

HASBRO INC  
Form 10-Q  
October 31, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 28, 2008

Commission file number 1-6682

HASBRO, INC.

(Exact Name of Registrant, As Specified in its Charter)

Rhode Island  
(State of Incorporation)

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

1027 Newport Avenue, Pawtucket, Rhode Island 02862  
(Address of Principal Executive Offices, Including Zip Code)

(401) 431-8697  
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  or No

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

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

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

The number of shares of Common Stock, par value \$.50 per share, outstanding as of October 21, 2008 was 139,199,794.

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

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

Assets	Sept. 28, 2008 -----	Sept. 30, 2007 -----	Dec. 30, 2007 -----
Current assets			
Cash and cash equivalents	\$ 356,512	410,941	774,458
Accounts receivable, less allowance for doubtful accounts of \$33,600, \$32,100 and \$30,600	946,929	892,708	654,789
Inventories	461,601	395,466	259,081
Deferred income taxes	50,501	73,280	53,040
Prepaid expenses and other current assets	127,075	135,023	146,872
	-----	-----	-----
Total current assets	1,942,618	1,907,418	1,888,240
Property, plant and equipment, less accumulated depreciation of \$416,200, \$399,400 and \$401,300	207,798	181,369	187,960
	-----	-----	-----
Other assets			
Goodwill	480,281	471,382	471,177
Other intangibles, less accumulated amortization of \$783,100, \$712,200 and \$726,200	588,185	500,482	486,232
Other	187,870	225,522	203,454
	-----	-----	-----
Total other assets	1,256,336	1,197,386	1,160,863
	-----	-----	-----
Total assets	\$ 3,406,752	3,286,173	3,237,063

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

	Sept. 28, 2008	Sept. 30, 2007	Dec. 30, 2007
	-----	-----	-----
Liabilities and Shareholders' Equity			
Current liabilities			
Short-term borrowings	\$ 232,648	10,588	10,201
Current portion of long-term debt	-	135,200	135,348
Accounts payable	261,901	208,207	186,202
Accrued liabilities	610,856	616,963	555,920
	-----	-----	-----
Total current liabilities	1,105,405	970,958	887,671
Long-term debt, excluding current portion	709,723	709,723	709,723
Other liabilities	235,469	252,571	254,577
	-----	-----	-----
Total liabilities	2,050,597	1,933,252	1,851,971
	-----	-----	-----
Shareholders' equity			
Preference stock of \$2.50 par value. Authorized 5,000,000 shares; none issued	-	-	-
Common stock of \$.50 par value. Authorized 600,000,000 shares; issued 209,694,630	104,847	104,847	104,847
Additional paid-in capital	440,584	361,396	369,092
Retained earnings	2,390,924	2,150,667	2,261,561
Accumulated other comprehensive earnings	103,435	34,936	74,938
Treasury stock, at cost; 70,494,836 shares at Sept. 28, 2008, 60,092,374 at Sept. 30, 2007 and 64,487,616 at December 30, 2007	(1,683,635 )	(1,298,925 )	(1,425,346 )
	-----	-----	-----
Total shareholders' equity	1,356,155	1,352,921	1,385,092

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Total liabilities and shareholders' equity	\$ 3,406,752	3,286,173	3,237,063
	=====	=====	=====

See accompanying condensed notes to consolidated financial statements.

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

	Quarter Ended		Nine Months Ended	
	Sept. 28, 2008	Sept. 30, 2007	Sept. 28, 2008	Sept. 30, 2007
Net revenues	\$ 1,301,961	1,223,038	2,790,467	2,539,713
Cost of sales	573,835	521,022	1,153,218	1,037,686
Gross profit	728,126	702,016	1,637,249	1,502,027
Expenses				
Amortization	19,740	17,990	58,822	53,522
Royalties	83,747	93,035	210,336	205,819
Research and product development	49,993	43,466	137,195	117,563
Advertising	151,226	138,653	314,443	285,283
Selling, distribution and administration	207,495	199,135	573,766	520,599
Total expenses	512,201	492,279	1,294,562	1,182,786
Operating profit	215,925	209,737	342,687	319,241
Nonoperating (income) expense				
Interest expense	11,729	9,272	36,107	22,117
Interest income	(3,428 )	(4,844 )	(15,566 )	(23,792 )
Other expense, net	6,104	1,388	9,671	45,434
Total nonoperating expense	14,405	5,816	30,212	43,759
Earnings before income taxes	201,520	203,921	312,475	275,482
Income taxes	63,291	42,341	99,290	76,211
Net earnings	\$ 138,229	161,580	213,185	199,271

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Net earnings per common share					
Basic	\$	0.98	1.04	1.51	1.25
		=====	=====	=====	=====
Diluted	\$	0.89	0.95	1.39	1.16
		=====	=====	=====	=====
Cash dividends declared per common share					
	\$	0.20	0.16	.60	0.48
		=====	=====	=====	=====

See accompanying condensed notes to consolidated financial statements.



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

	Nine Months Ended	
	Sept. 28, 2008	Sept. 30, 2007
Cash flows from operating activities		
Net earnings	\$ 213,185	199,271
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization of plant and equipment	64,560	66,774
Other amortization	58,822	53,522
Change in fair value of liabilities potentially settleable in common stock	-	44,370
Deferred income taxes	7,760	2,812
Stock-based compensation	25,776	22,573
Change in operating assets and liabilities:		
Increase in accounts receivable	(295,881 )	(321,476 )
Increase in inventories	(206,281 )	(181,423 )
Decrease in prepaid expenses and other current assets	51,513	76,682
Increase in accounts payable and accrued liabilities	107,915	109,389
Other, including long-term portion of royalty advances	(3,095 )	(25,496 )
	-----	-----
Net cash provided by operating activities	24,274	46,998
	-----	-----
Cash flows from investing activities		
Additions to property, plant and equipment	(84,907 )	(63,189 )
Investments and acquisitions, net of cash acquired	(154,757 )	(18,000 )
Purchases of short-term investments	(42,000 )	(15,000 )
Proceeds from sales of short-term investments	42,000	15,000
Other	(2,508 )	(3,130 )
	-----	-----
Net cash utilized by investing activities	(242,172 )	(84,319 )
	-----	-----
Cash flows from financing activities		
Net proceeds of borrowings with original maturities of more than three months	-	346,009

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Repayments of borrowings with original maturities of		
more than three months	(135,092 )	-
Net proceeds (repayments) of other short-term borrowings	222,925	(502 )
Purchases of common stock	(352,867 )	(439,032 )
Purchase of warrants	-	(200,000 )
Stock option transactions	120,332	77,599
Excess tax benefits from stock-based compensation	24,685	16,537
Dividends paid	(79,216 )	(70,506 )
	-----	-----
Net cash utilized by financing activities	(199,233 )	(269,895 )
	-----	-----
Effect of exchange rate changes on cash	(815 )	2,757
	-----	-----
Decrease in cash and cash equivalents	(417,946 )	(304,459 )
Cash and cash equivalents at beginning of year	774,458	715,400
	-----	-----
Cash and cash equivalents at end of period	\$ 356,512	410,941
	=====	=====

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

	Nine Months Ended	
	Sept. 28, 2008	Sept. 30, 2007
Supplemental information		
Cash paid during the period for:		
Interest	\$ 45,346	22,747
Income taxes	\$ 26,843	52,110

See accompanying condensed notes to consolidated financial statements.

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

	Quarter Ended		Nine Months Ended	
	Sept. 28, 2008	Sept. 30, 2007	Sept. 28, 2008	Sept. 30, 2007
Net earnings	\$ 138,229	161,580	213,185	199,271
Other comprehensive earnings	23,322	8,682	28,497	15,971
Total comprehensive earnings	\$ 161,551	170,262	241,682	215,242

See accompanying condensed notes to consolidated financial statements.



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

**(1)** In the opinion of management, the accompanying unaudited interim financial statements contain all normal and recurring adjustments necessary to present fairly the financial position of Hasbro, Inc. and all majority-owned subsidiaries ( Hasbro or the Company ) as of September 28, 2008 and September 30, 2007, 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 quarterly and year to date periods ended September 28, 2008 and September 30, 2007 are 13-week and 39-week periods, respectively.

The results of operations for the quarter ended September 28, 2008 are not necessarily indicative of results to be expected for the full year.

These condensed consolidated financial statements have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in the consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. The Company filed audited consolidated financial statements for the year ended December 30, 2007 in its annual report on Form 10-K, which includes all such information and disclosures, and accordingly, should be read in conjunction with the financial information included herein.

The Company's accounting policies are the same as those described in Note 1 to the Company's consolidated financial statements for the fiscal year ended December 30, 2007.

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

Certain amounts in the 2007 consolidated financial statements have been reclassified to conform to the 2008 presentation.

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

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

(2) Net earnings per share data for the fiscal quarters and nine months ended September 28, 2008 and September 30, 2007 were computed as follows:

Quarter -----	2008		2007	
	----- Basic -----	----- Diluted -----	----- Basic -----	----- Diluted -----
Net earnings	\$ 138,229	138,229	161,580	161,580
Effect of dilutive securities:				
Interest expense on contingent convertible debentures due 2021	-	1,059	-	1,055
Adjusted net earnings	\$ 138,229	139,288	161,580	162,635
	=====	=====	=====	=====
Average shares outstanding	141,567	141,567	156,027	156,027
Effect of dilutive securities:				
Contingent convertible debentures due 2021	-	11,566	-	11,566
Options and warrants	-	3,047	-	3,214
Equivalent shares	141,567	156,180	156,027	170,807
	=====	=====	=====	=====
Net earnings per common share	\$ 0.98	0.89	1.04	0.95
	=====	=====	=====	=====

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

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

	2008		2007	
	----- Basic	----- Diluted	----- Basic	----- Diluted
Nine Months -----				
Net earnings	\$213,185	213,185	199,271	199,271
Effect of dilutive securities:				
Interest expense on contingent convertible debentures due 2021	-	3,177	-	3,185
	-----	-----	-----	-----
Adjusted net earnings	\$213,185	216,362	199,271	202,456
	=====	=====	=====	=====
Average shares outstanding	141,396	141,396	159,116	159,116
Effect of dilutive securities:				
Contingent convertible debentures due 2021	-	11,566	-	11,569
Options and warrants	-	2,894	-	3,875
	-----	-----	-----	-----
Equivalent shares	141,396	155,856	159,116	174,560
	=====	=====	=====	=====
Net earnings per common share	\$ 1.51	1.39	1.25	1.16
	=====	=====	=====	=====

Certain warrants containing a put feature that could be settled in cash or common stock were required to be accounted for as a liability at fair value. These warrants were repurchased by the Company in May of 2007. Prior to their repurchase, the Company was required to assess if these warrants, classified as a liability, had a more dilutive impact on earnings per share when treated as an equity contract. For the nine months ended September 30, 2007, the warrants had a more dilutive impact on earnings per share assuming they were treated as a liability. Accordingly, the shares issuable under this contract are not included in the denominator and there is no adjustment to earnings to exclude the expense included therein related to the fair market value adjustment. If the warrants had been treated as an equity contract 2,569 shares would have been included in dilutive shares for the nine months ended September 30, 2007 with a corresponding adjustment to add back the related expense of \$44,370 to reported net earnings.

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For the quarters and nine months ended September 28, 2008 and September 30, 2007, the effect of the Company's contingent convertible debt was dilutive and, accordingly, for the diluted earnings per share calculation, the numerator includes an adjustment to earnings to exclude the interest expense incurred for these debentures and the denominator includes an adjustment to include the shares issuable upon conversion.



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

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

For the quarters ended September 28, 2008 and September 30, 2007, options to acquire shares totaling 40 and 3,791, respectively, were excluded from the calculation of diluted earnings per share because to include them would have been antidilutive. For the nine-month periods ended September 28, 2008 and September 30, 2007, 2,977 and 3,110 options to acquire shares, respectively, were excluded from the calculation of diluted earnings per share because to include them would have been antidilutive.

(3) Other comprehensive earnings for the quarters and nine months ended September 28, 2008 and September 30, 2007 consist of the following:

	Quarter Ended		Nine Months Ended	
	Sept. 28, 2008	Sept. 30, 2007	Sept. 28, 2008	Sept. 30, 2007
	-----	-----	-----	-----
Foreign currency translation adjustments	\$ (25,177 )	16,156	(513 )	28,894
Changes in value of available-for-sale securities, net of tax	(218 )	1,334	(2,159 )	260
Net gains (losses) on cash flow hedging activities, net of tax	46,617	(10,149 )	24,244	(14,907 )
Change in unrecognized pension and postretirement amounts, net of tax	-	(242 )	-	(242 )
Reclassifications to earnings, net of tax	2,100	1,583	6,925	1,966
	-----	-----	-----	-----
Other comprehensive earnings	\$ 23,322	8,682	28,497	15,971
	=====	=====	=====	=====

The reclassification adjustment from other comprehensive earnings to net earnings of \$1,966 for the nine months ended September 30, 2007 includes a realized gain of \$(664) on the sale of available-for-sale securities. The reclassification adjustments for the quarter and nine months ended September 28, 2008 and the quarter ended September 30, 2007, and the remainder of the reclassification adjustments for the nine months ended September 30, 2007, represent net losses on cash flow hedging derivatives for which the related transaction has impacted earnings and was reflected in cost of sales. The losses on cash flow hedging derivatives for the nine months ended September 30, 2007 include losses reclassified to earnings as the result of hedge ineffectiveness of \$15. There were no reclassifications to earnings as a result of hedge ineffectiveness for the quarter ended September 30, 2007 and the quarter and nine months ended September 28, 2008. At September 28, 2008, the Company had recorded deferred

gains on hedging instruments, net of tax, of \$20,089 in accumulated other comprehensive earnings. These instruments hedge certain anticipated inventory purchases and other cross-border transactions through 2011. Of the amount included in accumulated other comprehensive earnings at September 28, 2008, the Company expects approximately \$4,677 to be reclassified to earnings within the next twelve months.

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

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

In the first quarter of 2007, in accordance with Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," the Company changed its measurement date for certain of its defined benefit pension plans and its postretirement plan from September 30 to the Company's fiscal year-end date. As a result of this change, the assets and liabilities of these plans were remeasured as of December 31, 2006, the 2006 fiscal year end date of the Company. This remeasurement resulted in an adjustment to accumulated other comprehensive earnings of \$7,779 during the nine month period ended September 30, 2007.

(4) The Company, except for certain international subsidiaries, has pension plans covering substantially all of its full-time employees. Substantially all United States employees are covered under at least one of several non-contributory defined benefit pension plans maintained by the Company. Benefits under the two major plans which principally cover non-union employees are based primarily on salary and years of service. One of these major plans is funded. Benefits under the remaining plans are based primarily on fixed amounts for specified years of service. Of these remaining plans, the plan covering union employees is also funded. Effective at the end of December 2007, the Company froze pension benefits being accrued for its non-union employees in the United States. These pension benefits have been replaced by additional employer contributions to the Company's defined contribution plan beginning in 2008. Pension coverage for employees of Hasbro's international subsidiaries is provided, to the extent deemed appropriate, through separate defined benefit and defined contribution plans.

The components of the net periodic cost of the Company's defined benefit pension and other postretirement plans for the quarters and nine months ended September 28, 2008 and September 30, 2007 are as follows:

	Quarter Ended			
	Pension		Postretirement	
	Sept. 28, 2008	Sept. 30, 2007	Sept. 28, 2008	Sept. 30, 2007
Service cost	\$1,128	3,305	143	149
Interest cost	5,308	5,145	517	526
Expected return on assets	(6,948 )	(6,794 )	-	-
Net amortization and deferrals	370	663	28	91
	-----	-----	-----	-----

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Pension expense (benefit)	\$ (142 )	2,319	688	766
	=====	=====	=====	=====

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

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

	Nine Months Ended			
	Pension		Postretirement	
	Sept. 28, 2008	Sept. 30, 2007	Sept. 28, 2008	Sept. 30, 2007
Service cost	\$ 3,560	9,780	428	447
Interest cost	16,142	15,314	1,550	1,578
Expected return on assets	(21,065 )	(20,222 )	-	-
Net amortization and deferrals	1,121	1,978	86	273
Curtailement loss	1,200	-	-	-
	-----	-----	-----	-----
Pension expense	\$ 958	6,850	2,064	2,298
	=====	=====	=====	=====

During the first three quarters of fiscal 2008, the Company made cash contributions to its defined benefit pension plans of approximately \$5,500. The Company expects to contribute approximately \$3,700 during the remainder of fiscal 2008.

(5) The Company and its subsidiaries file income tax returns in the United States and various state and international jurisdictions. In the normal course of business, the Company is regularly audited by U.S. federal, state and local and by international tax authorities in various tax jurisdictions. The Company is no longer subject to U.S. federal tax examinations for years before 2004. With few exceptions, the Company is no longer subject to U.S. state or local and non-U.S. income tax examinations by tax authorities in its major jurisdictions for years before 2002.

The U.S. Internal Revenue Service has commenced an examination related to the 2004 and 2005 U.S. federal income tax returns. The Company is also under income tax examination in Mexico and in several other state and foreign jurisdictions. The ultimate resolution of the U.S. and Mexican examinations, as well as other matters that may be resolved in the next twelve months, is not yet determinable. In connection with the Mexican examinations for the years 2000 to 2002, the Company has received tax assessments related to transfer pricing which the Company is vigorously defending. The Company expects to be successful in sustaining its position with respect to these assessments as well as similar positions which may be taken by the Mexican tax authorities in future periods. In order

to continue the process of defending its position, the Company was required to guarantee the amount of the outstanding assessments, as is usual and customary in Mexico in these matters. Accordingly, as of September 28, 2008, bonds totaling \$79,115 have been provided to the Mexican government, allowing the Company to defend its position.

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

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

(6) On December 31, 2007, the first day of fiscal 2008, the Company adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements ( SFAS No. 157 ), for financial assets and liabilities and No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ( SFAS No. 159 ). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. The SFAS No. 157 fair value hierarchy consists of three levels: Level 1 fair values are valuations based on quoted market prices in active markets for identical assets or liabilities that the entity has the ability to access; Level 2 fair values are those valuations based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities; and Level 3 fair values are valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar assets and liabilities. The adoption of SFAS No. 157 and SFAS No. 159 did not have an impact on the Company's consolidated balance sheet or statement of operations. SFAS No. 157 is not required to be adopted for certain non-financial assets and liabilities until the first day of fiscal 2009. The Company's assets for which SFAS No. 157 was not adopted include the Company's goodwill and property rights, including the property rights recorded in connection with the Company's acquisition of Cranium, Inc. (see Note 8) and Trivial Pursuit (see Note 9).

At September 28, 2008, the Company had the following assets measured at fair value in its consolidated balance sheet:

Fair Value Measurements at			
Sept. 28, 2008 Using			
Quoted			
Prices in			
Active			
Markets	Significant		
for	Other	Significant	
Identical	Observable	Unobservable	
Fair	Assets	Inputs	Inputs

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	Value	(Level 1)	(Level 2)	(Level 3)
	-----	-----	-----	-----
Available-for-sale securities	\$ 6,016	524	-	5,492
Derivatives	24,975	-	24,975	-
	-----	-----	-----	-----
Total	\$30,991	524	24,975	5,492
	=====	=====	=====	=====



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

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

For a portion of the Company's available-for-sale securities, the Company is able to obtain quoted prices from stock exchanges to measure the fair value of these securities. The remaining available-for-sale securities consist of warrants to purchase common stock. The Company uses the Black-Scholes model to value these warrants. One of the inputs used in the Black-Scholes model, historical volatility, is considered an unobservable input in that it reflects the Company's own assumptions about the inputs that market participants would use in pricing the asset or liability. The Company believes that this is the best information available for use in the fair value measurement. The Company's derivatives are measured using inputs that are observable indirectly through corroboration with readily available market data, in this case foreign exchange rates. The Company's derivatives consist of foreign currency forward contracts. The Company uses current forward rates of the respective foreign currencies to measure the fair value of these contracts. There were no changes in these valuation techniques during the first nine months of 2008.

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

Balance at December 30, 2007	\$8,580
Loss included in other comprehensive income	(3,088)
	-----
Balance at September 28, 2008	\$5,492
	=====

(7) Hasbro is a worldwide leader in children's and family leisure time products and services, including toys, games and licensed products ranging from traditional to high-tech and digital. At the beginning of 2008, the Company reorganized the reporting structure of its operating segments and moved its Mexican operations, previously managed and reported in the North American segment, to the International segment. As a result, the North American segment has been renamed the U.S. and Canada segment. The management reorganization was the result of a realignment of the Company's commercial markets and reflects its objective to leverage its Mexican operations in connection with its growth strategy in Latin and South America. In 2008 the Company's segments include U.S. and Canada, International, Global Operations and Other. Segment data for 2007 has been reclassified to reflect the 2008 segment structure.

The U.S. and Canada segment includes the development, marketing and selling of boys' action figures, vehicles and playsets, girls' toys, electronic toys and games, plush products, preschool toys and infant products, electronic interactive products, tween electronic products, toy-related specialty products, traditional board games and puzzles, DVD-based games, and trading card and role-playing games within the United States and Canada. In the International

segment, the Company develops, markets and sells both toy and certain game products in markets outside of the U.S. and Canada, primarily the European, Asia Pacific, and Latin and South American regions. The Global Operations segment is responsible for manufacturing and sourcing finished product for the Company's U.S. and Canada and International segments. The Company's other segment licenses out the rights to certain of its toy and game properties in connection with the sale of non-competing toys and games and non-toy products as well as consumer promotions.

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

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

Results shown for the quarter and nine months are not necessarily representative of those which may be expected for the full year 2008, nor were those of the comparable 2007 periods representative of those actually experienced for the full year 2007. Similarly, such results are not necessarily those which would be achieved were each segment an unaffiliated business enterprise.

Information by segment and a reconciliation to reported amounts for the quarters and nine months ended September 28, 2008 and September 30, 2007 are as follows.

	Quarter Ended			
	Sept. 28, 2008		Sept. 30, 2007	
	External	Affiliate	External	Affiliate
Net revenues	-----	-----	-----	-----
U.S. and Canada	\$ 821,028	4,715	773,545	4,761
International	460,559	47	423,185	52
Global Operations (a)	2,034	632,240	3,324	530,238
Other Segment	18,340	-	22,984	-
Corporate and Eliminations	-	(637,002 )	-	(535,051 )
	-----	-----	-----	-----
	\$ 1,301,961	-	1,223,038	-
	=====	=====	=====	=====

Nine Months Ended

Sept. 28, 2008

Sept. 30, 2007

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	-----		-----	
	External	Affiliate	External	Affiliate
	-----	-----	-----	-----
Net revenues				
U.S. and Canada	\$ 1,717,213	12,762	1,601,494	11,646
International	1,002,502	243	881,043	382
Global Operations (a)	4,821	1,232,887	7,170	1,123,280
Other Segment	65,931	-	50,006	-
Corporate and Eliminations	-	(1,245,892 )	-	(1,135,308 )
	-----	-----	-----	-----
	\$ 2,790,467	-	2,539,713	-
	=====	=====	=====	=====

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

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

	Quarter Ended		Nine Months Ended	
	Sept. 28, 2008	Sept. 30, 2007	Sept. 28, 2008	Sept. 30, 2007
Operating profit (loss)	-----	-----	-----	-----
U.S. and Canada	\$ 131,929	122,847	212,933	204,141
International	65,815	68,828	92,820	82,376
Global Operations (a)	19,075	20,237	25,421	31,843
Other Segment	6,252	10,144	26,676	18,712
Corporate and Eliminations (b)	(7,146 )	(12,319 )	(15,163 )	(17,831 )
	-----	-----	-----	-----
	\$ 215,925	209,737	342,687	319,241
	=====	=====	=====	=====
			Sept. 28, 2008	Sept. 30, 2007
Total assets			-----	-----
U.S. and Canada	\$	3,667,755	3,519,242	
International		1,402,395	1,218,404	
Global Operations		1,385,875	1,181,975	
Other Segment		240,392	159,213	
Corporate and Eliminations (b)		(3,289,665 )	(2,792,661 )	
		-----	-----	
		\$ 3,406,752	3,286,173	
		=====	=====	

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

(b) Certain intangible assets, primarily goodwill, which benefit operating segments are reflected as Corporate assets for segment reporting purposes. For application of SFAS No. 142, these amounts have been allocated to the reporting unit which benefits from their use. In addition, allocations of certain expenses related to these assets to the individual operating segments are done at the beginning of the year based on budgeted amounts. Any difference between actual

and budgeted amounts is reflected in the Corporate segment.

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

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

The following table presents consolidated net revenues by class of principal products for the quarters and nine month periods ended September 28, 2008 and September 30, 2007.

	Quarter Ended		Nine Months Ended	
	Sept. 28, 2008	Sept. 30, 2007	Sept. 28, 2008	Sept. 30, 2007
	-----	-----	-----	-----
Boys' toys	\$ 323,340	302,101	811,277	710,270
Games and puzzles	418,161	402,553	875,863	816,340
Girls' toys	273,597	246,791	541,396	463,393
Preschool toys	182,759	159,630	338,513	303,032
Tweens toys	82,233	86,723	173,084	183,920
Other	21,871	25,240	50,334	62,758
	-----	-----	-----	-----
Net revenues	\$ 1,301,961	1,223,038	2,790,467	2,539,713
	=====	=====	=====	=====

(8) In January 2008 the Company acquired Cranium, Inc. (Cranium), a developer and marketer of children's and adult board games, in order to supplement its existing game portfolio for a total cost of approximately \$68,000. Based on the allocation of the purchase price, property rights related to acquired product lines of approximately \$68,500 were recorded in the acquisition. These property rights are being amortized over a fifteen year life. Goodwill of approximately \$10,600 was also recorded as a result of the transaction. The consolidated statement of operations of the Company for the nine months ended September 28, 2008 includes the operations of Cranium from the closing date of January 25, 2008.

(9) In the second quarter of fiscal 2008, the Company purchased all of the intellectual property rights related to the Trivial Pursuit brand from Horn Abbot Ltd. and Horn Abbot International Limited (together the Seller) for a total cost of approximately \$80,800. Previous to this asset purchase, the Company licensed these rights from the Seller. The cost was recorded as property rights and included in other intangibles. These property rights are being amortized over a fifteen year life.

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

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

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

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

**EXECUTIVE SUMMARY**

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The Company earns revenue and generates cash primarily through the sale of a variety of toy and game products, as well as through the out-licensing of rights for use of its properties in connection with non-competing products offered by third-parties. The Company sells its products both within the United States and in a number of international markets. The Company's business is highly seasonal with a significant amount of revenues occurring in the second half of the year and within that half, the fourth quarter. In 2007, 66% of the Company's net revenues were generated in the second half of the year with 34% of annual net revenues generated in the fourth quarter. In 2006 and 2005, the percentages were 68% and 67% for the second half, respectively, and comparable at 35% for the fourth quarter. While many of the Company's products are based on brands the Company owns or controls, the Company also offers products which are licensed from outside inventors. In addition, the Company licenses rights to produce products based on movie, television, music and other family entertainment properties, such as MARVEL and STAR WARS properties.

The Company's business is primarily separated into two business segments, U.S. and Canada and International. The U.S. and Canada segment develops, markets and sells both toy and game products in the U.S. and Canada. The International segment consists of the Company's European, Asia Pacific and Latin and South American marketing operations. In addition to these two primary segments, the Company's world-wide manufacturing and product sourcing operations are managed through its Global Operations segment. The Company's other segment is responsible for the worldwide out-licensing of the Company's intellectual properties and works closely with the U.S. and Canada and International segments on the development and out-licensing of the Company's brands. Prior to 2008, the Company's Mexican operations were included with the U.S. and Canada in the North American segment. At the beginning of 2008 the Company reorganized the management and reporting structure of its operating segments and



moved the Mexican operations, previously reported in the North American segment, into the International segment and the North American segment was renamed the U.S. and Canada segment. The management reorganization was the result of a realignment of the Company's commercial markets and reflects its objective to leverage its Mexican operations in connection with its growth strategy in Latin and South America.

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

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

The Company's focus remains on growing core owned and controlled brands, developing new and innovative products which respond to market insights and optimizing efficiencies within the Company to reduce costs, increase operating profits and strengthen its balance sheet. While the Company believes it has achieved a more sustainable revenue base by developing and maintaining its core brands and avoiding reliance on licensed entertainment properties, it continues to opportunistically enter into or leverage existing strategic licenses which complement its brands and key strengths. In 2007 and the first nine months of 2008, the Company had significant sales of products related to the Company's license with Marvel Entertainment, Inc. and Marvel Characters, Inc. (collectively "Marvel"), primarily due to the theatrical releases of SPIDER-MAN 3 in May 2007, IRON MAN in May 2008 and THE INCREDIBLE HULK in June 2008. In addition, the Company had significant sales in the first nine months of 2008 of products related to the movie releases of INDIANA JONES AND THE KINGDOM OF THE CRYSTAL SKULL in May 2008 and STAR WARS: CLONE WARS in August 2008. During the last quarter of 2008 the Company expects to continue to have a high level of revenues from entertainment-based licensed properties as well as products related to television programming based on TRANSFORMERS, SPIDER-MAN and STAR WARS.

The Company's core brands represent Company-owned or Company-controlled brands, such as TRANSFORMERS, MY LITTLE PONY, MONOPOLY, MAGIC: THE GATHERING, PLAYSKOOL, G.I. JOE and TONKA, which have been successful over the long term. The Company has a large portfolio of owned and controlled brands, which can be introduced in new formats and platforms over time. These brands may also be further extended by pairing a licensed concept with a core brand. By focusing on core brands, the Company is working to build a more consistent revenue stream and basis for future growth. During the first nine months of 2008 the Company had strong sales of core brand products, namely TRANSFORMERS, LITTLEST PET SHOP, MY LITTLE PONY, PLAYSKOOL, MONOPOLY and NERF.

In addition to its focus on core brands, the Company's strategy also involves trying to meet ever-changing consumer preferences by identifying and offering innovative products based on market opportunities and insights. The Company believes its strategy of focusing on the development of its core brands and continuing to identify innovative new products will help to prevent the Company from being dependent on the success of any one product line.

**HASBRO, INC. AND SUBSIDIARIES**

**Management's Discussion and Analysis of Financial**

**Condition and Results of Operations (continued)**

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

The Company also seeks to drive product-related revenues by increasing the visibility of its core brands through entertainment-based theatrical venues. As an example of this, in July of 2007, the TRANSFORMERS motion picture was released and the Company developed and marketed products based on the motion picture. As a result of pairing this core brand with this type of entertainment, both the movie and the product line benefited. The Company expects to continue this strategy and anticipates the theatrical releases of both TRANSFORMERS 2 and G.I. JOE: RISE OF COBRA motion pictures during 2009. In addition, the Company has entered into a six-year strategic relationship with Universal Pictures to produce at least four motion pictures based on Hasbro's core brands. The first movie is expected to be released in 2010 or 2011, followed by anticipated releases of at least one movie per year thereafter. While gross profits of theatrical entertainment-based products are generally higher than many of the Company's other products, sales from these products also incur royalty expenses payable to the licensor. Such royalties reduce the impact of these higher gross margins. In certain instances, such as with Lucasfilm's STAR WARS, the Company may also incur amortization expense on property right-based assets acquired from the licensor of such properties, further impacting profits earned on these products.

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

While the Company remains committed to investing in the growth of its business, it also continues to be focused on reducing fixed costs through efficiencies and on profit improvement. Over the last five years the Company has improved its full year operating margin from 7.8% in 2002 to 13.5% in 2007. The Company reviews its operations on an ongoing basis and seeks to reduce its cost structure and promote efficiency. The Company is also investing to grow its business in emerging markets and digital gaming and will continue to evaluate strategic alliances and acquisitions which may complement its current product offerings or allow it entry into an area which is adjacent to and complementary to the toy and game business. For example, in January of 2008, the Company acquired Cranium, Inc., a developer and marketer of CRANIUM branded games and related products. In the second quarter of 2008, the Company acquired the rights to Trivial Pursuit, a brand which the Company had licensed on a long-term basis. Ownership of the rights will allow the Company to further leverage the brand in different media. In 2008 the Company expects to leverage revenue to mitigate the impact of investments in emerging markets, digital gaming and strategic alliances and acquisitions on its operating margins.



**HASBRO, INC. AND SUBSIDIARIES**

**Management's Discussion and Analysis of Financial**

**Condition and Results of Operations (continued)**

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

In recent years, the Company has been seeking to return excess cash to its shareholders through share repurchases and dividends. As part of this initiative, over the last four years, the Company's Board of Directors (the "Board") has adopted four repurchase authorizations with a cumulative authorized repurchase amount of \$1,700,000. After fully exhausting the prior three authorizations, the fourth authorization was approved on February 7, 2008 for \$500,000. For the quarter and nine months ended September 28, 2008, the Company invested \$149,999 and \$357,589, respectively, in the repurchase of 4,004 and 11,736 shares of common stock, respectively, in the open market. At September 28, 2008, the Company had \$252,364 remaining under the February 2008 authorization. For the fiscal years ended 2007, 2006 and 2005, the Company invested \$587,004, \$456,744 and \$48,030, respectively, in the repurchase of 20,795, 22,767 and 2,386 shares, respectively, in the open market. Also, in 2007, the Company paid \$200,000 in cash to repurchase exercisable warrants to purchase 15,750 shares of the Company's common stock. The Company intends to, at its discretion, opportunistically repurchase shares in the future subject to market conditions. In addition, in February 2008, the Company announced an increase in its quarterly dividend to \$0.20 per share. This was the fifth consecutive year that the Board has increased the dividend.

Recent issues in the credit markets have not impacted the Company's liquidity. As of September 28, 2008 the Company had \$356,512 in cash and had available capacity, if needed, under its accounts receivable securitization program and revolving credit agreement. The Company is past its working capital peak for the year and expects to generate cash flow from operations during the remainder of 2008 and the first quarter of 2009. The Company believes that the funds available to it, including cash expected to be generated from operations and funds available through its available lines of credit and accounts receivable securitization program are adequate to meet its working capital needs for the remainder of 2008 and 2009.

**HASBRO, INC. AND SUBSIDIARIES****Management's Discussion and Analysis of Financial****Condition and Results of Operations (continued)****(Thousands of Dollars and Shares Except Per Share Data)****SUMMARY OF FINANCIAL PERFORMANCE**

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The components of the results of operations, stated as a percent of net revenues, are illustrated below for the quarters and nine months ended September 28, 2008 and September 30, 2007.

	<u>Quarter</u>		<u>Nine Months</u>	
	2008	2007	2008	2007
	-----	-----	-----	-----
Net revenues	100.0%	100.0%	100.0%	100.0%
Cost of sales	44.1	42.6	41.3	40.9
	-----	-----	-----	-----
Gross profit	55.9	57.4	58.7	59.1
Amortization	1.5	1.5	2.1	2.1
Royalties	6.4	7.6	7.5	8.1
Research and product development	3.9	3.6	4.9	4.6
Advertising	11.6	11.3	11.3	11.2
Selling, distribution and administration	15.9	16.3	20.6	20.5
	-----	-----	-----	-----
Operating profit	16.6	17.1	12.3	12.6
Interest expense	0.9	0.7	1.3	0.9
Interest income	(0.3)	(0.4)	(0.6)	(0.9)
Other (income) expense, net	0.5	0.1	0.4	1.8
	-----	-----	-----	-----
Earnings before income taxes	15.5	16.7	11.2	10.8
Income taxes	4.9	3.5	3.6	3.0
	-----	-----	-----	-----
Net earnings	10.6%	13.2%	7.6%	7.8%
	=====	=====	=====	=====

**RESULTS OF OPERATIONS**

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The quarterly and year to date periods ended September 28, 2008 and September 30, 2007 were 13-week and 39-week periods, respectively. Net earnings for the quarter and nine months ended September 28, 2008 were \$138,229 and \$213,185, respectively, compared with net earnings of \$161,580 and \$199,271 for the respective periods of 2007. Basic earnings per share for the quarter and nine months ended September 28, 2008 were \$0.98 and \$1.51 compared with basic earnings per share of \$1.04 and \$1.25 for the respective periods of 2007. Diluted earnings per share were \$0.89 and \$1.39 for the quarter and nine months ended September 28, 2008, compared with diluted earnings per share of \$0.95 and \$1.16 for the respective periods in 2007. The 2007 results for the quarter and nine months ended September 30, 2007 include a favorable tax adjustment of \$29,619, or \$0.17 per diluted share, related to the realization of certain previously unrecognized tax benefits. The 2007 results for the nine months ended September 30, 2007 also includes a charge of \$44,370 related to the final mark to market adjustment related to certain warrants that were required to be classified as a liability. These warrants were repurchased during the second quarter of 2007.

**HASBRO, INC. AND SUBSIDIARIES****Management's Discussion and Analysis of Financial****Condition and Results of Operations (continued)****(Thousands of Dollars and Shares Except Per Share Data)**

Consolidated net revenues for the quarter ended September 28, 2008 increased 6% to \$1,301,961 compared to \$1,223,038 for the quarter ended September 30, 2007. For the nine months ended September 28, 2008, consolidated net revenues were \$2,790,467 compared to \$2,539,713 for the nine months ended September 30, 2007, an increase of 10%. Consolidated net revenues were positively impacted by foreign currency translation in the amount of \$19,400 and \$69,800 for the quarter and nine months ended September 28, 2008, respectively, as the result of the weaker U.S. dollar in 2008. Operating profit for the quarter ended September 28, 2008 was \$215,925 compared to \$209,737 for the quarter ended September 30, 2007. Operating profit for the 2008 nine-month period was \$342,687 compared to an operating profit of \$319,241 for the nine-month period of 2007.

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

Most of the Company's revenues and operating profit are derived from its two principal segments: the U.S. and Canada segment and the International segment, which are discussed in detail below. The following table presents net external revenues and operating profit data for the Company's two principal segments for the quarters and nine months ended September 28, 2008 and September 30, 2007.

	<u>Quarter</u>			<u>Nine Months</u>		
	2008	2007	% Change	2008	2007	% Change
	-----	-----	-----	-----	-----	-----
<b>Net Revenues</b>						
U.S. and Canada segment	\$ 821,028	773,545	6%	1,717,213	1,601,494	7%
International segment	460,559	423,185	9%	1,002,502	881,043	14%
<b>Operating Profit</b>						
U.S. and Canada segment	\$ 131,929	122,847	7%	212,933	204,141	4%
International segment	65,815	68,828	-4%	92,820	82,376	13%



**HASBRO, INC. AND SUBSIDIARIES**

**Management's Discussion and Analysis of Financial**

**Condition and Results of Operations (continued)**

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

*U.S. AND CANADA SEGMENT*

The U.S. and Canada segment's net revenues for the quarter ended September 28, 2008 increased 6% to \$821,028 from \$773,545 for the quarter ended September 30, 2007. Net revenues for the nine months ended September 28, 2008 increased 7% to \$1,717,213 from \$1,601,494 for the nine months ended September 30, 2007. The increase in both the quarter and nine month period was primarily due to higher revenues in the boys' toys category, driven by increased sales of STAR WARS and sales of INDIANA JONES products. Sales of TRANSFORMERS products increased slightly for the nine-month period ended September 28, 2008, but decreased in the third quarter of 2008 compared to 2007 as a result of the significant sales recognized in the prior year as a result of the movie release. Revenues from MARVEL products decreased for the quarter and nine month periods as the result of the significant sales of products in the prior year related to the theatrical release of SPIDER-MAN 3. However, revenues from both TRANSFORMERS and MARVEL remain significant contributors to U.S. and Canada segment net revenues in both the quarter and nine-month periods of 2008. The increase in U.S. and Canada segment net revenues for the quarter and nine months was also due to increased sales in the games and puzzles category as a result of increased sales of DUEL MASTERS, TRIVIAL PURSUIT and the impact of Cranium, partially offset by decreased revenues from plug and play games. Revenues from the preschool category increased for the quarter and nine month period as a result of increased sales of PLAYSKOOL products. Revenues from the girls' toys category decreased for the quarter and nine months primarily as a result of decreased revenues from LITTLEST PET SHOP and MY LITTLE PONY, partially offset by increased sales of EASY-BAKE OVEN. However, revenues from LITTLEST PET SHOP remain a significant contributor to U.S. and Canada segment net revenues in both the quarter and nine month periods of 2008. Revenues from the tweens categories decreased for the quarter and nine months primarily due to decreased sales of POWER TOUR GUITAR, which is no longer in the Company's product line, in those periods, as well as decreased sales of I-DOG in the nine month period, partially offset by increased sales of NERF products. Net revenues for the quarter and nine months were also negatively impacted by decreased sales of TOOTH TUNES.

U.S. and Canada segment operating profit increased to \$131,929 for the quarter ended September 28, 2008 compared to \$122,847 for the quarter ended September 30, 2007. For the nine months ended September 28, 2008, U.S. and Canada segment operating profit increased to \$212,933 compared to \$204,141 for the nine months ended September 30, 2007. Gross profits for both the quarter and nine months increased as a result of the higher revenues discussed above. Gross profit for the nine month period ended September 30, 2007 was negatively impacted by approximately \$10,400 of charges related to the July 2007 EASY-BAKE OVEN recall. The increases in gross profit were partially offset in the quarter and nine months by increased operating expenses reflecting increased product development spending as a result of increased investment in the Company's digital initiative related to its Wizards of the Coast subsidiary; increased amortization as a result of the acquisition of Cranium and the purchase of intellectual property rights related to Trivial Pursuit; increased advertising and promotional expenses to support the growth of the business; and increased selling, distribution and administrative expense, including both increased shipping and distribution costs, reflecting increased sales volume and higher transportation costs, and increased sales and marketing to support the growth of the business.



**HASBRO, INC. AND SUBSIDIARIES**

**Management's Discussion and Analysis of Financial**

**Condition and Results of Operations (continued)**

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

*INTERNATIONAL*

International segment net revenues increased by 9% to \$460,559 for the quarter ended September 28, 2008 from \$423,185 for the quarter ended September 30, 2007. Net revenues for the nine months ended September 28, 2008 increased 14% to \$1,002,502 from \$881,043 for the nine months ended September 30, 2007. For the quarter and nine months ended September 28, 2008, International segment net revenues were positively impacted by currency translation of approximately \$18,900 and \$64,300, respectively, as the result of the weaker U.S. dollar. Excluding the favorable impact of foreign exchange, International segment net revenues increased 4% in local currency for the third quarter of 2008 and 6% in local currency for the first nine months of 2008. The increase in net revenues was primarily the result of increased product sales in the girls' toys and preschool categories primarily relating to LITTLEST PET SHOP in the girls' toys category and PLAYSKOOL and IN THE NIGHT GARDEN products in the preschool category. Net revenues were also positively impacted by increased sales in the games and puzzles category, primarily as a result of increased sales of traditional board games including MONOPOLY. Net revenues in the boys' toys category decreased for the quarter and nine months primarily as a result of decreased sales of MARVEL and TRANSFORMERS products. However, TRANSFORMERS continued to be a significant contributor to International segment net revenues in both the quarter and nine-month periods of 2008. Decreased net revenues in the boys' toys category were partially offset by increased sales of STAR WARS and sales of INDIANA JONES products. Net revenues in the tweens category increased for the nine month period but decreased for the quarter. Increased sales of NERF products were partially offset in the nine month period by decreased revenues from POWER TOUR GUITAR, which is no longer in the Company's product line, and I-DOG and more than offset in the quarter primarily by lower revenues from POWER TOUR GUITAR.

International segment operating profit decreased to \$65,815 for the quarter ended September 28, 2008 compared to \$68,828 for the quarter ended September 30, 2007. For the nine months ended September 28, 2008 operating profit increased to \$92,820 from \$82,376 in 2007. For the quarter and nine months ended September 28, 2008, International segment operating profits were positively impacted by currency translation of approximately \$1,400 and \$2,500, respectively, as the result of the weaker U.S. dollar. Absent the impact of foreign exchange, the decrease in International segment operating profit for the quarter is primarily due to increased investments in emerging markets as well as decreased gross margins as a result of both mix of products sold in 2008 compared to 2007 and input cost inflation. To a lesser extent, international operating profit was also impacted by higher advertising expense. The decrease in operating profit for the quarter is partially offset by decreased royalty expense as a result of decreased sales of entertainment-based products. The increase in operating profit for the nine months was due to the higher revenues discussed above as well as decreased royalty expense, partially offset by higher advertising and promotional expenses as well as increased investments in emerging markets. International operating profit in the nine months ended September 28, 2008 was also positively impacted by the recognition of a pension surplus in the United Kingdom.

**HASBRO, INC. AND SUBSIDIARIES****Management's Discussion and Analysis of Financial****Condition and Results of Operations (continued)****(Thousands of Dollars and Shares Except Per Share Data)****GROSS PROFIT**

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The Company's gross profit margin decreased to 55.9% for the quarter ended September 28, 2008 from 57.4% for the quarter ended September 30, 2007 while gross profit margin for the nine months ended September 28, 2008 was 58.7% compared to 59.1% for the nine months of 2007. Gross profit in the 2008 quarter and nine month periods was negatively impacted by input cost inflation, partially offset by cost saving initiatives and an increase in pricing of certain of the Company's products, as well as the result of the mix of products sold in 2008 compared to 2007. During September 2008 the Company raised its prices in certain markets, including the United States, to offset cost increases it has been experiencing. For the full year the Company expects to be able to mitigate the cost inflation it is experiencing this year through the price increases it has taken along with on-going cost saving initiatives.

**EXPENSES**

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The Company's operating expenses, stated as percentages of net revenues, are illustrated below for the quarters and nine-month periods ended September 28, 2008 and September 30, 2007.

	Quarter		Nine Months	
	2008	2007	2008	2007
	-----	-----	-----	-----
Amortization	1.5%	1.5%	2.1%	2.1%
Royalties	6.4	7.6	7.5	8.1
Research and product development	3.9	3.6	4.9	4.6
Advertising	11.6	11.3	11.3	11.2
Selling, distribution and administration	15.9	16.3	20.6	20.5

For the quarter ended September 28, 2008, amortization expense increased in dollars to \$19,740 from \$17,990 for the quarter ended September 30, 2007 but remained consistent as a percentage of net revenues at 1.5% in 2008 and 2007. For the nine months ended September 28, 2008, amortization expense increased to \$58,822 from \$53,522 for the nine months ended September 30, 2007, but remained flat as a percentage of net revenues at 2.1%. The increase in dollars for the quarter and nine months is primarily the result of the acquisition of Cranium in January 2008 and the purchase of the intellectual property rights related to Trivial Pursuit in the second quarter of 2008. Property rights of \$68,500 and \$80,800 were recorded as a result of the Cranium acquisition and the purchase of Trivial Pursuit, respectively, and are each being amortized over fifteen years.

Royalty expense for the quarter ended September 28, 2008 decreased to \$83,747, or 6.4% of net revenues from \$93,035, or 7.6% of net revenues for the quarter ended September 30, 2007. Royalty expense for the nine months ended September 28, 2008 increased in dollars to \$210,336 from \$205,819, but decreased as a percentage of net revenue to 7.5% in 2008 from 8.1% in 2007. Absent the effect of foreign exchange in the nine month period, royalty expense decreased in dollars. The decrease in local currency royalty expense for the quarter and nine month periods represents decreased sales of entertainment-based products.

**HASBRO, INC. AND SUBSIDIARIES**

**Management's Discussion and Analysis of Financial**

**Condition and Results of Operations (continued)**

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

Research and product development expenses for the quarter ended September 28, 2008 increased to \$49,993, or 3.9% of net revenues compared to \$43,466, or 3.6% of net revenues for the quarter ended September 30, 2007. For the nine months ended September 28, 2008 research and product development expense was \$137,195, or 4.9% of net revenues compared to \$117,563 or 4.6% of net revenues in the comparable period of 2007. The increase for the quarter and nine months reflects higher investments in the Company's core brands, increased expenditures relating to the Company's digital initiatives, as well as additional expenses as a result of the Company's Cranium acquisition.

For the quarter ended September 28, 2008, advertising expenses increased to \$151,226, or 11.6% of net revenues compared to \$138,653, or 11.3% of net revenues for the quarter ended September 30, 2007. For the nine months ended September 28, 2008, advertising expense increased to \$314,443, or 11.3% of net revenues compared to \$285,283, or 11.2% of net revenues for the comparable period of 2007. The increase for the quarter and nine months is primarily the result of higher spending to increase awareness of the Company's brands and, to a lesser extent, the impact of foreign exchange.

For the quarter ended September 28, 2008, the Company's selling, distribution and administration expenses increased in dollars to \$207,495 from \$199,135 for the quarter ended September 30, 2007 but decreased as a percentage of net revenues to 15.9% in 2008 from 16.3% in 2007. For the nine months ended September 28, 2008, the Company's selling, distribution and administration expenses increased to \$573,766 or 20.6% of net revenues compared to \$520,599 or 20.5% of net revenues in the nine months ended September 30, 2007. The increase in dollars for the quarter and nine months reflects the impact of foreign exchange; increased sales and marketing expenses to support the growth in the business; increased investment in the expansion into emerging markets, including Brazil, China, Russia and the Czech Republic; increased investment in the Company's digital strategy; and increased shipping and distribution costs associated with both increased sales volume and higher transportation costs. Selling, distribution and administration expenses for the nine month period ended September 28, 2008 were positively impacted by the recognition of a pension surplus in the United Kingdom.

**NONOPERATING (INCOME) EXPENSE**

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Interest expense for the third quarter of 2008 was \$11,729 compared with \$9,272 in the third quarter of 2007. For the nine months ended September 28, 2008 interest expense increased to \$36,107 from \$22,117 in 2007. The increase for the quarter and nine months was the result of higher average borrowings in 2008 primarily as a result of the issuance of \$350,000 of notes in September 2007, partially offset by the repayment of \$135,092 of notes in July 2008. The increase in average borrowings for the quarter and nine-months was also a result of increased short-term borrowings to fund the Company's share repurchases, acquisition of Cranium and the purchase of the intellectual property rights related to the Trivial Pursuit brand.



**HASBRO, INC. AND SUBSIDIARIES**

**Management's Discussion and Analysis of Financial**

**Condition and Results of Operations (continued)**

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Interest income for the quarter ended September 28, 2008 was \$3,428 compared to \$4,844 for the quarter ended September 30, 2007. Interest income for the nine months ended September 28, 2008 was \$15,566 compared to \$23,792 in 2007. The decrease in interest income for the quarter and nine months was primarily the result of lower returns on invested cash, partially offset by higher average cash balances.

Other expense, net, was \$6,104 for the third quarter of 2008, compared to \$1,388 for the third quarter of 2007, increasing primarily due to higher losses on foreign exchange. For the nine-month periods, other expense, net was \$9,671 in 2008 compared to \$45,434 in 2007. Other expense, net, for the nine months ended September 30, 2007 included a charge of \$44,370 related to the increase in the fair value of certain warrants required to be classified as a liability. These warrants were required to be adjusted to their fair value each quarter through earnings. The Company repurchased these warrants in May of 2007. The remaining increase represents increased foreign exchange losses in 2008 compared to 2007.

**INCOME TAXES**

Income tax expense for the quarter ended September 28, 2008 was \$63,291 on pretax earnings of \$201,520 compared to income tax expense of \$42,341 on pretax earnings of \$203,921 for the quarter ended September 30, 2007. Income tax expense for the nine months ended September 28, 2008 was \$99,290 on pretax earnings of \$312,475 compared to income tax expense of \$76,211 on pretax earnings of \$275,482 for the nine months ended September 30, 2007. Absent discrete tax events, primarily relating to the recognition of previously unrecognized tax benefits, the tax rate for the quarter and nine months ended September 28, 2008 would have been 31.9% and 31.7% respectively.

The adjustment of certain warrants to their fair value in the nine month period ended September 30, 2007 results discussed above has no tax effect. Absent the warrant fair value adjustment and certain other discrete tax events, primarily relating to the recognition of previously unrecognized tax benefits and related reversal of interest totaling \$29,619 in the third quarter of 2007, the tax rate for the quarter and nine months ended September 30, 2007 would have been 34.7% and 32.3% respectively.

The income tax rate for the full year 2007 was 28.0%. In addition to the adjustment of certain warrants to their fair value, the 2007 full year tax rate was also impacted by approximately \$29,999 of discrete tax events, primarily comprised of the matter described above. Absent the effect of these items, the 2007 full year tax rate would have been 30.5%



The increase in the adjusted rate for the full year 2007 from 30.5% to 31.7% for the nine months ended September 30, 2008 is primarily due to higher expected profits in jurisdictions with higher statutory tax rates.

**HASBRO, INC. AND SUBSIDIARIES**

**Management's Discussion and Analysis of Financial**

**Condition and Results of Operations (continued)**

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

**OTHER INFORMATION**

Historically, the Company's revenue pattern has shown the second half of the year, and within that half, the fourth quarter, to be more significant to its overall business for the full year. The Company expects that this concentration will continue, particularly as more of its business shifts to larger customers with order patterns concentrated in the second half of the year. In years where the Company introduces products in the first half of the year tied to major motion picture releases, such as in 2007 with the releases of SPIDER-MAN 3 in May of 2007 and TRANSFORMERS in July of 2007, this concentration is not expected to be as pronounced due to the higher level of sales that occur around the time of the motion picture theatrical release. The concentration of sales in the second half of the year and, specifically, the fourth quarter increases the risk of (a) underproduction of popular items, (b) overproduction of less popular items, and (c) failure to achieve compressed shipping schedules.

The toy and game business is characterized by customer order patterns which vary from year to year largely because of differences each year in the degree of consumer acceptance of product lines, product availability, marketing strategies and inventory policies of retailers, the dates of theatrical releases of major motion pictures for which we have product licenses, 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 expected sales for that year. Moreover, quick response inventory management practices result in fewer orders being placed significantly in advance of shipment and more orders being placed for immediate delivery. Unshipped orders at September 28, 2008 and September 30, 2007 were approximately \$649,380 and \$558,900, respectively. It is a general industry practice that orders are subject to amendment or cancellation by customers prior to shipment. The backlog of unshipped orders at any date in a given year can also be affected by programs that we may employ to incent customers to place orders and accept shipments early in the year. These programs follow general industry practices.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (Revised 2007), Business Combinations, (SFAS 141R), which makes certain modifications to the accounting for business combinations. These changes include (1) the requirement for an acquirer to recognize all assets acquired and liabilities assumed at their fair value on the acquisition date; (2) the requirement for an acquirer to recognize assets or liabilities arising from contingencies at fair value as of that acquisition date; and (3) the requirement that an acquirer expense all acquisition related costs. This Statement is required to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of fiscal 2009.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements, (SFAS 160), which requires noncontrolling (minority) interests in subsidiaries to be initially measured at fair value and presented as a separate component of shareholders' equity. Current practice is

to present noncontrolling interests as a liability or other item outside of equity. This Statement is required to be applied prospectively after the beginning of fiscal 2009, although the presentation and disclosure requirements are required to be applied on a retrospective basis. The Company does not expect the adoption of SFAS No. 160 to have an impact on its consolidated balance sheet or results of operations.

**HASBRO, INC. AND SUBSIDIARIES**

**Management's Discussion and Analysis of Financial**

**Condition and Results of Operations (continued)**

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

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities, ( SFAS 161 ), which requires enhanced disclosures related to derivative instruments and hedging activities. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, and the disclosure requirements will be applicable for the Company's 2009 consolidated financial statements.

**LIQUIDITY AND CAPITAL RESOURCES**

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The Company has historically generated a significant amount of cash from operations. In 2007, the Company primarily funded its operations and short-term liquidity needs through cash flows from operations, and, when needed, proceeds from its accounts receivable securitization program and borrowings under its unsecured credit facilities. During 2008, the Company has continued to fund its working capital needs primarily through cash flows from operations and, when needed, using borrowings under its available lines of credit and proceeds from its accounts receivable securitization program. The Company believes that the funds available to it, including cash expected to be generated from operations and funds available through its available lines of credit and accounts receivable securitization program are adequate to meet its working capital needs for the remainder of 2008 and 2009.

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

Cash flows provided by operating activities were \$24,274 and \$46,998 for the nine months ended September 28, 2008 and September 30, 2007, respectively. The decrease is primarily due to higher non-cash expenses included in net earnings for the nine-month period ended September 30, 2007 related to the fair value adjustment of certain warrants required to be classified as a liability.

Accounts receivable increased to \$946,929 at September 28, 2008 from \$892,708 at September 30, 2007. Days sales outstanding were 65 days at September 28, 2008 compared to 66 days at September 30, 2007. The increase in accounts receivable primarily reflects higher sales volume.

Inventories increased to \$461,601 at September 28, 2008 from \$395,466 at September 30, 2007. The increase in inventory includes higher levels in Mexico due to the timing of shipments in 2008 compared to 2007 and the opening of our operations in Brazil.

**HASBRO, INC. AND SUBSIDIARIES**

**Management's Discussion and Analysis of Financial**

**Condition and Results of Operations (continued)**

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

Prepaid expenses decreased to \$127,075 at September 28, 2008 compared to \$135,023 at September 30, 2007. This decrease is primarily due to utilization of a portion of the MARVEL and the remainder of the Lucas prepaid royalty advances. Generally when the Company enters into a licensing agreement for entertainment-based properties, an advance royalty payment is required at the inception of the agreement. This payment is then recognized in the consolidated statement of operations as the related sales are made. Each reporting period, the Company reflects as current assets the amount of prepaid royalties it expects to recognize in the statement of operations in the upcoming twelve months. The decrease was partially offset by an increase in the value of the Company's foreign currency contracts as a result of the strengthening of the U.S. dollar.

Accounts payable and accrued expenses increased to \$872,757 at September 28, 2008 from \$825,170 at September 30, 2007. This increase was primarily the result of increases in current deferred revenue related to the Company's licensing agreement with EA and accounts payable due to increased expenses and inventory purchases in the quarter ended September 28, 2008 resulting from the growth of the Company's business.

Collectively, property, plant and equipment and other assets at September 28, 2008 increased \$85,379 from September 30, 2007. The increase is primarily the result of an increase in intangible assets and goodwill of \$96,602 mainly reflecting the purchase of intellectual property rights related to the Trivial Pursuit brand for a total cost of \$80,800 and the acquisition of Cranium which resulted in \$68,500 in property rights related to acquired product lines as well as goodwill of approximately \$10,600. These increases were partially offset by amortization. The net increase in intangible assets and goodwill was partially offset by a decrease in other non-current assets primarily as a result of a decrease in the long-term portion of the prepaid royalty advances related to MARVEL and Lucas. As of September 28, 2008, the Lucas royalty advance was fully utilized. In addition, property, plant and equipment increased in 2008 compared to 2007 primarily as a result of information systems initiatives the Company is currently undertaking and enhancements in its East Longmeadow manufacturing facility.

At September 28, 2008, cash and cash equivalents, net of short-term borrowings, were \$123,864 compared to \$400,353 at September 30, 2007. The decrease over the last twelve months reflects cash expenditures of approximately \$498,200 to repurchase shares of the Company's common stock, \$65,153 in cash used to acquire Cranium in January of 2008, \$80,800 in cash used to purchase the intellectual property rights related to the Trivial Pursuit brand in the second quarter of fiscal 2008, dividends paid of approximately \$102,800 and the repayment of \$135,092 of long-term debt in July 2008. These decreases were partially offset by cash generated from operations of approximately \$579,100.

Cash utilized by investing activities was \$242,172 in 2008 compared to \$84,319 in 2007. The 2008 utilization includes the Company's purchase of the intellectual property rights related to the Trivial Pursuit brand for a total cost of \$80,800 in the second quarter of fiscal 2008 as well as \$65,153 in cash, net of cash acquired, to acquire Cranium in January 2008. Additions to property, plant and equipment increased to \$84,907 in 2008 compared to \$63,189 in 2007.

**HASBRO, INC. AND SUBSIDIARIES**

**Management's Discussion and Analysis of Financial**

**Condition and Results of Operations (continued)**

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

Cash utilized by financing activities was \$199,233 in 2008 compared to \$269,895 in 2007. The 2007 amount reflects net proceeds of \$346,009 from the issuance of long-term notes in September 2007 and a utilization of \$200,000 to repurchase certain warrants under a call provision of the amended warrant agreement. The 2008 amount includes a utilization of \$135,092 to repay long-term notes in July 2008. Absent the effect of these items, the decrease in utilization reflects an increase in short-term borrowings in 2008 to \$222,925 from \$(502) in 2007 and a decrease in treasury share repurchases to \$352,867 in the first nine months of 2008 compared to \$439,032 in the first nine months of 2007. In addition, proceeds from stock option transactions increased to \$120,332 in the first nine months of 2008 compared to \$77,599 in the comparable period of 2007 as a result of increased stock option exercises attributed to the overall higher Company stock price during the first nine months of 2008 compared to the first nine months of 2007. The decrease in cash utilized by financing was partially offset by an increase in dividends paid to \$79,216 in 2008 from \$70,506 in 2007 due to an increase in the dividend rate, partially offset by a lower number of shares outstanding due to the Company's share repurchase program. As noted above, cash payments related to purchases of the Company's common stock decreased to \$352,867 in 2008 from \$439,032 in 2007. In 2008 the Company repurchased 11,736 shares at an average price of \$30.44. In the first quarter of 2008, the repurchase authorization of \$500,000 adopted by the Board in August 2007 was fully utilized. In February 2008 the Company's Board of Directors authorized the repurchase of an additional \$500,000 of the Company's common stock. At September 28, 2008, the Company had \$252,364 remaining available under the February 2008 authorization.

The Company has a revolving credit agreement, which provides it with a \$300,000 committed borrowing facility. The Company has the ability to request increases in the committed facility in additional increments of at least \$50,000 up to a total committed facility of \$500,000. The agreement contains certain financial covenants setting forth leverage and coverage requirements, and certain other limitations typical of an investment grade facility, including with respect to liens, mergers and incurrence of indebtedness. The Company was in compliance with all covenants as of and for the quarter ended September 28, 2008. The Company had borrowings of \$223,000 outstanding under its committed revolving credit facility at September 28, 2008. In addition, the Company has letters of credit outstanding under this facility of approximately \$2,400. Amounts available and unused under the committed line at September 28, 2008 were approximately \$74,600. The Company also has other uncommitted lines from various banks, of which approximately \$46,700 was utilized at September 28, 2008.

The Company is party to an accounts receivable securitization program whereby the Company sells, on an ongoing basis, substantially all of its U.S. trade accounts receivable to a bankruptcy remote special purpose entity, Hasbro Receivables Funding, LLC ("HRF"). HRF is consolidated with the Company for financial reporting purposes. The securitization program then allows HRF to sell, on a revolving basis, an undivided interest of up to \$250,000 in the eligible receivables it holds to certain bank conduits. During the period from the first day of the October fiscal month through the last day of the following January fiscal month, this limit is increased to \$300,000. The program provides the Company with a source of working capital. Based on the amount of eligible accounts receivable as of September 28, 2008, the Company had availability under this program to sell approximately \$226,700, of which approximately \$172,600 was utilized.





**HASBRO, INC. AND SUBSIDIARIES**  
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**Condition and Results of Operations (continued)**

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

The Company has principal amounts of long-term debt at September 28, 2008 of approximately \$709,723 due at varying times through 2028. The Company had letters of credit and other similar instruments of approximately \$118,600 and purchase commitments of \$310,733 outstanding at September 28, 2008. Letters of credit and similar instruments include \$79,115 related to the defense of tax assessments in Mexico. These assessments relate to transfer pricing that the Company is defending and expects to be successful in sustaining its position.

Contractual obligations and commercial commitments, as detailed in the Company's annual report on Form 10-K for the year ended December 30, 2007, did not materially change outside of payments made in the normal course of business including the payment of \$135,092 for notes that came due in July 2008. The table detailed in the Company's annual report on Form 10-K does not include certain tax liabilities recorded in accordance with FASB Interpretation No. 48 because the Company does not know the ultimate resolution of these liabilities and as such, does not know the ultimate timing of payments related to these liabilities. These liabilities were \$76,364 and \$70,571 at September 28, 2008 and December 30, 2007, respectively, and are included as a component of other liabilities in the accompanying balance sheets.

At September 28, 2008, the Company has outstanding \$249,828 in principal amount of senior convertible debentures due 2021. The senior convertible debentures bear interest at 2.75%, which could be subject to an upward adjustment in the rate, not to exceed 11%, should the price of the Company's stock trade at or below \$9.72 per share for 20 of 30 trading days preceding the fifth day prior to an interest payment date. This contingent interest feature represents a derivative instrument that is recorded on the balance sheet at its fair value, with changes in fair value recognized in the statement of operations. If the closing price of the Company's stock exceeds \$23.76 for at least 20 trading days within the 30 consecutive trading day period ending on the last trading day of the calendar quarter, or upon other specified events, the debentures will be convertible at an initial conversion price of \$21.60 in the next calendar quarter. At December 31, 2007, March 31, 2008, and June 30, 2008, this conversion feature was met and the debentures were convertible during the first nine months of 2008. There were no debentures converted during the first nine months of 2008. At September 30, 2008, this contingent feature was again met and the debentures will remain convertible through December 31, 2008, at which time the requirements of the conversion feature will be reevaluated. In addition, if the closing price of the Company's stock exceeds \$27.00 for at least 20 trading days in any 30 day period, the Company has the right to call the debentures by giving notice to the holders of the debentures. During a prescribed notice period, the holders of the debentures have the right to convert their debentures in accordance with the conversion terms described above. As of and during the quarter ended September 28, 2008, based on the Company's stock price, the Company had the right to call the debentures under this provision. The Company believes a call would result in conversion by the holders of the debentures and issuance of the shares, thereby increasing the number of shares outstanding. Thus far, based on the Company's targeted capital structure and the low cost of the debentures, the Company believes that it is more economically beneficial for it to not exercise its right to call the debentures.

Currently, this economic benefit includes a lower cash cost of paying interest on the debentures than the Company would pay in dividends on the incremental number of shares that would be outstanding. The Company will continue to assess the desirability of exercising the call option in the future based on the then existing economic circumstances and the Company's business objectives.



**HASBRO, INC. AND SUBSIDIARIES**  
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**Condition and Results of Operations (continued)**

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

The holders of these debentures may also put the notes back to Hasbro in December 2011 and December 2016 at the original principal amount. At that time, the purchase price may be paid in cash, shares of common stock or a combination of the two, at the Company's discretion. While the Company's current intent is to settle in cash any puts exercised, there can be no guarantee that the Company will have the funds necessary to settle this obligation in cash.

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

**CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES**

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The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. As such, management is required to make certain estimates, judgments and assumptions that it believes are reasonable based on the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the periods presented. The significant accounting policies which management believes are the most critical to aid in fully understanding and evaluating the Company's reported financial results include sales allowances, recoverability of goodwill and intangible assets, recoverability of royalty advances and commitments, pension costs and obligations, stock-based compensation and income taxes. These critical accounting policies are the same as those detailed in the Annual Report on Form 10-K for the year ended December 30, 2007.

**FINANCIAL RISK MANAGEMENT**

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

To manage this exposure, the Company has hedged a portion of its forecasted foreign currency transactions for fiscal years 2008 through 2011 using foreign exchange forward contracts. The Company is also exposed to foreign currency risk with respect to its net cash and cash equivalents or short-term borrowing positions in currencies other than the

U.S. dollar. The Company believes, however, that the on-going risk on the net exposure should not be material to its financial condition. In addition, the Company's revenues and costs have been, and will likely continue to be, affected by changes in foreign currency rates. From time to time, affiliates of the Company may make or receive intercompany loans in currencies other than their functional currency. The Company manages this exposure at the time the loan is made by using foreign exchange contracts. Other than as set forth above, the Company does not hedge foreign currency exposures. The Company reflects all derivatives at their fair value as an asset or liability on the balance sheet. The Company does not speculate in foreign currency exchange contracts.

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At September 28, 2008, these contracts had unrealized gains of \$24,975, of which \$7,601 are recorded in prepaid expenses and other current assets and \$17,374 are recorded in other assets. Included in accumulated other comprehensive income at September 28, 2008 are deferred gains, net of tax, of \$20,089.

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

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

**Item 4. Controls and Procedures.**

The Company maintains disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"), that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 28, 2008. Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

There were no changes in the Company's internal control over financial reporting, as defined in Rule 13a-15(f) promulgated under the Exchange Act, during the quarter ended September 28, 2008, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings.

The Company has outstanding tax assessments from the Mexican tax authorities relating to the years 2000, 2001 and 2002. These tax assessments are based on transfer pricing issues between the Company's subsidiaries with respect to the Company's operations in Mexico. The Company has entered an Administrative Appeal contesting the 2000 and 2001 assessments and on June 3, 2008 the Company filed suit in the Federal Tribunal of Fiscal and Administrative Justice in Mexico challenging the 2002 assessment. The Company expects to be successful in sustaining its position. However, in order to challenge these outstanding tax assessments, as is usual and customary in Mexico in these matters, the Company was required to either make a deposit or post a bond in the full amount of the assessments. The Company elected to post a bond and accordingly, as of September 28, 2008, bonds totaling \$79,115,000 have been posted. These bonds guarantee the full amounts of the outstanding tax assessments in the event the Company is not successful in its challenge to them.

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

### Item 1A. Risk Factors.

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

The Company's actual results or experience may differ materially from those expected or anticipated in the forward-looking statements. The Company has included, under Item 1A. of its Annual Report on Form 10-K, for the year ended December 30, 2007 (the "Annual Report"), a discussion of factors which may impact these forward-looking statements. In furtherance, and not in limitation, of the more detailed discussion set forth in the Annual Report, specific factors that might cause such a difference include, but are not limited to:

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

economic and public health conditions in the various markets in which the Company and its customers and suppliers operate throughout the world, including factors which impact the retail and credit markets, the financial health of the Company's customers, employment levels, disposable income, consumer confidence or consumer spending and demand for the Company's products or the Company's ability to manufacture and deliver products, higher fuel and other commodity prices, higher transportation costs and potential transportation delays, higher labor costs, currency fluctuations, political or economic instability and government regulation;

the concentration of the Company's customers;



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

the inventory policies of the Company's retail customers, including the concentration of the Company's revenues in the second half and fourth quarter of the year, together with the increased reliance by retailers on quick response inventory management techniques, which increases the risk of underproduction of popular items, overproduction of less popular items and failure to achieve compressed shipping schedules;

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

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

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

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

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

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

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

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

.

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

.

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

.

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

.

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

.

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

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

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

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

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

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

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

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

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

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

(a) Total Number of Shares (or Units)	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of the Share Repurchase Program	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased under the Program
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Period	Purchased	Unit)	of Publicly Announced Plans or Programs	Purchased Under the Plans or Programs
July 2008 6/30/08 - 7/27/08	-	-	-	\$402,243,132
August 2008 7/28/08 - 8/31/08	250,000	\$37.3391	250,000	\$392,908,357
September 2008 9/1/08 - 9/28/08	3,753,600	\$37.4425	3,753,600	\$252,364,317
Total	4,003,600	\$37.4360	4,003,600	\$252,364,317

In February 2008 the Company's Board of Directors authorized the repurchase of up to \$500 million in common stock after three previous authorizations dated May 2005, July 2006 and August 2007 with a cumulative authorized repurchase amount of \$1,200,000 were fully utilized. Purchases of the Company's common stock may be made from time to time, subject to market conditions. These shares may be repurchased in the open market or through privately negotiated transactions. The Company has no obligation to repurchase shares under the authorization, and the timing, actual number, and value of the shares that are repurchased will depend on a number of factors, including the price of the Company's stock. The Company may suspend or discontinue the program at any time and there is no expiration date.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Submission of Matters to a Vote of Security Holders.**

None.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

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

- 4.3 Indenture, dated as of November 30, 2001, by and between the Company and The Bank of Nova Scotia Trust Company of New York. (Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3, File No. 333-83250, filed February 22, 2002.)
- 4.4 First Supplemental Indenture, dated as of September 17, 2007, between the Company and the Bank of Nova Scotia Trust Company of New York. (Incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K filed September 17, 2007, File No. 1-6682.)

**Item 6. Exhibits (continued)**

- 4.5 Revolving Credit Agreement, dated as of June 23, 2006, by and among Hasbro, Inc., Hasbro SA, Bank of America, N.A. Citibank, N.A., Citizens Bank of Massachusetts, Commerzbank AG, New York and Grand Cayman Branches, BNP Paribas, Banc of America Securities LLC and the other banks party thereto. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 23, 2006, File No. 1-6682.)
- 4.6 Rights Agreement, dated as of June 16, 1999, between the Company and Fleet National Bank (the Rights Agent). (Incorporated by reference to Exhibit 4 to the Company's Current Report on Form 8-K dated as of June 16, 1999.)
- 4.7 First Amendment to Rights Agreement, dated as of December 4, 2000, between the Company and the Rights Agent. (Incorporated by reference to Exhibit 4(f) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, File No. 1-6682.)
- 4.8 Second Amendment to Rights Agreement, dated as of February 13, 2007, between the Company and Computershare Trust Company N.A. as the Rights Agent. (Incorporated by reference to Exhibit 4(g) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, File No. 1-6682.)
- 12 Computation of Ratio of Earnings to Fixed Charges Quarter Ended September 28, 2008.
- 31.1 Certification of the Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- 31.2 Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- 32.1 Certification of the Chief Executive Officer Pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934.
- 32.2 Certification of the Chief Financial Officer Pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934.





SIGNATURES

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

HASBRO, INC.

-----  
(Registrant)

Date: October 31, 2008

By: /s/ David D.R. Hargreaves

-----  
David D. R. Hargreaves  
Chief Operating Officer and  
Chief Financial Officer  
(Duly Authorized Officer and  
Principal Financial Officer)

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HASBRO, INC. AND SUBSIDIARIES

Quarterly Report on Form 10-Q

For the Period Ended September 28, 2008

Exhibit Index

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