or phrases such as anticipate, believe, could, expect, intend, looking forward, may, planned, potential, would or any variations of words with similar meanings. We note that a variety of factors could cause our actual results and experience to differ materially from the anticipated results or other expectations expressed or anticipated in our forward-looking statements. The factors listed below are illustrative and other risks and uncertainties may arise as are or may be detailed from time to time in our public announcements and our filings with the Securities and Exchange Commission, such as on Forms 8-K, 10-Q and 10-K. We undertake no obligation to make any revisions to the forward-looking statements contained in this Annual Report on Form 10-K or in our annual report to shareholders to reflect events or circumstances occurring after the date of the filing of this report. Unless otherwise specifically indicated, all dollar or share amounts herein are expressed in thousands of dollars or shares, except for per share amounts.

We are focusing our global efforts around our brand architecture, which includes a heightened emphasis and reliance on our franchise and key partner brands.

We have made a strategic decision to focus on fewer, larger global brands as we build our business. We are moving away from SKU making behaviors, which involve building a large number of products across many brands, towards global brand building with an emphasis on our franchise and partner brands, which we view as

Table of Contents

having the largest global potential. As we concentrate our efforts on a more select group of brands, our future success depends to a greater extent on our ability to successfully develop those brands across our brand blueprint and to maintain and extend the reach and relevance of those brands to global consumers in a wide array of markets. In 2014 revenues from our seven franchise brands, LITTLEST PET SHOP, MAGIC: THE GATHERING, MONOPOLY, NERF, MY LITTLE PONY, PLAY-DOH and TRANSFORMERS, totaled 55% of our aggregate net revenues. Our key partner brands, such as DISNEY, MARVEL, LUCASFILM, SESAME STREET and ROVIO, also constitute a significant portion of our overall business. Together our franchise and partner brands are critical to our business. If we are unable to successfully execute this strategy and to maintain and develop our franchise and key partner brands in the future, such that our product offerings based on these brands are not sought after by consumers to the extent required to maintain and grow those brands, our revenues and profits will decline and our business performance will be harmed.

Consumer interests change rapidly, making it difficult to design and develop products which will be popular with children and families.

The interests of children and families evolve extremely quickly and can change dramatically from year to year. To be successful we must correctly anticipate the types of entertainment content, products and play patterns which will capture children's and families' interests and imagination and quickly develop and introduce innovative products which can compete successfully for consumers' limited time, attention and spending. This challenge is more difficult with the ever increasing utilization of technology and digital media in entertainment offerings, and the increasing breadth of entertainment available to consumers. Evolving consumer tastes and shifting interests, coupled with an ever changing and expanding pipeline of entertainment and consumer properties and products which compete for children's and families' interest and acceptance, create an environment in which some products can fail to achieve consumer acceptance, and other products can be popular during a certain period of time but then be rapidly replaced. As a result, individual child and family entertainment products and properties often have short consumer life cycles. If we devote time and resources to developing entertainment and products that consumers do not find interesting enough to buy in significant quantities to be profitable to us, our revenues and profits may decline and our business performance may be damaged. Similarly, if our product offerings and entertainment fail to correctly anticipate consumer interests our revenues and earnings will be reduced.

Additionally, our business is increasingly global and depends on interest in and acceptance of our child and family entertainment products and properties by consumers in diverse markets around the world with different tastes and preferences. As such, our success depends on our ability to successfully predict and adapt to changing consumer tastes and preferences in multiple markets and geographies and to design product and entertainment offerings that can achieve popularity globally over a broad and diverse consumer audience.

The challenge of continuously developing and offering products that are sought after by children is compounded by the sophistication of today's children and the increasing array of technology and entertainment offerings available to them.

Children are increasingly utilizing electronic offerings such as tablet devices and mobile phones and they are expanding their interests to a wider array of innovative, technology-driven entertainment products and digital and social media offerings at younger and younger ages. Our products compete with the offerings of consumer electronics companies, digital media and social media companies. To meet this challenge we, and our competitors, are designing and marketing products which incorporate increasing technology, seek to combine digital and analog play, and capitalize on new play patterns and increased consumption of digital and social media.

With the increasing array of competitive entertainment offerings, there is no guarantee that:

Any of our brands, products or product lines will achieve popularity or continue to be popular;

Any property for which we have a significant license will achieve or sustain popularity;

Any new products or product lines we introduce will be considered interesting to consumers and achieve an adequate market acceptance; or

Table of Contents

Any product's life cycle or sales quantities will be sufficient to permit us to profitably recover our development, manufacturing, marketing, royalties (including royalty advances and guarantees) and other costs of producing, marketing and selling the product. ***Entertainment is an increasingly important success factor for our brand awareness, storytelling and brand building.***

Entertainment media, in forms such as television, motion pictures, digital products, digital shorts, DVD releases and other media, have become increasingly important platforms for consumers to experience our brands and our partners' brands and the success, or lack of success, of such media efforts can significantly impact the demand for our products and our financial success. We spend considerable resources in designing and developing products in conjunction with planned media releases, both by our partners and our own media releases. Not only our efforts, but the efforts of third parties, heavily impact the timing of media development, release dates and the ultimate consumer interest in and success of these media efforts.

For 2015 we are developing and marketing significant product lines tied to the scheduled motion picture releases by key partners of *AVENGERS: AGE OF ULTRON*, *JURASSIC WORLD* and *STAR WARS: THE FORCE AWAKENS*. Those motion pictures are all being developed and released by our partners and our partners control the content and schedule for such motion pictures. Similarly, we are developing and marketing products for entertainment we play a more active role in developing or develop ourselves. If those motion pictures, or any other key entertainment content for which we develop and market products are not as successful as we and our partners anticipate, our revenues and earnings will be reduced.

The ultimate timing and success of such projects is critically dependent on the efforts and schedules of our licensors, and studio and media partners. We do not fully control when or if any particular motion picture projects will be greenlit, developed or released, and our licensors or media partners may change their plans with respect to projects and release dates or cancel development all together. This can make it difficult for us to get feature films developed, plan future entertainment slates and to successfully develop and market products in conjunction with future motion picture and other media releases, given the lengthy lead times involved in product development and successful marketing efforts.

When we say that products or brands will be supported by certain media releases, those statements are based on our current plans and expectations. Unforeseen factors may increase the cost of these releases, delay these media releases or even lead to their cancellation. Any delay or cancellation of planned product development work, introductions, or media support may decrease the number of products we sell and harm our business.

Lack of sufficient consumer interest in entertainment media for which we offer products can harm our business.

Motion pictures, television, digital products or other media for which we develop products may not be as popular with consumers as we anticipated. While it is difficult to anticipate what products may be sought after by consumers, it can be even more difficult to properly predict the popularity of media efforts and properties given the broad array of competing offerings. If our and our partners' media efforts fail to garner sufficient consumer interest and acceptance, our revenues and the financial return from such efforts will be harmed.

Discovery Family Channel, our cable television joint venture with Discovery Communications, Inc. in the United States, competes with a number of other children's television networks for viewers, advertising revenue and distribution fees. There is no guarantee that Discovery Family Channel will be successful. Similarly, Hasbro Studios' programming distributed internationally and Backflip Studio's digital products compete with content from many other parties. Lack of consumer interest in and acceptance of content developed by Hasbro Studios and Backflip Studios, or other content appearing on Discovery Family Channel, and products related to that content, could significantly harm our business. Similarly, our business could be harmed by greater than expected costs, or unexpected delays or difficulties, associated with our investment in Discovery Family Channel, such as difficulties in increasing subscribers to the network or in building advertising revenues for Discovery Family Channel. During 2014 the Company spent \$31,424 for programming developed by Hasbro Studios and anticipates that it will continue spending at comparable levels in 2015 and future years.

Table of Contents

At December 28, 2014, \$244,587, or 5.4%, of our total assets, represented our investment in Discovery Family Channel. If Discovery Family Channel does not achieve success, or if there are subsequent declines in the success or profitability of the channel, then our investment may become impaired, which could result in a write-down through net earnings.

The children's and family entertainment industry is highly competitive and the barriers to entry are low. If we are unable to compete effectively with existing or new competitors or with our retailer's private label toy products our revenues, market share and profitability could decline.

The children's and family entertainment industry is, and will continue to be, highly competitive. We compete in the United States and internationally with a wide array of large and small manufacturers, marketers, and sellers of analog toys and games, digital gaming products, digital media, products which combine analog and digital play, and other entertainment and consumer products, as well as with retailers who offer such products under their own private labels. We face competitors who are constantly monitoring and attempting to anticipate consumer tastes and trends, seeking ideas which will appeal to consumers and introducing new products that compete with our products for consumer acceptance and purchase.

In addition to existing competitors, the barriers to entry for new participants in the children's and family entertainment industry are low, and the increasing importance of digital media, and the heightened connection between digital media and consumer interest, has further increased the ability for new participants to enter our markets, and has broadened the array of companies we compete with. New participants with a popular product idea or entertainment property can gain access to consumers and become a significant source of competition for our products in a very short period of time. These existing and new competitors may be able to respond more rapidly than us to changes in consumer preferences. Our competitors' products may achieve greater market acceptance than our products and potentially reduce demand for our products, lower our revenues and lower our profitability.

In recent years, retailers have also developed their own private-label products that directly compete with the products of traditional manufacturers. Some retail chains that are our customers sell private-label children's and family entertainment products designed, manufactured and branded by the retailers themselves. These products may be sold at prices lower than our prices for comparable products, which may result in lower purchases of our products by these retailers and may reduce our market share.

An inability to develop and introduce planned products, product lines and new brands in a timely and cost-effective manner may damage our business.

In developing products, product lines and new brands we have anticipated dates for the associated product and brand introductions. When we state that we will introduce, or anticipate introducing, a particular product, product line or brand at a certain time in the future those expectations are based on completing the associated development, implementation, and marketing work in accordance with our currently anticipated development schedule. There is no guarantee that we will be able to manufacture, source and ship new or continuing products in a timely manner and on a cost-effective basis to meet constantly changing consumer demands. This risk is heightened by our customers' compressed shipping schedules and the seasonality of our business. The risk is also exacerbated by the increasing sophistication of many of the products we are designing, and brands we are developing in terms of combining digital and analog technologies, utilizing digital media to a greater degree, and providing greater innovation and product differentiation. Unforeseen delays or difficulties in the development process, significant increases in the planned cost of development, or changes in anticipated consumer demand for our products and new brands may cause the introduction date for products to be later than anticipated or, in some situations, may cause a product or new brand introduction to be discontinued.

Changes in foreign currency exchange rates can significantly impact our reported financial performance.

Our global operations mean we produce and buy products, and sell products, in many different jurisdictions with many different currencies. As a result, if the exchange rate between the United States dollar and a local currency for an international market in which we have significant sales or operations changes, our financial results as reported in U.S. dollars, may be meaningfully impacted even if our business in the local currency is not

Table of Contents

significantly affected. As an example, if the dollar appreciates 10% relative to a local currency for an international market in which we had \$200 million of net revenues, the dollar value of those sales, as they are translated into U.S. dollars, would decrease by \$20 million in our consolidated financial results. As such, we would recognize a \$20 million decrease in our net revenues, even if the actual level of sales in the foreign market had not changed. Similarly, our expenses can be significantly impacted, in U.S. dollar terms, by exchange rates, meaning the profitability of our business in U.S. dollar terms can be negatively impacted by exchange rate movements which we do not control. Late in 2014 certain key currencies, such as the Euro, Russian Ruble, and Brazilian Real depreciated significantly compared to the U.S. dollar. This depreciation had a significant negative impact on our 2014 revenues and earnings. Similar depreciation in key currencies during 2015 may have a significant negative impact on our revenues and earnings as they are reported in U.S. dollars.

United States, global and regional economic downturns that negatively impact the retail and credit markets, or that otherwise damage the financial health of our retail customers and consumers, can harm our business and financial performance.

We design, manufacture and market a wide variety of entertainment and consumer products worldwide through sales to our retail customers and directly to consumers. Our financial performance is impacted by the level of discretionary consumer spending in the markets in which we operate. Recessions, credit crises and other economic downturns, or disruptions in credit markets, in the United States and in other markets in which our products are marketed and sold can result in lower levels of economic activity, lower employment levels, less consumer disposable income, and lower consumer confidence. Similarly, reductions in the value of key assets held by consumers, such as their homes or stock market investments, can lower consumer confidence and consumer spending power. Any of these factors can reduce the amount which consumers spend on the purchase of our products. This in turn can reduce our revenues and harm our financial performance and profitability.

In addition to experiencing potentially lower revenues from our products during times of economic difficulty, in an effort to maintain sales during such times we may need to reduce the price of our products, increase our promotional spending and/or sales allowances, or take other steps to encourage retailer and consumer purchase of our products. Those steps may lower our net revenues or increase our costs, thereby decreasing our operating margins and lowering our profitability.

Challenging market conditions in certain developed economies, such as in the United States, Canada, Australia and certain Western European countries, make it more difficult for us to succeed.

Our future success in the United States, Canada, Australia, Europe and other developed economies is impacted by market conditions. For example, a European sovereign debt crisis or other significant negative shock to European markets could lead to a recession in Europe, which may negatively impact consumers and in turn, sales of our products in the European markets. Similar negative events impacting the market in the United States and other developed economies may harm our business.

Many categories within the toy, game and family entertainment industries in the United States, Canada, Australia, certain Western European countries and other developed economies have not grown, or in some cases have even declined, in recent years. In addition, many current economic predictions suggest developed economies may grow only modestly, if at all, in the next several years. We have substantial business in developed economies, and these markets represent a majority of our current product sales. It is more difficult for us to grow, or even maintain, our business when the overall market in certain of the major countries we serve is not growing or is declining. To succeed in a market that is stable or declining, we must maintain or gain market share from our competitors, which is more difficult than growing in an expanding market. As long as economic conditions in the developed economies remain difficult, this will be an additional challenge for the Company.

An increasing portion of our business is expected to come from emerging markets, and growing business in emerging markets presents additional challenges.

We expect an increasing portion of our net revenues to come from emerging markets, including Eastern Europe, Latin America and Asia. In 2014 revenues in emerging markets constituted approximately 16% of our net

Table of Contents

revenues, up from only 6% of our net revenues in 2010. Over time, we expect our emerging market net revenues to continue to grow both in absolute terms and as a percentage of our overall business as one of our key business strategies is to increase our presence in emerging and underserved international markets. Operating in an increasing number of markets, each with its own unique consumer preferences and business climates, presents additional challenges that we must meet. In addition to the need to successfully anticipate and serve different global consumer preferences and interests, sales and operations in emerging markets that we have entered, may enter, or may increase our presence in, are subject to other risks associated with international operations, including:

Complications in complying with different laws in varying jurisdictions and in dealing with changes in governmental policies and the evolution of laws and regulations that impact our product offerings and related enforcement;

Potential challenges to our transfer pricing determinations and other aspects of our cross border transactions;

Difficulties understanding the retail climate, consumer trends, local customs and competitive conditions in foreign markets which may be quite different from the United States;

Difficulties in moving materials and products from one country to another, including port congestion, strikes and other transportation delays and interruptions; and

The imposition of tariffs, quotas, or other protectionist measures.

Because of the importance of our emerging market net revenues, our financial condition and results of operations could be harmed if any of the risks described above were to occur or if we are otherwise unsuccessful in managing our emerging market business.

Our business depends in large part on the success of our key partner brands and on our ability to maintain and extend solid relationships with our key partners.

As part of our strategy, in addition to developing and marketing products based on properties we own or control, we also seek to obtain licenses enabling us to develop and market products based on popular entertainment properties owned by third parties.

We currently have in-licenses to several successful entertainment properties, including MARVEL and STAR WARS, owned by Disney, as well as SESAME STREET and ROVIO. These licenses typically have multi-year terms and provide us with the right to market and sell designated classes of products. In recent years our sales of products under the MARVEL, STAR WARS, SESAME STREET and ROVIO licenses have been highly significant to our business. If we fail to meet our contractual commitments and/or any of these licenses were to terminate and not be renewed, or the popularity of any of these licensed properties was to significantly decline, our business would be damaged and we would need to successfully develop and market other products to replace the products previously offered under license. In 2015 we anticipate offering products based on the DISNEY DESCENDANTS brand as well and beginning in 2016, we anticipate offering products based on the DISNEY PRINCESS and FROZEN brands.

Our license to the MARVEL property is granted from Marvel Entertainment, LLC and Marvel Characters B.V. (together *Marvel*). Our license to the STAR WARS property is granted by Lucas Licensing Ltd. and Lucasfilm Ltd. (together *Lucas*). Both Marvel and Lucas are owned by The Walt Disney Company.

Our business is seasonal and therefore our annual operating results will depend, in large part, on our sales during the relatively brief holiday shopping season. This seasonality is exacerbated by retailers' quick response inventory management techniques.

Sales of our toys, games and other family entertainment products at retail are extremely seasonal, with a majority of retail sales occurring during the period from September through December in anticipation of the holiday season, including Christmas. This seasonality has increased over time, as retailers become more efficient in their control of inventory levels through quick response inventory management techniques. Customers are timing their orders so that they are being filled by suppliers, such as us, closer to the time of purchase by

Table of Contents

consumers. For toys, games and other family entertainment products which we produce, a majority of retail sales for the entire year generally occur in the fourth quarter, close to the holiday season. As a consequence, the majority of our sales to our customers occur in the period from September through December, as our customers do not want to maintain large on-hand inventories throughout the year ahead of consumer demand. While these techniques reduce a retailer's investment in inventory, they increase pressure on suppliers like us to fill orders promptly and thereby shift a significant portion of inventory risk and carrying costs to the supplier.

The level of inventory carried by retailers may also reduce or delay retail sales resulting in lower revenues for us. If we or our customers determine that one of our products is more popular at retail than was originally anticipated, we may not have sufficient time to produce and ship enough additional products to fully meet consumer demand. Additionally, the logistics of supplying more and more product within shorter time periods increases the risk that we will fail to achieve tight and compressed shipping schedules, which also may reduce our sales and harm our financial performance. This seasonal pattern requires significant use of working capital, mainly to manufacture or acquire inventory during the portion of the year prior to the holiday season, and requires accurate forecasting of demand for products during the holiday season in order to avoid losing potential sales of popular products or producing excess inventory of products that are less popular with consumers. Our failure to accurately predict and respond to consumer demand, resulting in our under producing popular items and/or overproducing less popular items, would reduce our total sales and harm our results of operations. In addition, as a result of the seasonal nature of our business, we would be significantly and adversely affected, in a manner disproportionate to the impact on a company with sales spread more evenly throughout the year, by unforeseen events such as a terrorist attack or economic shock that harm the retail environment or consumer buying patterns during our key selling season, or by events such as strikes or port delays that interfere with the shipment of goods, particularly from the Far East, during the critical months leading up to the holiday shopping season.

The concentration of our retail customer base means that economic difficulties or changes in the purchasing or promotional policies or patterns of our major customers could have a significant impact on us.

We depend upon a relatively small retail customer base to sell the majority of our products. For the fiscal year ended December 28, 2014, Wal-Mart Stores, Inc., Toys 'R Us, Inc. and Target Corporation, accounted for approximately 16%, 9% and 8%, respectively, of our consolidated net revenues and our five largest customers, including Wal-Mart, Toys 'R Us and Target, in the aggregate accounted for approximately 38% of our consolidated net revenues. In the U.S. and Canada segment, approximately 59% of the net revenues of the segment were derived from our top three customers. If one or more of our major customers were to experience difficulties in fulfilling their obligations to us, cease doing business with us, significantly reduce the amount of their purchases from us, favor competitors or new entrants, increase their direct competition with us by expanding their private-label business, change their purchasing patterns, alter the manner in which they promote our products or the resources they devote to promoting and selling our products, or return substantial amounts of our products, it could significantly harm our sales, profitability and financial condition. Customers make no binding long-term commitments to us regarding purchase volumes and make all purchases by delivering purchase orders. Any customer could reduce its overall purchase of our products, and reduce the number and variety of our products that it carries and the shelf space allotted for our products. In addition, increased concentration among our customers could also negatively impact our ability to negotiate higher sales prices for our products and could result in lower gross margins than would otherwise be obtained if there were less consolidation among our customers. Furthermore, the bankruptcy or other lack of success of one or more of our significant retail customers could negatively impact our revenues and profitability.

Part of our strategy to remain relevant to children and families is to offer innovative products incorporating greater technology and which combine digital and analog play. These products can be more difficult and expensive to design and manufacture, margins on some portion of these products are lower than more traditional toys and games and such products may have short life spans.

As children have grown older younger and have otherwise become interested in more and more sophisticated and adult products, such as video games, consumer electronics and social and digital media, at

Table of Contents

younger and younger ages, we have sought to keep our products relevant and interesting for these consumers. One initiative we have pursued to capture the interest of children is to offer innovative children's electronic toy and game products. Increasing the marriage between digital and analog gaming and increasing the technology in our gaming products is another key for our future strategy. These electronic and digital products, if successful, can be an effective way for us to connect with consumers and increase our sales. However, children's electronic and digital products, in addition to the risks associated with our other family entertainment products, also face certain additional risks.

Our costs for designing, developing and producing electronic and digital products, or products that combine digital and analog technology, tend to be higher than for many of our other more traditional products, such as board games and action figures. The ability to recoup these higher costs through sufficient sales quantities and to reflect higher costs in higher prices is constrained by heavy competition in consumer electronics and entertainment products, and can be further constrained by difficult economic conditions. As a consequence, our margins on the sales of these products can be lower than for more traditional products and we can face increased risk of not achieving sales sufficient to recover our costs. Additionally, designing, developing and producing electronic and digital products requires different competencies and follows different timelines than traditional toys and games. Delays in the design, development or production of electronic or digital products incorporated into or associated with traditional toys and games could have a significant impact on our ability to successfully offer such projects. In addition, the pace of change in product offerings and consumer tastes in the electronics and digital gaming areas is potentially even greater than for our other products. This pace of change means that the window in which a product can achieve and maintain consumer interest may be even shorter than traditional toys and games.

Our substantial sales and manufacturing operations outside the United States subject us to risks associated with international operations.

We operate facilities and sell products in numerous countries outside the United States. For the year ended December 28, 2014, our net revenues from the International segment comprised approximately 47% of our total consolidated net revenues. We expect our sales to international customers to continue to account for a significant portion of our revenues. In fact, over time, we expect our international sales and operations to continue to grow both in absolute terms and as a percentage of our overall business as one of our key business strategies is to increase our presence in emerging and underserved international markets. Additionally, as we discuss below, we utilize third-party manufacturers located in the Far East to produce the substantial majority of our products, and we have a manufacturing facility in Ireland. These sales and manufacturing operations, including operations in emerging markets that we have entered, may enter, or may increase our presence in, are subject to the risks associated with international operations, including:

Currency conversion risks and currency fluctuations;

Limitations on the repatriation of earnings;

Potential challenges to our transfer pricing determinations and other aspects of our cross border transactions, which can materially increase our taxes and other costs of doing business;

Political instability, civil unrest and economic instability;

Greater difficulty enforcing intellectual property rights and weaker laws protecting such rights;

Complications in complying with different laws in varying jurisdictions and in dealing with changes in governmental policies and the evolution of laws and regulations and related enforcement;

Difficulties understanding the retail climate, consumer trends, local customs and competitive conditions in foreign markets which may be quite different from the United States;

Edgar Filing: HASBRO INC - Form 10-K

Natural disasters and the greater difficulty and cost in recovering therefrom;

Transportation delays and interruptions;

Table of Contents

Difficulties in moving materials and products from one country to another, including port congestion, strikes and other transportation delays and interruptions;

Increased investment and operational complexity to make our products compatible with systems in various countries and compliant with local laws;

Changes in international labor costs and other costs of doing business internationally; and

The imposition of tariffs, quotas, or other protectionist measures.

Because of the importance of our international sales and international sourcing of manufacturing to our business, our financial condition and results of operations could be significantly harmed if any of the risks described above were to occur or if we are otherwise unsuccessful in managing our increasing global business.

Other economic and public health conditions in the markets in which we operate, including rising commodity and fuel prices, higher labor costs, increased transportation costs, outbreaks of public health pandemics or other diseases, or third party conduct could negatively impact our ability to produce and ship our products, and lower our revenues, margins and profitability.

Various economic and public health conditions can impact our ability to manufacture and deliver products in a timely and cost-effective manner, or can otherwise have a significant negative impact on our revenues, profitability and business.

Significant increases in the costs of other products which are required by consumers, such as gasoline, home heating fuels, or groceries, may reduce household spending on the discretionary branded play entertainment products we offer. As we discussed above, weakened economic conditions, lowered employment levels or recessions in any of our major markets may significantly reduce consumer purchases of our products. Economic conditions may also be negatively impacted by terrorist attacks, wars and other conflicts, natural disasters, increases in critical commodity prices or labor costs, or the prospect of such events. Such a weakened economic and business climate, as well as consumer uncertainty created by such a climate, could harm our revenues and profitability.

Our success and profitability not only depend on consumer demand for our products, but also on our ability to produce and sell those products at costs which allow for us to make a profit. Rising fuel and raw material prices, for paperboard and other components such as resin used in plastics or electronic components, increased transportation costs, and increased labor costs in the markets in which our products are manufactured all may increase the costs we incur to produce and transport our products, which in turn may reduce our margins, reduce our profitability and harm our business.

Other conditions, such as the unavailability of sufficient quantities of electrical components, may impede our ability to manufacture, source and ship new and continuing products on a timely basis. Additional factors outside of our control could further delay our products or increase the cost we pay to produce such products. For example, work stoppages, slowdowns or strikes, an outbreak of a severe public health pandemic, a natural disaster or the occurrence or threat of wars or other conflicts, all could impact our ability to manufacture or deliver product. Any of these factors could result in product delays, increased costs and/or lost sales for our products.

We may not realize the full benefit of our licenses if the licensed material has less market appeal than expected or if revenue from the licensed products is not sufficient to earn out the minimum guaranteed royalties.

In addition to designing and developing products based on our own brands, we seek to fulfill consumer preferences and interests by producing products based on popular entertainment properties developed by third parties and licensed to us. The success of entertainment properties for which we have a license, such as MARVEL, STAR WARS, SESAME STREET or ROVIO related products, can significantly affect our revenues and profitability. If we produce a line of products based on a movie or television series, the success of the movie or series has a critical impact on the level of consumer interest in the associated products we are offering. In addition, competition in our industry for access to entertainment properties can lessen our ability to secure,

Table of Contents

maintain, and renew popular licenses to entertainment products on beneficial terms, if at all, and to attract and retain the talented employees necessary to design, develop and market successful products based on these properties.

The license agreements we enter to obtain these rights usually require us to pay minimum royalty guarantees that may be substantial, and in some cases may be greater than what we are ultimately able to recoup from actual sales, which could result in write-offs of significant amounts which in turn would harm our results of operations. At December 28, 2014, we had \$230,840 of prepaid royalties, \$132,146 of which are included in prepaid expenses and other current assets and \$98,694 of which are included in other assets. Under the terms of existing contracts as of December 28, 2014, we may be required to pay additional future minimum guaranteed royalties and other licensing fees totaling approximately \$506,000. Acquiring or renewing licenses may require the payment of minimum guaranteed royalties that we consider to be too high to be profitable, which may result in losing licenses that we currently hold when they become available for renewal, or missing business opportunities for new licenses. Additionally, as a licensee of entertainment-based properties we have no guaranty that a particular property or brand will translate into successful toy, game or other family entertainment products, and underperformance of any such products may result in reduced revenues and operating profit for us.

We anticipate that the shorter theatrical duration for movie releases may make it increasingly difficult for us to profitably sell licensed products based on entertainment properties and may lead our customers to reduce their demand for these products in order to minimize their inventory risk. Furthermore, there can be no assurance that a successful brand will continue to be successful or maintain a high level of sales in the future, as new entertainment properties and competitive products are continually being introduced to the market. In the event that we are not able to acquire or maintain successful entertainment licenses on advantageous terms, our revenues and profits may be harmed.

Our use of third-party manufacturers to produce the substantial majority of our products, as well as certain other products, presents risks to our business.

We own and operate two manufacturing facilities, one in East Longmeadow, Massachusetts and the other in Waterford, Ireland. However, most of our products are manufactured by third-party manufacturers, the majority of which are located in China. Although, should changes be necessary, our external sources of manufacturing can be shifted, over a significant period of time, to alternative sources of supply. If we were prevented or delayed in obtaining products or components for a material portion of our product line due to political, civil, labor or other factors beyond our control, including natural disasters or pandemics, our operations may be substantially disrupted, potentially for a significant period of time. This delay could significantly reduce our revenues and profitability and harm our business while alternative sources of supply are secured.

Given that the majority of our toy manufacturing is conducted by third-party manufacturers located in China, health conditions and other factors affecting social and economic activity in China and affecting the movement of people and products into and from China to our major markets, including North America and Europe, as well as increases in the costs of labor and other costs of doing business in China, could have a significant negative impact on our operations, revenues and earnings.

Factors that could negatively affect our business include a potential significant revaluation of the Chinese Yuan, which may result in an increase in the cost of producing products in China, labor shortages and increases in labor costs in China as well as difficulties in moving products manufactured in China out of Asia and through the ports in North America and Europe, whether due to port congestion, labor disputes, slow-downs, product regulations and/or inspections or other factors. During the period leading up to the 2014 holiday season labor disputes had a negative impact on the transportation of many goods coming from the Far East to the United States through the port the Company utilizes in California. To manage the impact of that situation we opted to transport products through a port on the east coast. However, prolonged disputes or slowdowns at the west coast port can negatively impact both the time and cost of transporting goods into the United States. Natural disasters or health pandemics impacting China can also have a significant negative impact on our business. Further, the imposition of trade sanctions or other regulations by the United States or the European Union against products imported by us from, or the loss of normal trade relations status with, China, could significantly increase our

Table of Contents

cost of products imported into the United States or Europe and harm our business. Additionally, the suspension of the operations of a third-party manufacturer by government inspectors in China could result in delays to us in obtaining product and may harm sales.

We require our third-party manufacturers to comply with our Global Business Ethics Principles, which are designed to prevent products manufactured by or for us from being produced under inhumane or exploitive conditions. Our Global Business Ethics Principles address a number of issues, including working hours and compensation, health and safety, and abuse and discrimination. In addition, we require that our products supplied by third-party manufacturers be produced in compliance with all applicable laws and regulations, including consumer and product safety laws in the markets where those products are sold. Hasbro has the right and exercises such right, both directly and through the use of outside monitors, to monitor compliance by our third-party manufacturers with our Global Business Ethics Principles and other manufacturing requirements. In addition, we do quality assurance testing on our products, including products manufactured for us by third parties. Notwithstanding these requirements and our monitoring and testing of compliance with them, there is always a risk that one or more of our third-party manufacturers will not comply with our requirements and that we will not immediately discover such non-compliance. Any failure of our third-party manufacturers to comply with labor, consumer, product safety or other applicable requirements in manufacturing products for us could result in damage to our reputation, harm sales of our products and potentially create liability for us.

If we are unable to successfully adapt to the evolution of gaming, our revenues and profitability may decline.

Recognizing the critical need for increased innovation and a change in the way we go to market with gaming products in order to remain successful in the gaming business in the future, we began implementing a strategy in 2011 to reinvent our gaming business. The objective of this plan was to stabilize our gaming business in 2012, and to position it to grow over the long-term. Our strategy to drive our gaming business in the future involves substantial changes in how we market our gaming products to consumers and how we position them at retail, a focus on delivering industry leading innovation in gaming, a change in our allocation of focus across gaming brands, greater penetration of our brands into digital gaming and the successful combination of analog and digital gaming. Our strategy also involves making changes in how we design and develop our gaming products. We recognize the need to provide immersive game play that is easy for consumers to learn and play in shorter periods of time, as well as offer innovative face to face, off the board and digital gaming opportunities. People are gaming in greater numbers than ever before, but the nature of gaming has and continues to evolve quickly. To be successful our gaming offerings must evolve to anticipate and meet these changes in consumer gaming. Our failure to successfully implement our strategy and to keep up with the evolution of gaming could substantially harm our business, resulting in lost revenues and lost profits.

Our success is critically dependent on the efforts and dedication of our officers and other employees.

Our officers and employees are at the heart of all of our efforts. It is their skill, innovation and hard work that drive our success. We compete with many other potential employers in recruiting, hiring and retaining our senior management team and our many other skilled officers and other employees around the world. There is no guarantee that we will be able to recruit, hire or retain the senior management, officers and other employees we need to succeed. Additionally, we have experienced significant changes in our workforce from our restructuring efforts and the recruitment and hiring of new skill sets required from our changing global business. We have added hundreds of employees in our global markets while reducing our overall workforce over the last several years. These changes in employee composition, both in terms of global distribution and in skill sets, has required changes in our business. Our loss of key management or other employees, or our inability to hire talented people with the skill sets we need for our changing business, could significantly harm our business.

To remain competitive we must continuously work to increase efficiency and reduce costs, but there is no guarantee we will be successful in this regard.

Our business is extremely competitive, the pace of change in our industry is getting faster and our competitors are always working to be more efficient and profitable. To compete we must continuously improve

Table of Contents

our processes, increase efficiency and work to reduce our expenses. To improve our profitability and competitiveness, in the fourth quarter of 2012 we implemented a global cost savings initiative. The objective of this initiative is to reduce our underlying operating costs by an annual gross amount of \$100 million by the end of 2015. We intend to achieve this by focusing on fewer, more global brand initiatives, workforce reductions, facility consolidation and other process improvements. However, these actions are no guarantee we will achieve our cost savings goal and we may realize fewer benefits than are expected from this initiative.

Our business is critically dependent on our intellectual property rights and we may not be able to protect such rights successfully.

Our intellectual property, including our trademarks and tradenames, copyrights, patents, and rights under our license agreements and other agreements that establish our intellectual property rights and maintain the confidentiality of our intellectual property, is of critical value. We rely on a combination of trade secret, copyright, trademark, patent and other proprietary rights laws to protect our rights to valuable intellectual property related to our brands in the United States and around the world. From time to time, third parties have challenged, and may in the future try to challenge, our ownership of our intellectual property in the United States and around the world. In addition, our business is subject to the risk of third parties counterfeiting our products or infringing on our intellectual property rights. We may need to resort to litigation to protect our intellectual property rights, which could result in substantial costs and diversion of resources. Similarly, third parties may claim ownership over certain aspects of our products or other intellectual property. Our failure to successfully protect our intellectual property rights could significantly harm our business and competitive position.

We have a material amount of acquired product rights which, if impaired, would result in a reduction of our net earnings.

Much of our intellectual property has been internally developed and has no carrying value on our consolidated balance sheets. However, as of December 28, 2014, we had \$324,528 of acquired product and licensing rights included in other assets on our consolidated balance sheets. Declines in the profitability of the acquired brands or licensed products or our decision to reduce our focus or exit these brands may impact our ability to recover the carrying value of the related assets and could result in an impairment charge. Reduction in our net earnings caused by impairment charges could harm our financial results.

We rely on external financing, including our credit facility, to help fund our operations. If we were unable to obtain or service such financing, or if the restrictions imposed by such financing were too burdensome, our business would be harmed.

Due to the seasonal nature of our business, in order to meet our working capital needs, particularly those in the third and fourth quarters, we rely on our commercial paper program, revolving credit facility and our other credit facilities for working capital. We currently have a commercial paper program which, subject to market conditions, and availability under our committed revolving credit facility, allows us to issue up to \$700,000 in aggregate amount of commercial paper outstanding from time to time as a source of working capital funding and liquidity. There is no guarantee that we will be able to issue commercial paper on favorable terms, or at all, at any given point in time.

We also have a revolving credit agreement that expires in 2017, which provides for a \$700,000 committed revolving credit facility and a further source of working capital funding and liquidity. This facility also supports borrowings under our commercial paper program. The credit agreement contains certain restrictive covenants setting forth leverage and coverage requirements, and certain other limitations typical of an investment grade facility. These restrictive covenants may limit our future actions as well as our financial, operating and strategic flexibility. In addition, our financial covenants were set at the time we entered into our credit facility. Our performance and financial condition may not meet our original expectations, causing us to fail to meet such financial covenants. Non-compliance with our debt covenants could result in us being unable to utilize borrowings under our revolving credit facility and other bank lines, a circumstance which potentially could occur when operating shortfalls would most require supplementary borrowings to enable us to continue to fund our operations.

Table of Contents

Not only may our individual financial performance impact our ability to access sources of external financing, but significant disruptions to credit markets in general may also harm our ability to obtain financing. In times of severe economic downturn and/or distress 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. In such a situation, it may be that we would be unable to access funding under our existing credit facilities, and it might not be possible to find alternative sources of funding.

We also may choose to finance our capital needs, from time to time, through the issuance of debt securities. Our ability to issue such securities on satisfactory terms, if at all, will depend on the state of our business and financial condition, any ratings issued by major credit rating agencies, market interest rates, and the overall condition of the financial and credit markets at the time of the offering. The condition of the credit markets and prevailing interest rates have fluctuated significantly in the past and are likely to fluctuate in the future. Variations in these factors could make it difficult for us to sell debt securities or require us to offer higher interest rates in order to sell new debt securities. The failure to receive financing on desirable terms, or at all, could damage our ability to support our future operations or capital needs or engage in other business activities.

As of December 28, 2014, we had \$1,559,895 of total principal amount of long-term debt outstanding. If we are unable to generate sufficient available cash flow to service our outstanding debt we would need to refinance such debt or face default. There is no guarantee that we would be able to refinance debt on favorable terms, or at all.

As a manufacturer of consumer products and a large multinational corporation, we are subject to various government regulations and may be subject to additional regulations in the future, violation of which could subject us to sanctions or otherwise harm our business. In addition, we could be the subject of future product liability suits or product recalls, which could harm our business.

As a manufacturer of consumer products, we are subject to significant government regulations, including, in the United States, under The Consumer Products Safety Act, The Federal Hazardous Substances Act, and The Flammable Fabrics Act, as well as under product safety and consumer protection statutes in our international markets. In addition, certain of our products are subject to regulation by the Food and Drug Administration or similar international authorities. In addition, advertising to children is subject to regulation by the Federal Trade Commission, the Federal Communications Commission and a host of other agencies globally, and the collection of information from children under the age of thirteen is subject to the provisions of the Children's Online Privacy Protection Act and other privacy laws around the world. While we take all the steps we believe are necessary to comply with these acts, there can be no assurance that we will be in compliance and failure to comply with these acts could result in sanctions which could have a negative impact on our business, financial condition and results of operations. We may also be subject to involuntary product recalls or may voluntarily conduct a product recall. While costs associated with product recalls have generally not been material to our business, the costs associated with future product recalls individually or in the aggregate in any given fiscal year could be significant. In addition, any product recall, regardless of direct costs of the recall, may harm consumer perceptions of our products and have a negative impact on our future revenues and results of operations.

Governments and regulatory agencies in the markets where we manufacture and sell products may enact additional regulations relating to product safety and consumer protection in the future and may also increase the penalties for failure to comply with product safety and consumer protection regulations. In addition, one or more of our customers might require changes in our products, such as the non-use of certain materials, in the future. Complying with any such additional regulations or requirements could impose increased costs on our business. Similarly, increased penalties for non-compliance could subject us to greater expense in the event any of our products were found to not comply with such regulations. Such increased costs or penalties could harm our business.

As a large, multinational corporation, we are subject to a host of governmental regulations throughout the world, including antitrust, customs and tax requirements, anti-boycott regulations, environmental regulations and the Foreign Corrupt Practices Act. Complying with these regulations imposes costs on us which can reduce our profitability and our failure to successfully comply with any such legal requirements could subject us to monetary liabilities and other sanctions that could further harm our business and financial condition.

Table of Contents

We may not realize the anticipated benefits of acquisitions or investments in joint ventures, or those benefits may be delayed or reduced in their realization.

Acquisitions and investments have been a component of our historical growth and have enabled us to further broaden and diversify our product offerings. In making acquisitions or investments, we target companies that we believe offer attractive family entertainment products or offerings and/or the ability for us to leverage our entertainment offerings. In the case of our joint venture with Discovery, we looked to partner with a company that has shown the ability to establish and operate compelling entertainment channels. Additionally, through our acquisition of a 70% interest in Backflip Studios, we looked to strengthen our mobile gaming expertise. However, we cannot be certain that the products and offerings of companies we may acquire, or acquire an interest in, will achieve or maintain popularity with consumers in the future or that any such acquired companies or investments will allow us to more effectively market our products. In some cases, we expect that the integration of the companies that we may acquire into our operations will create production, marketing and other operating synergies which will produce greater revenue growth and profitability and, where applicable, cost savings, operating efficiencies and other advantages. However, we cannot be certain that these synergies, efficiencies and cost savings will be realized. Even if achieved, these benefits may be delayed or reduced in their realization. In other cases, we may acquire or invest in companies that we believe have strong and creative management, in which case we may plan to operate them more autonomously rather than fully integrating them into our operations. We cannot be certain that the key talented individuals at these companies would continue to work for us after the acquisition or that they would develop popular and profitable products or services in the future. There is no guarantee that any acquisition or investment we may make will be successful or beneficial, and acquisitions can consume significant amounts of management attention and other resources, which may negatively impact other aspects of our business.

Failure to operate our information systems and implement new technology effectively could disrupt our business or reduce our sales or profitability.

We rely extensively on various information technology systems and software applications to manage many aspects of our business, including product development, management of our supply chain, sale and delivery of our products, financial reporting and various other process transactions. We are critically dependent on the integrity, security and consistent operations of these systems and related back-up systems. These systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, malware and other security breaches, catastrophic events such as hurricanes, fires, floods, earthquakes, tornadoes, acts of war or terrorism and usage errors by our employees. The efficient operation and successful growth of our business depends on these information systems, including our ability to operate them effectively and to select and implement appropriate upgrades or new technologies and systems and adequate disaster recovery systems successfully. The failure of our information systems to perform as designed or our failure to implement and operate them effectively could disrupt our business, require significant capital investments to remediate a problem or subject us to liability.

If our electronic data is compromised our business could be significantly harmed.

We maintain significant amounts of data electronically in locations around the world. This data relates to all aspects of our business, including current and future products and entertainment under development, and also contains certain customer, consumer, supplier, partner and employee data. We maintain systems and processes designed to protect this data, but notwithstanding such protective measures, there is a risk of intrusion or tampering that could compromise the integrity and privacy of this data. In addition, we provide confidential and proprietary information to our third-party business partners in certain cases where doing so is necessary to conduct our business. While we obtain assurances from those parties that they have systems and processes in place to protect such data, and where applicable, that they will take steps to assure the protections of such data by third parties, nonetheless those partners may also be subject to data intrusion or otherwise compromise the protection of such data. Any compromise of the confidential data of our customers, consumers, suppliers, partners, employees or ourselves, or failure to prevent or mitigate the loss of or damage to this data through

Table of Contents

breach of our information technology systems or other means could substantially disrupt our operations, harm our customers, consumers and other business partners, damage our reputation, violate applicable laws and regulations and subject us to additional costs and liabilities and loss of business that could be material.

From time to time, we are involved in litigation, arbitration or regulatory matters where the outcome is uncertain and which could entail significant expense.

As is the case with many large multinational corporations, we are subject, from time to time, to regulatory investigations, litigation and arbitration disputes, including potential liability from personal injury or property damage claims by the users of products that have been or may be developed by us as well as claims by third parties that our products infringe upon or misuse such third parties' property or rights. Because the outcome of litigation, arbitration and regulatory investigations is inherently difficult to predict, it is possible that the outcome of any of these matters could entail significant cost for us and harm our business. The fact that we operate in significant numbers of international markets also increases the risk that we may face legal and regulatory exposures as we attempt to comply with a large number of varying legal and regulatory requirements. Any successful claim against us could significantly harm our business, financial condition and results of operations.

We have a material amount of goodwill which, if it becomes impaired, would result in a reduction in our net earnings.

Goodwill is the amount by which the cost of an acquisition exceeds the fair value of the net assets we acquire. Goodwill is not amortized and is required to be periodically evaluated for impairment. At December 28, 2014, \$593,438, or 13.1%, of our total assets represented goodwill. Declines in our profitability may impact the fair value of our reporting units, which could result in a write-down of our goodwill and consequently harm our results of operations.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Hasbro owns its corporate headquarters in Pawtucket, Rhode Island consisting of approximately 343,000 square feet, which is used by corporate functions as well as the Global Operations and Entertainment and Licensing segments. The Company also owns an adjacent building consisting of approximately 23,000 square feet and leases a building in East Providence, Rhode Island consisting of approximately 120,000 square feet, both of which are used by corporate functions. The Company leases a facility in Providence, Rhode Island consisting of approximately 136,000 square feet which is used primarily by the U.S. and Canada segment, as well as the Entertainment and Licensing and Global Operations segments. In addition to the above facilities, the Company also leases office space consisting of approximately 111,300 square feet in Renton, Washington as well as warehouse space aggregating approximately 2,238,000 square feet in Georgia, California, Texas and Quebec that are also used by the U.S. and Canada segment. The Company leases approximately 51,000 square feet in Burbank, California and 24,000 square feet in Boulder, Colorado that are used by the Entertainment and Licensing segment.

The Company owns manufacturing plants in East Longmeadow, Massachusetts and Waterford, Ireland used in our Global Operations segment. The East Longmeadow plant consists of approximately 1,148,000 square feet. The Waterford plant consists of approximately 244,000 square feet. The Global Operations segment also leases an aggregate of 98,000 square feet of office and warehouse space in Hong Kong as well as approximately 82,000 square feet of office space leased in the People's Republic of China.

Outside of its United States and Canada facilities, the Company leases or owns property in over 30 countries. The primary locations for facilities in the International segment are in the United Kingdom, Mexico, Germany, France, Spain, Australia, Russia and Brazil, all of which are comprised of both office and warehouse space. In addition, the Company also leases offices in Switzerland and the Netherlands which are primarily used in corporate functions.

Table of Contents

The above properties consist, in general, of brick, cinder block or concrete block buildings which the Company believes are in good condition and well maintained.

The Company believes that its facilities are adequate for its needs. The Company believes that, should it not be able to renew any of the leases related to its leased facilities, it could secure similar substitute properties without a material adverse impact on its operations.

Item 3. Legal Proceedings.

The Company had outstanding tax assessments in Mexico relating to the years 2000 through 2007 and for 2009 based on transfer pricing issues between the Company's subsidiaries with respect to the Company's operations in Mexico. The Company filed suit in the Federal Tribunal of Fiscal and Administrative Justice in Mexico challenging the 2000 through 2004 assessments and through administrative appeals for assessments for 2005 through 2007 and 2009. During the fourth quarter of 2014, the Company and the Mexican tax authorities settled these disputes which resulted in an aggregate cash payment of approximately \$65 million by the Company to the Mexican tax authorities. This settlement agreement resolved all of the outstanding tax assessments and also closed all other completed tax years through and including 2013.

Prior to this settlement, in order to challenge the outstanding tax assessments related to the years 2000 through 2004 in court, 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 these assessments. The Company elected to post bonds which guaranteed the full amounts of the outstanding related tax assessments. Due to the timing of the settlement, these bonds were still outstanding at December 28, 2014 and totaled \$146 million in aggregate (at December 28, 2014 exchange rates).

We are currently party to certain other legal proceedings, none of which we believe to be material to our business or financial condition.

Item 4. Mine Safety Disclosures.

None.

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

The Company's common stock, par value \$0.50 per share (the "Common Stock"), is traded on The NASDAQ Global Select Market under the symbol "HAS". The following table sets forth the high and low sales prices in the applicable quarters, as reported on the Composite Tape of The NASDAQ Global Select Market as well as the cash dividends declared per share of Common Stock for the periods listed.

Period	Sales Prices		Cash Dividends Declared
	High	Low	
2014			
1st Quarter	\$ 55.67	47.48	\$ 0.43
2nd Quarter	56.91	51.08	0.43
3rd Quarter	55.78	48.01	0.43
4th Quarter	59.42	52.74	0.43
2013			
1st Quarter	\$ 44.14	35.00	\$ 0.40
2nd Quarter	48.97	42.57	0.40
3rd Quarter	49.75	44.69	0.40
4th Quarter	54.55	45.44	0.40

The approximate number of holders of record of the Company's Common Stock as of February 19, 2015 was 8,600.

See Part III, Item 12 of this report for the information concerning the Company's Equity Compensation Plans.

Dividends

Declaration of dividends is at the discretion of the Company's Board of Directors and will depend upon the earnings and financial condition of the Company and such other factors as the Board of Directors deems appropriate.

Issuer Repurchases of Common Stock

Repurchases made in the fourth quarter (in whole numbers of shares and dollars)

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
October 2014				
9/29/14 - 10/26/14	674,863	\$ 55.15	674,863	\$ 146,432,144
November 2014				
10/27/14 - 11/30/14	644,735	\$ 57.38	644,735	\$ 109,440,190
December 2014				
12/1/14 - 12/28/14	802,200	\$ 56.46	802,200	\$ 64,151,332

Edgar Filing: HASBRO INC - Form 10-K

Total	2,121,798	\$	56.32	2,121,798	\$	64,151,332
-------	-----------	----	-------	-----------	----	------------

Table of Contents

On August 1, 2013, 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, if any, 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. In February 2015, subsequent to year end, the Company announced that its Board of Directors authorized the repurchase of an additional \$500 million in common stock.

Item 6. Selected Financial Data.

(Thousands of dollars and shares except per share data and ratios)

	2014	2013	Fiscal Year 2012	2011	2010
Consolidated Statements of Operations Data:					
Net revenues	\$ 4,277,207	4,082,157	4,088,983	4,285,589	4,002,161
Operating Profit	\$ 635,375	467,093	551,785	593,981	587,859
Net earnings	\$ 413,310	283,928	335,999	385,367	397,752
Net loss attributable to noncontrolling interests	\$ (2,620)	(2,270)			
Net earnings attributable to Hasbro, Inc.	\$ 415,930	286,198	335,999	385,367	397,752
Per Common Share Data:					
Net Earnings Attributable to Hasbro, Inc.					
Basic	\$ 3.24	2.20	2.58	2.88	2.86
Diluted	\$ 3.20	2.17	2.55	2.82	2.74
Cash dividends declared					