HASBRO INC
Form 10-Q
July 26, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 26, 2016

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

Commission File Number 1-6682

HASBRO, INC.

(Exact name of registrant as specified in its charter)

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

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

(401) 431-8697

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

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

Shareholders' equity				
Preference stock of $2.50 par value. Authorized 5,000,000 shares; none issued		-	-	-
Common stock of $.50 par value. Authorized 600,000,000 shares; issued 209,694,630 at June 26, 2016, June 28, 2015, and December 27, 2015		104,847	104,847	104,847
Additional paid-in capital		945,802	850,582	893,630
Retained earnings		3,825,289	3,583,803	3,852,321
Accumulated other comprehensive loss		(174,301)	(103,476)	(146,001)
Treasury stock, at cost; 84,241,018 shares at June 26, 2016; 84,781,723 shares at June 28, 2015; and 84,899,200 shares at December 27, 2015		(3,089,104)	(3,007,251)	(3,040,895)
Total shareholders' equity		1,612,533	1,428,505	1,663,902
Total liabilities, redeemable noncontrolling interests and shareholders' equity	$	4,344,385	4,217,689	4,720,717

See accompanying condensed notes to consolidated financial statements.

HASBRO, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(Thousands of Dollars Except Per Share Data)
(Unaudited)

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

See accompanying condensed notes to consolidated financial statements.

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

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

See accompanying condensed notes to consolidated financial statements.

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

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

See accompanying condensed notes to consolidated financial statements.

HASBRO, INC. AND SUBSIDIARIES

Condensed Notes to Consolidated Financial Statements

(Thousands of Dollars and Shares Except Per Share Data)

(Unaudited)

(1) Basis of Presentation

In the opinion of management, the accompanying unaudited interim financial statements contain all normal and recurring adjustments necessary to present fairly the financial position of Hasbro, Inc. and all majority-owned subsidiaries ("Hasbro" or the "Company") as of June 26, 2016 and June 28, 2015, and the results of its operations and cash flows for the periods then ended in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and notes thereto. Actual results could differ from those estimates.

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

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

These condensed consolidated financial statements have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in the consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. The Company filed audited consolidated financial statements for the fiscal year ended December 27, 2015 in its Annual Report on Form 10-K, which includes all such information and disclosures and, accordingly, should be read in conjunction with the financial information included herein.

The Company's accounting policies are the same as those described in Note 1 to the Company's consolidated financial statements in its Annual Report on Form 10-K for the fiscal year ended December 27, 2015.

(2) Earnings Per Share

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

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

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

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

(3) Other Comprehensive Earnings (Loss)

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

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

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

		Pension and Postretirement Amounts	Gains (Losses) on Derivative Instruments	Unrealized Holding Gains on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Earnings (Loss)
2016						
Balance at December 27, 2015	$	(102,931)	79,317	1,258	(123,645)	(146,001)
Current period other comprehensive earnings (loss)		2,350	(51,968)	1,353	19,965	(28,300)
Balance at June 26, 2016	$	(100,581)	27,349	2,611	(103,680)	(174,301)
2015						
Balance at December 27, 2014	$	(113,092)	43,689	1,900	(27,951)	(95,454)
Current period other comprehensive earnings (loss)		2,497	35,209	941	(46,669)	(8,022)
Balance at June 28, 2015	$	(110,595)	78,898	2,841	(74,620)	(103,476)

At June 26, 2016, the Company had remaining net deferred gains on foreign currency forward contracts, net of tax, of $46,138 in accumulated other comprehensive loss ("AOCE"). These instruments hedge payments related to inventory purchased in the second quarter of 2016 or forecasted to be purchased during the remainder of 2016 and, to a lesser extent, 2017 through 2020, intercompany expenses expected to be paid or received during 2016 and 2017, cash receipts for sales made at the end of the second quarter of 2016 or forecasted to be made in the remainder of 2016 and, to a lesser extent, 2017 through 2018. These amounts will be reclassified into the consolidated statements of operations upon the sale of the related inventory or recognition of the related sales or expenses.

In addition to foreign currency forward contracts, the Company entered into hedging contracts on future interest payments related to the long-term notes due 2021 and 2044. At the date of debt issuance in 2014, these contracts were terminated and the fair value on the date of settlement was deferred in AOCE and is being amortized to interest expense over the life of the related notes using the effective interest rate method. At June 26, 2016, deferred losses, net of tax of $18,789 related to these instruments remained in AOCE. For the quarters ended June 26, 2016 and June 28, 2015, previously deferred losses of $450 were reclassified from AOCE to net earnings. For the six month periods ended June 26, 2016 and June 28, 2015, previously deferred losses of $899 were reclassified from AOCE to net earnings.

Of the amount included in AOCE at June 26, 2016, the Company expects approximately $26,920 to be reclassified to the consolidated statements of operations within the next 12 months. However, the amount ultimately realized in earnings is dependent on the fair value of the hedging instruments on the settlement dates.

(4) Financial Instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, short-term borrowings, accounts payable and certain accrued liabilities. At June 26, 2016, June 28, 2015 and December 27, 2015, the carrying cost of these instruments approximated their fair value. The Company's financial instruments at June 26, 2016, June 28, 2015 and December 27, 2015 also include certain assets and liabilities measured at fair value (see Notes 6 and 8) as well as long-term borrowings. The carrying costs which are equal to the outstanding principal amounts, and fair values of the Company's long-term borrowings as of June 26, 2016, June 28, 2015 and December 27, 2015 are as follows:

	June 26, 2016		June 28, 2015		December 27, 2015	
	Carrying Cost	Fair Value	Carrying Cost	Fair Value	Carrying Cost	Fair Value
6.35% Notes Due 2040	$ 500,000	608,600	500,000	557,450	500,000	556,300
6.30% Notes Due 2017	350,000	370,125	350,000	382,235	350,000	374,045
5.10% Notes Due 2044	300,000	317,490	300,000	287,010	300,000	286,710
3.15% Notes Due 2021	300,000	308,640	300,000	301,800	300,000	300,060
6.60% Debentures Due 2028	109,895	133,006	109,895	121,115	109,895	121,269
Total long-term debt	$ 1,559,895	1,737,861	1,559,895	1,649,610	1,559,895	1,638,384
Less: Deferred debt expenses	12,142	-	13,418	-	12,780	-
Long-term debt	$ 1,547,753	1,737,861	1,546,477	1,649,610	1,547,115	1,638,384

The fair values of the Company's long-term debt are considered Level 3 fair values (see Note 6 for further discussion of the fair value hierarchy) and are measured using the discounted future cash flows method. In addition to the debt terms, the valuation methodology includes an assumption of a discount rate that approximates the current yield on a similar debt security. This assumption is considered an unobservable input in that it reflects the Company's own assumptions about the inputs that market participants would use in pricing the asset or liability. The Company believes that this is the best information available for use in the fair value measurement.

In April 2015, the FASB issued ASU No. 2015-03, Interest – Imputation of Interest (ASC 835-30), which simplifies the presentation of debt issuance costs. ASU 2015-03 requires debt issuance costs related to long-term debt to be presented in the balance sheet as a reduction to the carrying amount of the related debt liability, consistent with the presentation of discounts. The Company adopted ASU 2015-03 at December 27, 2015 and deferred debt costs are presented as a reduction of long-term debt. Debt issuance costs of $13,418 have been reclassified from other assets in the consolidated balance sheet for June 28, 2015, to reflect this change in accounting principle.

(5) Income Taxes

The Company and its subsidiaries file income tax returns in the United States and various state and international jurisdictions. In the normal course of business, the Company is regularly audited by U.S. federal, state and local and international tax authorities in various tax jurisdictions.

The Company is no longer subject to U.S. federal income tax examinations for years before 2013. With few exceptions, the Company is no longer subject to U.S., state or local and non-U.S. income tax examinations by tax authorities in its major jurisdictions for years before 2009. The Company is currently under income tax examination in several U.S., state and local and non-U.S. jurisdictions.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes*, which simplifies the presentation of deferred income taxes by removing the requirement to bifurcate deferred income tax assets and liabilities between current and non-current. The Company adopted ASU 2015-17 as of December 27, 2015 and deferred income tax assets and liabilities are presented as non-current in the consolidated balance sheets. This adoption was applied retrospectively and $74,044 has been reclassified from prepaid expenses and other current assets to other assets and $5,015 has been reclassified from accrued liabilities to other liabilities in the consolidated balance sheet as of June 28, 2015.

(6) Fair Value of Financial Instruments

The Company measures certain financial instruments at fair value. The fair value hierarchy consists of three levels: Level 1 fair values are based on quoted market prices in active markets for identical assets or liabilities that the entity has the ability to access; Level 2 fair values are those based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities; and Level 3 fair values are based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Accounting standards permit entities to measure many financial instruments and certain other items at fair value and establish presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar assets and liabilities. The Company has elected the fair value option for certain available-for-sale investments. At June 26, 2016, June 28, 2015 and December 27, 2015, these investments totaled $23,056, $32,766 and $22,539, respectively, and are included in prepaid expenses and other current assets in the consolidated balance sheets. The Company recorded net gains of $399 and $482 on these investments in other (income) expense, net for the quarter and six-months ended June 26, 2016, respectively, related to the change in fair value of such instruments. For the quarter and six-month periods ended June 28, 2015 the Company recorded net losses of $87 and $70, respectively, in other (income) expense, net, related to the change in fair value of such instruments.

At June 26, 2016, June 28, 2015 and December 27, 2015, the Company had the following assets and liabilities measured at fair value (excluding assets for which the fair value is measured using net asset value per share) in its consolidated balance sheets:

		Fair Value Measurements Using:		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 26, 2016				
Assets:				
Available-for-sale securities	$ 5,597	5,597	-	-
Derivatives	63,277	-	63,277	-
Total assets	$ 68,874	5,597	63,277	-
Liabilities:				
Derivatives	$ 13,148	-	13,148	-
Option agreement	27,560	-	-	27,560
Total liabilities	$ 40,708	-	13,148	27,560
June 28, 2015				
Assets:				
Available-for-sale securities	$ 5,959	5,959	-	-
Derivatives	105,906	-	105,906	-
Total assets	$ 111,865	5,959	105,906	-
Liabilities:				
Derivatives	$ 2,748	-	2,748	-
Option agreement	25,190	-	-	25,190
Total liabilities	$ 27,938	-	2,748	25,190
December 27, 2015				
Assets:				
Available-for-sale securities	$ 3,476	3,476	-	-
Derivatives	107,634	-	107,634	-
Total assets	$ 111,110	3,476	107,634	-
Liabilities:				
Derivatives	$ 1,240	-	1,240	-
Option agreement	28,360	-	-	28,360
Total Liabilities	$ 29,600	-	1,240	28,360

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

The Company's derivatives consist of foreign currency forward contracts. The Company used current forward rates of the respective foreign currencies to measure the fair value of these contracts. The option agreement included in other liabilities at June 26, 2016, June 28, 2015 and December 27, 2015, is valued using an option pricing model based on the fair value of the related investment. Inputs used in the option pricing model include the volatility and fair value of the underlying company which are considered unobservable inputs as they reflect the Company's own assumptions about the inputs that market participants would use in pricing the asset or liability. The Company believes that this is the best information available for use in the fair value measurement. There were no changes in these valuation techniques during the six-month period ended June 26, 2016.

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

		2016	2015
Balance at beginning of year	$	(28,360)	(25,340)
Gain from change in fair value		800	150
Balance at end of second quarter	$	(27,560)	(25,190)

In addition to the above, the Company has three investments for which the fair value is measured using net asset value per share. At June 26, 2016, June 28, 2015 and December 27, 2015, these investments had fair values of $23,056, $32,766 and $22,539, respectively. Two of the investments have net asset values that are predominantly based on underlying investments which are traded on an active market and are redeemable within 45 days. The third investment invests in hedge funds which are generally redeemable on a quarterly basis with 30 – 90 days' notice.

(7) Pension and Postretirement Benefits

The components of the net periodic cost of the Company's defined benefit pension and other postretirement plans for the quarter and six-month periods ended June 26, 2016 and June 28, 2015 are as follows:

		Quarter Ended			
		Pension		Postretirement	
		June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Service cost	$	995	1,021	133	150
Interest cost		4,604	4,619	293	285
Expected return on assets		(5,504)	(5,497)	-	-
Net amortization and deferrals		2,132	2,207	-	(114)
Curtailment		-	138	-	-
Net periodic benefit cost	$	2,227	2,488	426	321

	Six Months Ended			
	Pension		Postretirement	
	June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Service cost	$ 1,993	2,032	265	300
Interest cost	9,210	9,224	587	570
Expected return on assets	(11,011)	(10,976)	-	-
Net amortization and deferrals	4,264	4,408	-	(228)
Curtailment	-	138	-	-
Net periodic benefit cost	$ 4,456	4,826	852	642

During the six months ended June 26, 2016, the Company made cash contributions to its defined benefit pension plans of approximately $750 in the aggregate. The Company expects to contribute approximately $2,750 during the remainder of fiscal 2016.

(8) Derivative Financial Instruments

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

Cash Flow Hedges

The Company uses foreign currency forward contracts to reduce the impact of currency rate fluctuations on firmly committed and projected future foreign currency transactions. All of the Company's designated foreign currency forward contracts are considered to be cash flow hedges. These instruments hedge a portion of the Company's currency requirements associated with anticipated inventory purchases, product sales and other cross-border transactions in 2016 through 2020.

At June 26, 2016, June 28, 2015 and December 27, 2015, the notional amounts and fair values of the Company's foreign currency forward contracts designated as cash flow hedging instruments were as follows:

	June 26, 2016		June 28, 2015		December 27, 2015	
Hedged transaction	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**
Inventory purchases	$ 1,301,560	54,698	1,081,451	111,252	1,380,488	108,521
Sales	218,459	(2,792)	239,415	(7,659)	97,350	803
Royalties and Other	259,963	(2,810)	74,433	(971)	54,360	(1,886)
Total	$ 1,779,982	49,096	1,395,299	102,622	1,532,198	107,438

The Company has a master agreement with each of its counterparties that allows for the netting of outstanding forward contracts. The fair values of the Company's foreign currency forward contracts designated as cash flow hedges are recorded in the consolidated balance sheets at June 26, 2016, June 28, 2015 and December 27, 2015 as follows:

		June 26, 2016	June 28, 2015	December 27, 2015
Prepaid expenses and other current assets				
Unrealized gains	$	49,195	63,740	78,910
Unrealized losses		(9,953)	(12,302)	(5,932)
Net unrealized gain	$	39,242	51,438	72,978
Other assets				
Unrealized gains	$	29,838	54,664	35,366
Unrealized losses		(6,836)	(732)	(710)
Net unrealized gains	$	23,002	53,932	34,656
Accrued liabilities				
Unrealized gains	$	1,660	4,349	-
Unrealized losses		(10,600)	(7,026)	-
Net unrealized loss	$	(8,940)	(2,677)	-
Other liabilities				
Unrealized gains	$	223	-	241
Unrealized losses		(4,431)	(71)	(437)
Net unrealized loss	$	(4,208)	(71)	(196)

Net gains (losses) on cash flow hedging activities have been reclassified from other comprehensive earnings (loss) to net earnings for the quarter and six-month periods ended June 26, 2016 and June 28, 2015 as follows:

		Quarter Ended		Six Months Ended	
		June 26, 2016	June 28, 2015	June 26, 2016	June 28, 2015
Statements of Operations Classification					
Cost of sales	$	11,438	12,683	27,136	22,746
Sales		318	(2,645)	416	(3,999)
Other		(738)	12	(731)	55
Net realized gains	$	11,018	10,050	26,821	18,802

In addition, gains of $863 and $4,820 were reclassified to earnings as a result of hedge ineffectiveness for the quarter and six-month periods ended June 26, 2016, respectively. Net gains of $567 were reclassified to earnings as a result of hedge ineffectiveness for the quarter and six-month periods ended June 28, 2015.

Undesignated Hedges

The Company also enters into foreign currency forward contracts to minimize the impact of changes in the fair value of intercompany loans due to foreign currency fluctuations. Due to the nature of the derivative contracts involved, the Company does not use hedge accounting for these contracts. At June 26, 2016, June 28, 2015 and December 27, 2015 the total notional amounts of the Company's undesignated derivative instruments were $105,569, $124,171 and $341,389, respectively.

At June 26, 2016, June 28, 2015 and December 27, 2015, the fair values of the Company's undesignated derivative financial instruments were recorded in the consolidated balance sheets as follows:

		June 26, 2016	June 28, 2015	December 27, 2015
Prepaid expenses and other current assets				
Unrealized gains	$	1,033	563	-
Unrealized losses		-	(27)	-
Net unrealized gain		1,033	536	-
Accrued liabilities				
Unrealized gains		-	-	416
Unrealized losses		-	-	(1,460)
Net unrealized loss		-	-	(1,044)
Total unrealized gain (loss), net	$	1,033	536	(1,044)

The Company recorded net gains of $5,079 and $8,334 on these instruments to other (income) expense, net for the quarter and six-month periods ended June 26, 2016, respectively, and $8,883 and $18,954 on these instruments to other (in