

HASBRO INC  
Form 10-Q  
October 30, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 27, 2009

Commission file number 1-6682

HASBRO, INC.

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

Rhode Island  
(State of Incorporation)

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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Yes \_\_\_ or No \_\_\_

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

Large accelerated filer X

Accelerated filer \_\_\_

Non-accelerated filer \_\_\_ (Do not check if a smaller reporting company) Smaller reporting company \_\_\_

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes \_\_\_ or No X

The number of shares of Common Stock, par value \$.50 per share, outstanding as of October 20, 2009 was 138,412,246.

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

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

	Sept. 27, 2009	Sept. 28, 2008	Dec. 28, 2008
	-----	-----	-----
Assets			
Current assets			
Cash and cash equivalents	\$ 297,358	356,512	630,390
Accounts receivable, less allowance for doubtful accounts of \$35,400, \$33,600 and \$32,400	1,116,033	946,929	611,766
Inventories	399,917	461,601	300,463
Prepaid expenses and other current assets	178,597	177,576	171,387
	-----	-----	-----
Total current assets	1,991,905	1,942,618	1,714,006
Property, plant and equipment, less accumulated depreciation of \$430,900, \$416,200 and \$403,100	216,256	207,798	211,707
	-----	-----	-----
Other assets			
Goodwill	476,238	480,281	474,497
Other intangibles, less accumulated amortization of \$859,900, \$783,100 and \$799,500	580,373	588,185	568,412
Other	596,555	187,870	200,175
	-----	-----	-----
Total other assets	1,653,166	1,256,336	1,243,084
	-----	-----	-----
Total assets	\$ 3,861,327	3,406,752	3,168,797
	=====	=====	=====



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

	Sept. 27, 2009	Sept. 28, 2008	Dec. 28, 2008
	-----	-----	-----
Liabilities and Shareholders' Equity			
Current liabilities			
Short-term borrowings	\$ 33,062	232,648	7,586
Accounts payable	225,210	261,901	184,453
Accrued liabilities	628,843	610,856	607,853
	-----	-----	-----
Total current liabilities	887,115	1,105,405	799,892
Long-term debt	1,134,723	709,723	709,723
Other liabilities	351,557	235,469	268,396
	-----	-----	-----
Total liabilities	2,373,395	2,050,597	1,778,011
	-----	-----	-----
Shareholders' equity			
Preference stock of \$2.50 par value. Authorized 5,000,000 shares; none issued	-	-	-
Common stock of \$.50 par value. Authorized 600,000,000 shares; issued 209,694,630	104,847	104,847	104,847
Additional paid-in capital	457,824	440,584	450,155
Retained earnings	2,582,267	2,390,924	2,456,650
Accumulated other comprehensive earnings	42,589	103,435	62,256
Treasury stock, at cost; 70,736,688 shares at Sept. 27, 2009, 70,494,836 at Sept. 28, 2008 and 70,465,216 at December 28, 2008	(1,699,595 )	(1,683,635 )	(1,683,122 )
	-----	-----	-----
Total shareholders' equity	1,487,932	1,356,155	1,390,786
	-----	-----	-----
Total liabilities and shareholders' equity	\$ 3,861,327	3,406,752	3,168,797

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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. 27, 2009	Sept. 28, 2008	Sept. 27, 2009	Sept. 28, 2008
Net revenues	\$ 1,279,221	1,301,961	2,692,763	2,790,467
Cost of sales	550,026	573,835	1,114,231	1,153,218
Gross profit	729,195	728,126	1,578,532	1,637,249
Expenses				
Amortization	20,955	19,740	59,634	58,822
Royalties	99,725	83,747	228,004	210,336
Research and product development	43,870	49,993	124,530	137,195
Advertising	134,950	151,226	278,936	314,443
Selling, distribution and administration	198,986	207,495	542,429	573,766
Total expenses	498,486	512,201	1,233,533	1,294,562
Operating profit	230,709	215,925	344,999	342,687
Nonoperating (income) expense				
Interest expense	17,609	11,729	44,827	36,107
Interest income	(444 )	(3,428 )	(2,448 )	(15,566 )
Other (income) expense, net	(4,315 )	6,104	(680 )	9,671
Total nonoperating expense, net	12,850	14,405	41,699	30,212
Earnings before income taxes	217,859	201,520	303,300	312,475
Income taxes	67,497	63,291	93,933	99,290
Net earnings	\$ 150,362	138,229	209,367	213,185

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	=====	=====	=====	=====
Net earnings per common share				
Basic	\$ 1.08	0.98	1.50	1.51
	=====	=====	=====	=====
Diluted	\$ 0.99	0.89	1.39	1.39
	=====	=====	=====	=====
Cash dividends declared per				
common share	\$ 0.20	0.20	0.60	0.60
	=====	=====	=====	=====

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. 27, 2009	Sept. 28, 2008
Cash flows from operating activities		
Net earnings	\$ 209,367	213,185
Adjustments to reconcile net earnings to net cash (utilized) provided by operating activities:		
Depreciation of plant and equipment	71,004	64,560
Amortization	59,634	58,822
Deferred income taxes	5,069	7,760
Stock-based compensation	21,620	25,776
Change in operating assets and liabilities:		
Increase in accounts receivable	(501,321 )	(295,881 )
Increase in inventories	(89,033 )	(206,281 )
Decrease in prepaid expenses and other current assets	14,702	51,513
Increase in accounts payable and accrued liabilities	59,289	107,915
Other, including long-term portion of royalty advances	(60,862 )	(3,095 )
Net cash (utilized) provided by operating activities	(210,531 )	24,274
Cash flows from investing activities		
Additions to property, plant and equipment	(73,711 )	(84,907 )
Investments and acquisitions, net of cash acquired	(371,482 )	(154,757 )
Purchases of short-term investments	(16,000 )	(42,000 )
Proceeds from sales of short-term investments	-	42,000
Other	(2,792 )	(2,508 )
Net cash utilized by investing activities	(463,985 )	(242,172 )
Cash flows from financing activities		
Net proceeds from borrowings with original maturities of		
more than three months	421,309	-
Repayments of borrowings with original maturities of		

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more than three months	-	(135,092 )
Net proceeds from other short-term borrowings	24,072	222,925
Purchases of common stock	(27,097 )	(352,867 )
Stock option transactions	4,517	120,332
Excess tax benefits from stock-based compensation	1,387	24,685
Dividends paid	(83,804 )	(79,216 )
	-----	-----
Net cash provided (utilized) by financing activities	340,384	(199,233 )
	-----	-----
Effect of exchange rate changes on cash	1,100	(815 )
	-----	-----
Decrease in cash and cash equivalents	(333,032 )	(417,946 )
Cash and cash equivalents at beginning of year	630,390	774,458
	-----	-----
Cash and cash equivalents at end of period	\$ 297,358	356,512
	=====	=====

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

	Nine Months Ended	
	Sept. 27, 2009	Sept. 28, 2008
Supplemental information		
Cash paid during the period for:		
Interest	\$37,703	45,346
Income taxes	\$60,281	26,843

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. 27, 2009	Sept. 28, 2008	Sept. 27, 2009	Sept. 28, 2008
Net earnings	\$ 150,362	138,229	209,367	213,185
Other comprehensive earnings (loss)	(4,702 )	23,322	(19,667 )	28,497
Total comprehensive earnings	\$ 145,660	161,551	189,700	241,682
	=====	=====	=====	=====

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 27, 2009 and September 28, 2008, and the results of its operations and cash flows for the periods then ended in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and notes thereto. Actual results could differ from those estimates.

The quarterly and nine month periods ended September 27, 2009 and September 28, 2008 are 13-week and 39-week periods, respectively.

The results of operations for the quarter and nine months ended September 27, 2009 are not necessarily indicative of results to be expected for the full year, nor were those of the comparable 2008 periods representative of those actually experienced for the full year 2008.

These condensed consolidated financial statements have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in the consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. The Company filed audited consolidated financial statements for the year ended December 28, 2008 in its annual report on Form 10-K, which includes all such information and disclosures and, accordingly, should be read in conjunction with the financial information included herein.

The Company's accounting policies are the same as those described in Note 1 to the Company's consolidated financial statements for the fiscal year ended December 28, 2008.

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

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

In May 2009, the Financial Accounting Standard Board revised accounting standards to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. These revised standards require the disclosure of the date through which subsequent events have been evaluated and whether that date is the date the financial statements were issued or were available to be issued. The Company adopted the provisions of these revised standards during the second quarter of 2009. The adoption did not have an impact on the Company's statements of operations or statement of financial position. The Company has evaluated all subsequent events that occurred through October 30, 2009, the date the financial statements were issued.

**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 27, 2009 and September 28, 2008 were computed as follows:

Quarter -----	2009 -----		2008 -----	
	Basic -----	Diluted -----	Basic -----	Diluted -----
Net earnings	\$ 150,362	150,362	138,229	138,229
Effect of dilutive securities:				
Interest expense on contingent convertible debentures due 2021	-	1,076	-	1,059
	-----	-----	-----	-----
Adjusted net earnings	\$ 150,362	151,438	138,229	139,288
	=====	=====	=====	=====
Average shares outstanding	139,814	139,814	141,567	141,567
Effect of dilutive securities:				
Contingent convertible debentures due 2021	-	11,566	-	11,566
Options and other share-based awards	-	1,541	-	3,047
	-----	-----	-----	-----
Equivalent shares	139,814	152,921	141,567	156,180
	=====	=====	=====	=====
Net earnings per common share	\$ 1.08	0.99	0.98	0.89
	=====	=====	=====	=====

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

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

	2009		2008	
Nine months	Basic	Diluted	Basic	Diluted
-----	-----	-----	-----	-----
Net earnings	\$209,367	209,367	213,185	213,185
Effect of dilutive securities:				
Interest expense on contingent convertible debentures due 2021	-	3,250	-	3,177
	-----	-----	-----	-----
Adjusted net earnings	\$209,367	212,617	213,185	216,362
	=====	=====	=====	=====
 Average shares outstanding	 139,943	 139,943	 141,396	 141,396
Effect of dilutive securities:				
Contingent convertible debentures due 2021	-	11,566	-	11,566
Options and other share-based awards	-	1,443	-	2,894
	-----	-----	-----	-----
Equivalent shares	139,943	152,952	141,396	155,856
	=====	=====	=====	=====
 Net earnings per common share	 \$ 1.50	 1.39	 1.51	 1.39
	=====	=====	=====	=====

For the quarters and nine-month periods ended September 27, 2009 and September 28, 2008, the effect of the Company's contingent convertible debt was dilutive and, accordingly, for the diluted earnings per share calculation, the numerator includes an adjustment to earnings to exclude the interest expense incurred for these debentures and the denominator includes an adjustment to include the shares issuable upon conversion.

For the quarters ended September 27, 2009 and September 28, 2008, options to acquire shares totaling 7,854 and 40, 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 27, 2009 and September 28, 2008, 7,093 and 2,977 options to acquire shares, respectively, were excluded from the calculation of diluted earnings per share because to



include them would have been antidilutive.

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

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

(3) Other comprehensive earnings (loss) for the quarters and nine-month periods ended September 27, 2009 and September 28, 2008 consist of the following:

	Quarter Ended		Nine Months Ended	
	Sept. 27, 2009	Sept. 28, 2008	Sept. 27, 2009	Sept. 28, 2008
	-----	-----	-----	-----
Foreign currency translation adjustments	\$ 13,614	(25,177 )	25,153	(513 )
Changes in value of available-for-sale securities, net of tax	(345 )	(218 )	504	(2,159 )
Changes in unrecognized pension and				
Postretirement amounts, net of tax	2,520	-	1,949	-
Gain (loss) on cash flow hedging activities, net of tax	(17,168 )	46,617	(29,152 )	24,244
Reclassifications to earnings, net of tax:				
Net (gains) losses on cash flow				
hedging activities	(3,323 )	2,100	(18,121 )	6,925
	-----	-----	-----	-----
Other comprehensive (loss) earnings	\$ (4,702 )	23,322	(19,667 )	28,497
	=====	=====	=====	=====

At September 27, 2009, the Company had recorded deferred gains on hedging instruments, net of tax, of \$16,240 in accumulated other comprehensive earnings ( AOCE ). These instruments hedge certain anticipated inventory purchases and other cross-border transactions through 2011. These amounts will be reclassified into the consolidated statement of operations upon the sale of the related inventory or receipt or payment of the related royalties and expenses. Of the amount included in AOCE at September 27, 2009, the Company expects approximately \$5,700 to be reclassified to earnings within the next twelve months. However, the amount ultimately realized in earnings is dependent on the fair value of the contracts on the settlement dates.

(4) During the second quarter of 2009, the Company entered into an agreement to form a joint venture with Discovery Communications ( Discovery ) to create a television network in the United States dedicated to high-quality children's and family entertainment and educational programming. The transaction closed in May 2009 with the Company's purchase of a 50% interest in the joint venture, DHJV Company LLC ( DHJV ), which owns the DISCOVERY KIDS

network in the United States. The Company purchased its 50% share in DHJV for a payment of \$300,000 and certain future payments based on the value of certain tax benefits expected to be received by the Company. The present value of the expected future payments totals approximately \$67,900 and has been recorded as a non-current liability and a component of the Company's investment in the joint venture.

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

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

Voting control of the joint venture is shared 50/50 between the Company and Discovery. However, the Company believes that the joint venture qualifies as a variable interest entity pursuant to current accounting standards, and that it qualifies as the primary beneficiary, which would result in the Company consolidating the joint venture. In June 2009, the FASB revised the accounting guidance related to variable interest entity consolidation. The revised guidance is effective for the Company at the beginning of fiscal 2010. Under the revised guidance, the Company has determined that it does not meet the control requirements to consolidate the joint venture, and would be required to deconsolidate DHJV and utilize the equity method to account for its investment at the adoption date. The Company has elected to use the equity method in 2009 for financial statement presentation of the joint venture as it has determined that the difference between using consolidation and the equity method in 2009 is not material to the overall presentation of the financial statements. Additionally, there is no impact on net earnings or earnings per share. The Company's share in the earnings of the joint venture for the quarter and nine months ended September 27, 2009 totaled \$1,541 and \$2,555 of income, respectively, and is included as a component of other (income) expense in the accompanying consolidated statements of operations.

The Company has entered into a license agreement with the joint venture that will require the payment of royalties by the Company to the joint venture based on a percentage of revenue derived from products related to television shows broadcast by the joint venture. The license agreement includes a minimum royalty guarantee of \$125,000, payable in 5 annual installments of \$25,000 per year, commencing in 2009, which can be earned out over a 10-year period. During the third quarter of 2009, the Company paid the first annual installment of \$25,000. The Company and the joint venture are also parties to an agreement under which the Company will provide the joint venture with an exclusive first look in the U.S. to license certain types of programming developed by the Company based on its intellectual property. In the event the joint venture licenses the programming from the Company to air on the network, the joint venture is required to pay the Company a license fee.

The assets of the joint venture at inception consisted of goodwill and intangibles. Intangible assets are primarily comprised of cable affiliate relationships, which are being amortized on a straight line basis over 30 years, and programming costs, which are being amortized over 4 years on an accelerated basis. Hasbro's share of the assets underlying its investment at inception totaled \$142,577 of goodwill, \$211,850 of cable affiliate relationships, \$12,400 of programming costs, and \$1,100 of other intangibles. Amortization of the intangible assets is recorded in the results of the joint venture and, accordingly, the Company's share is included in its share of the joint venture earnings which is a component of other (income) expense. As of September 27, 2009, the Company's interest in the joint venture totaled \$370,482 and is a component of other assets.

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

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

(5) In May 2009 the Company amended its license agreement with Lucas Licensing, Ltd. ( Lucas ) related to the STAR WARS brand. The amendment included the extension of the term of the license for an additional two years, from the end of 2018 to the end of 2020. In connection with the extension of the license rights, \$45,000 was recorded as an intangible asset during the second quarter of 2009, and will be amortized over the term of the extension. The amendment also provided for the settlement of certain royalty audit issues, primarily related to contractual interpretations associated with the computation of royalties dating back to 1999, and the clarification of certain terms and interpretations of the agreement on a prospective basis through the end of the term, including the scope of licensed rights to future developed properties by Lucas.

(6) Hasbro's financial instruments include cash and cash equivalents, accounts receivable, marketable securities, short-term borrowings, accounts payable and accrued liabilities. At September 27, 2009, the carrying cost of these instruments approximated their fair value. The Company's financial instruments at September 27, 2009 also include certain assets and liabilities measured at fair value (see Notes 8 and 10) as well as long-term borrowings. The carrying costs and fair values of the Company's long-term borrowings as of September 27, 2009 are as follows:

	Carrying Cost	Fair Value
	-----	-----
6.125% Notes Due 2014	\$ 425,000	462,613
6.30% Notes Due 2017	350,000	366,520
2.75% Convertible Debentures Due 2021	249,828	326,463
6.60% Debentures Due 2028	109,895	110,741
	-----	-----
Total long-term debt	\$1,134,723	1,266,337
	=====	=====

The fair value of the convertible debt is based on an average of the prices of trades occurring around the balance sheet date. The fair value of the Company's other long-term borrowings is measured using a combination of broker quotations when available and discounted future cash flows.

In May 2009 the Company issued \$425,000 of Notes that are due in 2014 (the "Notes"). The Notes bear interest at a rate of 6.125%, which may be adjusted upward in the event that the Company's credit rating from Moody's Investor Services, Inc., Standard & Poor's Ratings Services or Fitch Ratings is reduced to Ba1, BB+, or BB+, respectively, or

below. On the date the Notes were issued, the Company's ratings from Moody's Investor Services, Inc., Standard & Poor's Ratings Services and Fitch Ratings were Baa2, BBB and BBB+, respectively. The interest rate adjustment is dependent on the degree of decrease of the Company's ratings and could range from 0.25% to a maximum of 2.00%. The Company may redeem the Notes at its option at the greater of the principal amount of the Notes or the present value of the remaining scheduled payments discounted using the effective interest rate on applicable U.S. Treasury bills at the time of repurchase.

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

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

(7) The Company and its subsidiaries file income tax returns in the United States and various state and international jurisdictions. In the normal course of business, the Company is regularly audited by U.S. federal, state and local tax authorities as well as international tax authorities in various tax jurisdictions. The Company is no longer subject to U.S. federal tax examinations for years before 2004. With few exceptions, the Company is no longer subject to U.S. state or local and non-U.S. income tax examinations by tax authorities in its major jurisdictions for years before 2003.

The U.S. Internal Revenue Service is performing an examination related to the 2004 and 2005 U.S. federal income tax returns. The Company is also under income tax examination in Mexico and in several other U.S. state and foreign jurisdictions. The ultimate resolution of the U.S. and Mexican examinations, as well as other matters that may be resolved in the next twelve months, is not yet determinable. In connection with the Mexican examinations for the years 2000 to 2003, the Company has received tax assessments related to transfer pricing which the Company is vigorously defending. The Company expects to be successful in sustaining its position with respect to these assessments as well as similar positions which may be taken by the Mexican tax authorities in future periods. However, 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 27, 2009, bonds totaling \$95,870 have been provided to the Mexican government, allowing the Company to defend its position.

(8) The Company measures certain assets at fair value in accordance with current accounting standards. The fair value hierarchy consists of three levels: Level 1 fair values are based on quoted market prices in active markets for identical assets or liabilities that the entity has the ability to access; Level 2 fair values are those based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities; and Level 3 fair values are based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Certain aspects of current fair value accounting standards were not required to be adopted for certain non-financial assets and liabilities until the first day of fiscal 2009 and, as such, were adopted by the Company in the first quarter of 2009. The adoption of these provisions did not have an impact on the Company's statements of operations or statement of financial position.

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

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

At September 27, 2009, the Company had the following assets measured at fair value in its consolidated balance sheet:

Fair Value Measurements at				
September 27, 2009 Using:				
	Quoted			
	Prices in			
	Active			
	Markets	Significant		
	for	Other	Significant	
	Identical	Observable	Unobservable	
	Assets	Inputs	Inputs	
	(Level 1)	(Level 2)	(Level 3)	
	Fair			
	Value			
	-----	-----	-----	-----
Available-for-sale securities	\$ 18,775	105	18,670	-
Derivatives	28,695	-	19,778	8,917
	-----	-----	-----	-----
Total	\$ 47,470	105	38,448	8,917
	=====	=====	=====	=====

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. Certain other available-for-sale securities held by the Company are valued at the net asset value which is quoted on a private market that is not active; however, the unit price is predominantly based on underlying investments which are traded on an active market. 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 primarily of foreign currency forward contracts. The Company uses current forward rates of the respective foreign currencies to measure the fair value of these contracts. The remaining derivative 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. There were no changes in these valuation techniques during the first nine months of 2009.

The following is a reconciliation of the beginning and ending balances of the fair value measurements of the Company's warrants to purchase common stock that use significant unobservable inputs (Level 3):

Balance at December 28, 2008	\$4,591
Gain from increase in fair value	1,333
Warrant modification	2,993
	-----
Balance at September 27, 2009	\$8,917
	=====

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

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

In the second quarter of 2009, certain warrants held by the Company were modified in connection with the amendment of an existing license agreement. The fair value of the modification was recorded as deferred revenue and is being amortized to revenue over the term of the amended license agreement.

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

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 27, 2009 and September 28, 2008 are as follows:

	Quarter Ended -----			
	Pension -----		Postretirement -----	
	Sept. 27, 2009 -----	Sept. 28, 2008 -----	Sept. 27, 2009 -----	Sept. 28, 2008 -----
Service cost	\$1,086	1,128	156	143
Interest cost	5,380	5,308	477	517
Expected return on assets	(5,435 )	(6,948 )	-	-
Net amortization and deferrals	1,431	370	3	28
Curtailment loss	4,000	-	-	-
	-----	-----	-----	-----
Net periodic benefit cost (benefit)	\$6,462	(142 )	636	688
	=====	=====	=====	=====



**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. 27, 2009	Sept. 28, 2008	Sept. 27, 2009	Sept. 28, 2008
	-----	-----	-----	-----
Service cost	\$3,185	3,560	469	428
Interest cost	16,009	16,142	1,429	1,550
Expected return on assets	(16,223 )	(21,065 )	-	-
Net amortization and deferrals	4,265	1,121	8	86
Curtailment loss	4,000	1,200	-	-
	-----	-----	-----	-----
Net periodic benefit cost	\$11,236	958	1,906	2,064
	=====	=====	=====	=====

The curtailment loss in 2009 resulted from benefit payments made from one of the unfunded U.S. plans. During the first nine months of fiscal 2009, the Company made cash contributions to its defined benefit pension plans of approximately \$13,100 in the aggregate. The Company expects to contribute approximately \$4,000 during the remainder of fiscal 2009.

**(10)** In March 2008 the Financial Accounting Standards Board revised accounting standards to require enhanced disclosures related to derivative instruments and hedging activities. The Company adopted the provisions of these revised standards during the first quarter of 2009.

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

additional information related to these warrants see Note 8.

#### Cash Flow Hedges

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Hasbro uses foreign currency forward contracts to reduce the impact of currency rate fluctuations on firmly committed and projected future foreign currency transactions. All of the Company's designated hedging instruments are considered to be cash flow hedges. These instruments hedge a portion of the Company's currency requirements associated with anticipated inventory purchases and other cross-border transactions from 2009 through 2011.

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

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

At September 27, 2009, the notional amounts and fair values of the Company's foreign currency forward contracts designated as cash flow hedging instruments were as follows:

Hedged Transaction	Notional Amount	Fair Value
-----	-----	-----
Inventory Purchases	\$ 416,568	12,503
Intercompany Royalty Transactions	173,491	5,731
Other	5,836	462
	-----	-----
Total	\$ 595,895	18,696
	=====	=====

The Company has a master agreement with each of its counterparties that allows for the netting of outstanding forward contracts. The fair values of the Company's foreign currency forward contracts designated as cash flow hedges are recorded in the consolidated balance sheet at September 27, 2009 as follows:

Prepaid expenses and other current assets	
-----	
Unrealized Gains	\$ 13,125
Unrealized Losses	(6,280)
	-----
Net Unrealized Gain	6,845
	-----
Other Assets	
-----	
Unrealized Gains	13,482
Unrealized Losses	(1,631)
	-----
Net Unrealized Gain	11,851
	-----
Total	\$18,696
	=====

During the quarter and nine months ended September 27, 2009, the Company reclassified net gains from other comprehensive earnings to net earnings of \$3,974 and \$20,602 respectively. Of the amount reclassified during the quarter ended September 27, 2009, \$2,491 was reclassified to cost of sales and \$1,488 was reclassified to royalty expense. During the nine month period ended September 27, 2009, \$16,148 was reclassified to cost of sales and \$4,459 was reclassified to royalty expense. In addition, net losses of \$(5) in the quarter and nine months ended September 27, 2009 were reclassified to earnings as a result of hedge ineffectiveness.

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

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

Undesignated Hedges

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The Company also enters into foreign currency forward contracts to minimize the impact of changes in the fair value of intercompany loans due to foreign currency changes. Due to the short-term nature of the derivative contracts involved, the Company does not use hedge accounting for these contracts. As of September 27, 2009, the total notional amount of the Company's undesignated derivative instruments was \$132,678.

At September 27, 2009, the fair values of the Company's undesignated derivative financial instruments are recorded in prepaid expenses and other current assets in the consolidated balance sheet as follows:

Unrealized Gains	\$ 2,513
Unrealized Losses	(1,431)
	-----
Net Unrealized Gain	\$ 1,082
	=====

The Company recorded net gains of \$1,032 and \$3,070 on these instruments to other (income) expense, net for the quarter and nine months ended September 27, 2009, respectively, relating to the change in fair value of such derivatives, substantially offsetting losses from the change in fair value of intercompany loans to which the contracts relate.

For additional information related to the Company's derivative financial instruments see Notes 3 and 8.

**(11)** 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. In the second quarter of 2009 the Company changed the name of the Other segment to Entertainment and Licensing. The Company's segments now are (i) U.S. and Canada; (ii) International; (iii) Global Operations; and (iv) Entertainment and Licensing.



The U.S. and Canada segment includes the development, marketing and selling of boys' action figures, vehicles and playsets, girls' toys, electronic toys and games, plush products, preschool toys and infant products, electronic interactive products, toy-related specialty products, traditional board games and puzzles, DVD-based games and trading card and role-playing games within the United States and Canada. Within the International segment, the Company develops, markets and sells both toy and certain game products in markets outside of the U.S. and Canada, primarily the European, Asia Pacific, and Latin and South American regions. The Global Operations segment is responsible for manufacturing and sourcing finished product for the Company's U.S. and Canada and International segments. The Company's Entertainment and Licensing segment includes the Company's lifestyle licensing, digital gaming, movie, television and online entertainment operations.

**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, including global development and marketing expenses, are allocated to segments based upon foreign exchange rates fixed at the beginning of the year, with adjustments to actual foreign exchange rates included in Corporate and eliminations. The accounting policies of the segments are the same as those referenced in Note 1.

Results shown for the quarter and nine months are not necessarily representative of those which may be expected for the full year 2009, nor were those of the comparable 2008 periods representative of those actually experienced for the full year 2008. Similarly, such results are not necessarily those which would be achieved were each segment an unaffiliated business enterprise.

Information by segment and a reconciliation to reported amounts for the quarters and nine months ended September 27, 2009 and September 28, 2008 are as follows.

	Quarter Ended			
	September 27, 2009		September 28, 2008	
	External	Affiliate	External	Affiliate
Net revenues	-----	-----	-----	-----
U.S. and Canada	\$ 791,896	3,211	821,028	4,715
International	444,105	21	460,559	47
Entertainment and Licensing	41,554	-	18,340	-
Global Operations (a)	1,666	575,868	2,034	632,240
Corporate and Eliminations	-	(579,100 )	-	(637,002 )
	-----	-----	-----	-----
	\$ 1,279,221	-	1,301,961	-
	=====	=====	=====	=====

Nine Months Ended

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		September 27, 2009		September 28, 2008	
		-----	-----	-----	-----
		External	Affiliate	External	Affiliate
		-----	-----	-----	-----
Net revenues					
U.S. and Canada	\$	1,687,275	8,393	1,717,213	12,762
International		909,528	70	1,002,502	243
Entertainment and Licensing		92,940	-	65,931	-
Global Operations (a)		3,020	1,135,610	4,821	1,232,887
Corporate and Eliminations		-	(1,144,073 )	-	(1,245,892 )
		-----	-----	-----	-----
	\$	2,692,763	-	2,790,467	-
		=====	=====	=====	=====

**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. 27, 2009	Sept. 28, 2008	Sept. 27, 2009	Sept. 28, 2008
Operating profit (loss)	-----	-----	-----	-----
U.S. and Canada	\$ 129,092	131,929	226,960	212,933
International	64,147	65,815	66,126	92,820
Entertainment and Licensing	19,820	6,252	36,386	26,676
Global Operations (a)	18,787	19,075	14,124	25,421
Corporate and Eliminations (b)	(1,137 )	(7,146 )	1,403	(15,163 )
	-----	-----	-----	-----
	\$ 230,709	215,925	344,999	342,687
	=====	=====	=====	=====

	Sept. 27, 2009	Sept. 28, 2008
Total assets	-----	-----
U.S. and Canada	\$ 3,580,899	3,667,755
International	1,459,236	1,402,395
Entertainment and Licensing	688,674	240,392
Global Operations	929,945	1,385,875
Corporate and Eliminations (b)	(2,797,427 )	(3,289,665 )
	-----	-----
	\$ 3,861,327	3,406,752
	=====	=====

(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 multiple operating segments are reflected as Corporate assets for segment reporting purposes. In accordance with accounting standards related to impairment testing, 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. As of September 27, 2009, the investment in the Discovery joint venture is included in the assets of the Entertainment and Licensing 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 months ended September 27, 2009 and September 28, 2008. Certain 2008 amounts have been reclassified to conform to the current period presentation.

	Quarter Ended		Nine Months Ended	
	Sept. 27, 2009	Sept. 28, 2008	Sept. 27, 2009	Sept. 28, 2008
	-----	-----	-----	-----
Boys	\$ 453,748	406,011	1,046,563	979,670
Games and puzzles	378,812	420,851	806,045	887,538
Girls	273,126	290,402	518,126	568,181
Preschool	169,051	171,908	314,341	319,070
Other	4,484	12,789	7,688	36,008
	-----	-----	-----	-----
Net revenues	\$ 1,279,221	1,301,961	2,692,763	2,790,467
	=====	=====	=====	=====

**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 and entertainment plans, anticipated product and entertainment performance, business opportunities and strategies, financial goals and expectations for achieving the Company's financial goals and other objectives. See Item 1A, in Part II of this report, for a discussion of factors which may cause the Company's actual results or experience to differ materially from that anticipated in these forward-looking statements. The Company undertakes no obligation to revise the forward-looking statements in this report after the date of the filing.

**EXECUTIVE SUMMARY**

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

The Company's business is primarily separated into three principal business segments, U.S. and Canada, International and Entertainment and Licensing. The U.S. and Canada segment develops, markets and sells both toy and game products in the U.S. and Canada. The International segment consists of the Company's European, Asia Pacific and Latin and South American marketing operations, including Mexico. During the second quarter, the Company changed the name of its Other segment to Entertainment and Licensing. The Company's Entertainment and Licensing segment includes the Company's lifestyle licensing, digital gaming, movie, television and online entertainment operations. In addition to these three primary segments, the Company's world-wide manufacturing and product sourcing operations are managed through its Global Operations segment.

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

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

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

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

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





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

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

While the Company believes it has built a more sustainable revenue base by developing and maintaining its core brands and avoiding reliance on licensed entertainment properties, it continues to opportunistically enter into or leverage existing strategic licenses which complement its brands and key strengths. In 2008 and the first nine months of 2009, the Company had significant sales of products related to the Company's license with Marvel Characters B.V. ( Marvel ), primarily due to the theatrical releases of IRON MAN in May 2008, THE INCREDIBLE HULK in June 2008 and X-MEN ORIGINS: WOLVERINE in May 2009. In addition, the Company had significant sales in 2008 of products related to the movie release of STAR WARS: CLONE WARS in August 2008 as well as sales from the movie release of INDIANA JONES AND THE KINGDOM OF THE CRYSTAL SKULL in May 2008. During the first nine months of 2009 the Company has also had a high level of revenues from products related to television programming based on SPIDER-MAN and STAR WARS.

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

The Company's long-term strategy also focuses on extending its brands further into the digital world. As part of this strategy, the Company entered into a multi-year strategic agreement with Electronic Arts Inc. ( EA ) in 2007. The agreement gives EA the exclusive worldwide rights, subject to existing limitations on the Company's rights and certain other exclusions, to create digital games for all platforms, such as mobile phones, gaming consoles and personal computers, based on a broad spectrum of the Company's intellectual properties, including MONOPOLY, SCRABBLE, YAHTZEE, NERF, TONKA, G.I. JOE and LITTLEST PET SHOP. A number of products under this agreement have been released in 2008 and the first nine months of 2009 and the line will continue to be updated and expanded during the remainder of 2009.

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

The Company is investing to grow its business in emerging markets. In 2008 the Company expanded its operations in China, Brazil, Russia, Korea and the Czech Republic. In addition, the Company is seeking to grow its business in entertainment and digital gaming, and will continue to evaluate strategic alliances and acquisitions which may complement its current product offerings, allow it entry into an area which is adjacent to or complementary to the toy

and game business, or allow it to further develop awareness of its brands and expand the ability of consumers to experience its brands in different forms of media. In addition to the Discovery joint venture discussed above, another example of this includes the acquisition of Cranium, Inc., a developer and marketer of CRANIUM branded games and related products, in 2008. In addition, in the second quarter of 2008, the Company acquired the rights to TRIVIAL PURSUIT,

**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)**

a brand which the Company had previously licensed on a long-term basis. Ownership of the rights will allow the Company to further leverage the brand in different media.

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 successive share repurchase authorizations with a cumulative authorized repurchase amount of \$1,700,000. After fully exhausting the prior three authorizations, the fourth authorization was approved on February 7, 2008 for \$500,000. For the quarter ended September 27, 2009, the Company invested \$30,206 in the repurchase of 1,084 shares of common stock in the open market. During the first six months of 2009, there were no repurchases of common stock under these authorizations. For the years ended 2008, 2007 and 2006, the Company spent \$357,589, \$587,004 and \$456,744, respectively, to repurchase 11,736, 20,795 and 22,767 shares, respectively, in the open market. The Company intends to, at its discretion, opportunistically repurchase shares in the future subject to market conditions, the Company's other uses of cash and the Company's levels of cash generation. At September 27, 2009, the Company had \$222,180 remaining under the February 2008 authorization.

During the first nine months of 2009, the Company has been operating in an environment of both a stronger U.S. dollar relative to foreign currencies as well as weakened overall economic conditions compared to 2008. Accordingly, the Company has sought to mitigate the impact of these conditions by instituting a variety of cost control initiatives, including salary freezes, limitations on new hires, and an effort to reduce its overall SKU count. As of September 27, 2009 the Company had \$297,358 in cash and cash equivalents and had available capacity, if needed, under its revolving credit agreement. In connection with the announcement of a joint venture agreement with Discovery in April 2009, the Company made a \$300,000 cash payment in connection with its investment to purchase its 50% share of the joint venture. The Company funded its investment through the issuance of debt with a principal amount of \$425,000 in May 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, accounts receivable securitization program and other borrowing facilities are adequate to meet its working capital needs for the remainder of 2009 and 2010.

**HASBRO, INC. AND SUBSIDIARIES****Management's Discussion and Analysis of Financial****Condition and Results of Operations (continued)****(Thousands of Dollars and Shares Except Per Share Data)****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 27, 2009 and September 28, 2008.

	<u>Quarter</u>		<u>Nine Months</u>	
	2009	2008	2009	2008
	-----	-----	-----	-----
Net revenues	100.0%	100.0%	100.0%	100.0%
Cost of sales	43.0	44.1	41.4	41.3
	-----	-----	-----	-----
Gross profit	57.0	55.9	58.6	58.7
Amortization	1.6	1.5	2.2	2.1
Royalties	7.8	6.4	8.5	7.5
Research and product development	3.4	3.9	4.6	4.9
Advertising	10.6	11.6	10.4	11.3
Selling, distribution and administration	15.6	15.9	20.1	20.6
	-----	-----	-----	-----
Operating profit	18.0	16.6	12.8	12.3
Interest expense	1.4	0.9	1.6	1.3
Interest income	(0.0)	(0.3)	(0.1)	(0.6)
Other (income) expense, net	(0.4)	0.5	0.0	0.4
	-----	-----	-----	-----
Earnings before income taxes	17.0	15.5	11.3	11.2
Income taxes	5.2	4.9	3.5	3.6
	-----	-----	-----	-----
Net earnings	11.8%	10.6%	7.8%	7.6%
	=====	=====	=====	=====

**RESULTS OF OPERATIONS**

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The quarters and nine months ended September 27, 2009 and September 28, 2008 were 13-week and 39-week periods, respectively. Net earnings for the quarter and nine months ended September 27, 2009 were \$150,362 and \$209,367, respectively, compared with net earnings of \$138,229 and \$213,185 for the respective periods of 2008. Basic earnings per share for the quarter and nine months ended September 27, 2009 were \$1.08 and \$1.50 compared to basic earnings per share of \$0.98 and \$1.51 for the respective periods of 2008. Diluted earnings per share were \$0.99 and \$1.39 for the quarter and nine months ended September 27, 2009, compared with diluted earnings per share of \$0.89 and \$1.39 for the respective periods in 2008. Net earnings for both the quarter and nine-month periods in 2009 include dilution from the Company's investment in the joint venture with Discovery and its issuance of \$425,000 of long-term debt, both of which closed in May 2009, as well as the start-up of the Company's internal television studio.

**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 27, 2009 decreased 2% to \$1,279,221 compared to \$1,301,961 for the quarter ended September 28, 2008. For the nine months ended September 27, 2009, consolidated net revenues were \$2,692,763 compared to \$2,790,467 for the nine months ended September 28, 2008, a decrease of 4%. Consolidated net revenues were negatively impacted by foreign currency translation in the amount of approximately \$36,000 and \$120,600 for the quarter and nine months ended September 27, 2009, respectively, as the result of the stronger U.S. dollar in 2009. Operating profit for the quarter ended September 27, 2009 was \$230,709 compared to \$215,925 for the quarter ended September 28, 2008. Operating profit for the 2009 nine-month period was \$344,999 compared to an operating profit of \$342,687 for the nine-month period of 2008.

Most of the Company's revenues and operating profit are derived from its three principal segments: the U.S. and Canada segment, the International segment and the Entertainment and Licensing segment, which are discussed in detail below. The following table presents net external revenues and operating profit data for the Company's three principal segments for the quarters and nine months ended September 27, 2009 and September 28, 2008.

	<u>Quarter</u>			<u>Nine months</u>		
	2009	2008	% Change	2009	2008	% Change
	-----	-----	-----	-----	-----	-----
<b>Net Revenues</b>						
U.S. and Canada segment	\$791,896	821,028	-4%	1,687,275	1,717,213	-2%
International segment	444,105	460,559	-4%	909,528	1,002,502	-9%
Entertainment and Licensing segment	41,554	18,340	127%	92,940	65,931	41%
<b>Operating Profit</b>						
U.S. and Canada segment	\$129,092	131,929	-2%	226,960	212,933	7%
International segment	64,147	65,815	-3%	66,126	92,820	-29%
Entertainment and Licensing segment	19,820	6,252	217%	36,386	26,676	36%

**U.S. AND CANADA SEGMENT**

The U.S. and Canada segment's net revenues for the quarter ended September 27, 2009 decreased 4% to \$791,896 from \$821,028 for the quarter ended September 28, 2008. Net revenues for the nine months ended September 27, 2009 were \$1,687,275 compared to \$1,717,213 for the nine months ended September 28, 2008. The decrease in the quarter and nine months was driven by decreased revenues in the games and puzzles category, primarily due to decreased sales of traditional board games, partially offset by increased revenues from sales of MAGIC: THE GATHERING, as well as decreased revenues from the girls' toys category, primarily as a result of decreased sales of BABY ALIVE and FURREAL FRIENDS products. Although revenues from LITTLEST PET SHOP products have decreased overall in the nine months, this line increased in the third quarter and remained a significant contributor to U.S. and Canada segment net revenues in that period. In addition, the overall decrease in girls' toys net revenues in both the quarter and nine months was partially offset by sales of STRAWBERRY SHORTCAKE products which were reintroduced to the Company's line in the second quarter of 2009. Revenues in the preschool category decreased slightly in the



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quarter but increased overall for the nine months. Increases in preschool net revenues were primarily the result of higher sales of PLAY-DOH and TONKA products. These increases were partially offset in the nine months and more than offset in the quarter as a result of decreased sales of PLAYSKOOL products. Revenues from sales of PLAYSKOOL products declined primarily as a result of decreased sales of the ROSE PETAL COTTAGE line which is no longer in the Company's product line. Net revenues in the quarter and nine months were also negatively impacted by decreased sales of TOOTH TUNES products, which have also been discontinued in the Company's product line. The decrease in the quarter and nine months was partially offset by increased sales in the boys' toys category, primarily as a result of increased sales of TRANSFORMERS and GI JOE products due to the theatrical releases of TRANSFORMERS: REVENGE OF THE FALLEN in June 2009 and GI JOE: THE RISE OF COBRA in August 2009, as well as increased sales of NERF products. Increased sales in the boys' toys category were partially offset by decreased sales of MARVEL, STAR WARS and INDIANA JONES products in both the quarter and nine months.

U.S. and Canada segment operating profit decreased to \$129,092 for the quarter ended September 27, 2009 compared to \$131,929 for the quarter ended September 28, 2008. For the nine months ended September 27, 2009 operating profit increased to \$226,960 from \$212,933 for the nine months ended September 28, 2008. The decrease in operating profit for the quarter was primarily a result of decreased gross profit due to the lower revenues discussed above, partially offset by decreased advertising expense. The increase in operating profit for the nine months is primarily due to decreased selling, distribution and administration expenses which primarily reflect lower shipping and distribution costs, as well as decreased advertising expense. In years in which the Company expects significant sales of products related to major motion picture releases, such as in 2009, advertising expense is generally lower, as such products do not require the same level of advertising that the Company spends on non-entertainment based products.

**INTERNATIONAL SEGMENT**

International segment net revenues decreased by 4% to \$444,105 for the quarter ended September 27, 2009 from \$460,559 for the quarter ended September 28, 2008. Net revenues for the nine months ended September 27, 2009 decreased 9% to \$909,528 from \$1,002,502 for the nine months ended September 28, 2008. For the quarter and nine months ended September 27, 2009, International segment net revenues were negatively impacted by currency translation of approximately \$34,300 and \$113,100, respectively, as the result of the stronger U.S. dollar in the first nine months of 2009. Excluding the unfavorable impact of foreign exchange, International segment net revenues increased 4% and 2% in local currency for the third quarter and nine month period of 2009, respectively. The increase in local currency net revenues for the quarter and nine months was driven by increased sales in the boys' toys category, primarily as a result of increased sales of TRANSFORMERS and G.I. JOE products due to the theatrical releases of TRANSFORMERS: REVENGE OF THE FALLEN in June 2009 and the G.I. JOE: THE RISE OF COBRA motion picture in August 2009, as well as increased sales of NERF products. Increases in boys' toys net revenues were partially offset in the quarter and nine months by lower revenues from STAR WARS, MARVEL, INDIANA JONES, ACTION MAN and TOY STORY products. Net revenues in the preschool category increased for the quarter and

decreased for the nine months primarily as a result of increased revenues from sales of PLAY-DOH and TONKA products, partially offset in the quarter and more than offset in

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the nine-month period as a result of decreased sales of PLAYSKOOL and IN THE NIGHT GARDEN products. Revenues in the games and puzzles category decreased in both the quarter and nine month period as a result of decreased sales of board games. Net revenues in the girls' toys category decreased in the quarter and nine-months, driven by decreased sales of MY LITTLE PONY and FURREAL FRIENDS products, and to a lesser extent, BABY ALIVE products, partially offset by sales of STRAWBERRY SHORTCAKE products which were reintroduced to the Company's line in the second quarter of 2009.

International segment operating profit decreased to \$64,147 for the quarter ended September 27, 2009 compared to \$65,815 for the quarter ended September 28, 2008. For the nine month period ended September 27, 2009 operating profit decreased to \$66,126 from \$92,820 in the comparable period of 2008. Absent the impact of foreign exchange, operating profit for the quarter was flat as compared to the prior year. Increased local currency gross profit in the nine month period was more than offset by increased operating expenses. In addition, operating profit for the nine months ended September 28, 2008 was positively impacted by the recognition of a pension surplus in the United Kingdom of approximately \$6,000.

***ENTERTAINMENT AND LICENSING SEGMENT***

During the second quarter of 2009, the Company changed the name of its Other segment to the Entertainment and Licensing segment. This segment includes the Company's lifestyle licensing, digital gaming, movie, television and online entertainment operations. The Entertainment and Licensing segment's net revenues for the quarter ended September 27, 2009 increased 127% to \$41,554 from \$18,340 for the quarter ended September 28, 2008. Net revenues for the nine months ended September 27, 2009 increased 41% to \$92,940 from \$65,931 for the nine months ended September 28, 2008. The increase in both the quarter and nine month period was primarily due to higher licensing revenues in the boys' toys and games and puzzles categories, primarily relating to TRANSFORMERS and GI JOE licensed products.

Entertainment and Licensing segment operating profit increased to \$19,820 for the quarter ended September 27, 2009 compared to \$6,252 for the quarter ended September 28, 2008. For the nine months ended September 27, 2009 operating profit increased to \$36,386 from \$26,676 in the comparable period of 2008. Operating profit for the quarter and nine months increased as a result of the higher revenues discussed above, partially offset by increased selling, distribution and administrative expenses which included approximately \$7,200 in transaction costs related to the Company's investment in the joint venture with Discovery. While the Discovery joint venture is a component of our television operations, the Company's 50% share in the earnings from the joint venture are included in other (income) expense and therefore are not a component of operating profit of the segment.



**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 increased to 57.0% for the quarter ended September 27, 2009 from 55.9% for the quarter ended September 28, 2008, while gross profit margin for the nine months ended September 27, 2009 decreased marginally to 58.6% from 58.7% in the comparable period of 2008. The increase in the quarter was primarily due to a change in the mix of products sold, primarily due to increased sales of entertainment-based products in 2009 as compared to 2008. While gross profits of theatrical entertainment-based products are generally higher than many of the Company's other products, sales from these products, including Company owned or controlled brands based on a movie release, also incur royalty expense. Such royalties reduce the impact of these higher gross margins. Gross profits for the quarter and nine months ended September 27, 2009 were also positively impacted by increased royalty income in the Entertainment and Licensing segment.

**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 27, 2009 and September 28, 2008.

	Quarter		Nine months	
	2009	2008	2009	2008
Amortization	1.6%	1.5%	2.2%	2.1%
Royalties	7.8	6.4	8.5	7.5
Research and product development	3.4	3.9	4.6	4.9
Advertising	10.6	11.6	10.4	11.3
Selling, distribution and administration	15.6	15.9	20.1	20.6

Amortization expense increased to \$20,955, or 1.6% of net revenues in the third quarter of 2009 from \$19,740 or 1.5% of net revenues in the third quarter of 2008. For the nine months ended September 27, 2009, amortization expense was \$59,634 or 2.2% of net revenues compared to \$58,822 or 2.1% of net revenues in the nine months ended September 28, 2008. The increase for the nine month period includes increased amortization as a result of the purchase of the intellectual property rights related to TRIVIAL PURSUIT in the second quarter of 2008.

Royalty expense for the quarter ended September 27, 2009 increased to \$99,725 or 7.8% of net revenues from \$83,747 or 6.4% of net revenues for the quarter ended September 28, 2008. Royalty expense for the nine months ended September 27, 2009 increased to \$228,004 or 8.5% of net revenues from \$210,336 or 7.5% of net revenues for the comparable period of 2008. The increase in the quarter and nine-month period is primarily the result of increased sales of entertainment-driven products, including TRANSFORMERS and G.I. JOE. Royalty expense in the nine-month period ended September 27, 2009 also included costs associated with a royalty audit.

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Research and product development expenses for the quarter ended September 27, 2009 decreased to \$43,870 or 3.4% of net revenues from \$49,993 or 3.9% of net revenues for the quarter ended September 28, 2008. For the nine months ended September 27, 2009, research and product development expense decreased to \$124,530 or 4.6% of net revenues from \$137,195 or 4.9% of net revenues in the comparable period of 2008. The decreases are primarily due to an effort to reduce the Company's overall SKU count and make research and development spending more efficient.

Advertising expense for the quarter ended September 27, 2009 decreased to \$134,950, or 10.6% of net revenues compared to \$151,226, or 11.6% of net revenues for the quarter ended September 28, 2008. For the nine months ended September 27, 2009, advertising expense was \$278,936, or 10.4% of net revenues compared to \$314,443, or 11.3% of net revenues for the comparable period of 2008. In years in which the Company expects significant sales of products related to major motion picture releases, such as in 2009, advertising expense as a percentage of revenue is generally lower, as such products do not require the same level of advertising that the Company spends on non-entertainment based products.

For the quarter ended September 27, 2009, the Company's selling, distribution and administration expenses decreased to \$198,986 or 15.6% of net revenues from \$207,495 or 15.9% of net revenues for the quarter ended September 28, 2008. For the nine months ended September 27, 2009, the Company's selling, distribution and administration expenses decreased to \$542,429 or 20.1% of net revenues from \$573,766 or 20.6% of net revenues in the nine months ended September 28, 2008. The decrease in selling, distribution and administration expenses for the quarter and nine months ended September 27, 2009 primarily reflects the impact of foreign exchange. Included in selling, distribution and administration expense for the nine-month period ended September 27, 2009 were approximately \$7,200 in transaction costs related to the Company's purchase of a 50% interest in the joint venture with Discovery. Selling, distribution and administration expenses for both the quarter and nine-month periods were also impacted by lower shipping and distribution costs. In addition, 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 of approximately \$6,000.

**NONOPERATING (INCOME) EXPENSE**

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Interest expense for the third quarter of 2009 increased to \$17,609 from \$11,729 in the third quarter of 2008. For the nine months ended September 27, 2009 interest expense increased to \$44,827 from \$36,107 in 2008. The increase in interest expense in the quarter and nine-month period reflects higher outstanding borrowings as a result of the issuance of \$425,000 of Notes in May 2009. The proceeds from the issuance of Notes in May 2009 were primarily used to purchase a 50% interest in the joint venture with Discovery. Interest expense in the nine month period of 2009 also

includes approximately \$4,000 in costs related to a short-term borrowing facility commitment the Company entered into in April 2009 in connection with the Company's investment in the joint venture with Discovery. In addition, interest



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expense in the quarter and nine months also includes amounts related to the Company's tax sharing agreement with Discovery.

Interest income for the quarter ended September 27, 2009 was \$444 compared to \$3,428 for the quarter ended September 28, 2008. Interest income for the nine months ended September 27, 2009 was \$2,448 compared to \$15,566 in 2008. The decrease in interest income for the quarter and nine months was primarily the result of lower returns on invested cash and lower average invested cash balances.

Other (income) expense, net, was \$(4,315) for the third quarter of 2009, compared to \$6,104 for the third quarter of 2008. Other (income) expense, net, for the nine months ended September 27, 2009 was \$(680) compared to \$9,671 in 2008. Other (income) expense, net in the quarter and nine months includes \$(1,541) and \$(2,555), respectively, representing the Company's 50% share in the earnings of the joint venture with Discovery. The remainder of the change in other (income) expense, net in the quarter and nine months ended September 27, 2009 as compared to the quarter and nine months ended September 28, 2008 primarily reflects the impact of foreign exchange gains and losses.

**INCOME TAXES**

Income tax expense for the quarter and nine month periods in 2009 totaled 31.0% of pre-tax earnings compared to 31.4% and 31.8% in the comparable periods in 2008. Both the quarter and nine month period rates are impacted by certain discrete tax events, primarily the accrual of potential interest and penalties on uncertain tax positions. Absent these items, the quarter and nine month rates would have been 29.8% and 29.7%, respectively, in 2009 compared to 31.9% and 31.7%, respectively, in 2008. The decrease in the adjusted rate in 2009 compared to 2008 primarily reflects the decision to indefinitely reinvest all of the 2009 international earnings outside the U.S. The 2008 tax rate reflects the Company's decision to provide for the repatriation of a portion of 2008 international earnings to the U.S.

The nine months ended September 27, 2009 adjusted income tax rate of 29.7% compares to an adjusted 2008 full year income tax rate of 32.8%. The adjusted 2008 full year income tax rate excludes certain discrete events, including a benefit from the repatriation of certain foreign earnings, as well as the settlement of various tax examinations in multiple jurisdictions. The decrease in the 2009 adjusted nine month income tax rate to 29.7% compared with the adjusted full year 2008 income tax rate of 32.8% is primarily due to the decision to indefinitely reinvest all of the 2009 international earnings outside the U.S. The 2008 tax rate reflects the Company's decision to provide for the repatriation of a portion of 2008 international earnings to the U.S.

OTHER INFORMATION

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Historically, the Company's revenue pattern has shown the second half of the year to be more significant to its overall business than the first half. Although 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, this concentration may be less in years when the Company has products related to one or more major motion picture releases that occur in the first half of the year. In 2009 the Company has products related to the mid-year

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major motion picture releases of TRANSFORMERS: REVENGE OF THE FALLEN, GI JOE: THE RISE OF COBRA and X-MEN ORIGINS: WOLVERINE. In 2008 the Company had products related to the mid-year major motion picture releases of IRONMAN, THE INCREDIBLE HULK and INDIANA JONES AND THE KINGDOM OF THE CRYSTAL SKULL. The concentration of sales in the second half of the year 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 27, 2009 and September 28, 2008 were approximately \$465,100 and \$649,380, 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 2008 the Financial Accounting Standards Board ( FASB ) revised accounting guidance related to an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosures required by these revisions will be applicable for the Company's year-end 2009 financial statements.

In June 2009 the FASB revised accounting standards related to the transfer of financial assets. These revisions seek to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. These revisions also eliminate the concept of a qualifying special-purpose entity, and require such entities to be evaluated for consolidation in accordance with the applicable consolidation guidance. The requirements of these revised accounting standards are effective for fiscal years and interim periods beginning after November 15, 2009. The Company does not expect the adoption of these revised standards to have an impact on its consolidated balance sheet or results of operations.

In June 2009 the FASB amended accounting standards related to the consolidation of variable interest entities. These amendments require an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. The analysis identifies the primary beneficiary of a variable interest entity as the enterprise that has both (i) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (ii) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest

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entity. The amended standards also require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. At September 27, 2009, the Company has an ownership interest in one variable interest entity, the joint venture with Discovery Communications. See the relevant discussion in Note 4 to the accompanying consolidated financial statements. Other than as discussed in Note 4, the Company does not expect the adoption of the amended standards to have a further impact on its consolidated balance sheet or results of operations.

**LIQUIDITY AND CAPITAL RESOURCES**

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The Company has historically generated a significant amount of cash from operations. In 2008 the Company funded its operations and liquidity 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. During the first nine months of 2009, 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 2009 as well as fiscal 2010. However, unexpected events or circumstances such as material operating losses or increased capital or other expenditures may reduce or eliminate the availability of external financial resources. In addition, significant disruptions to credit markets may also reduce or eliminate the availability of external financial resources. Although we believe the risk of nonperformance by the counterparties to our financial facilities is not significant, in times of severe economic downturn in the credit markets it is possible that one or more sources of external financing may be unable or unwilling to provide funding to us.

In May 2009 the Company issued \$425,000 of Notes that are due in 2014 (the "Notes"). The Notes bear interest at a rate of 6.125%, which may be adjusted upward in the event that the Company's credit rating from Moody's Investor Services, Inc., Standard & Poor's Ratings Services or Fitch Ratings is reduced to Ba1, BB+, or BB+, respectively, or below. On the date the Notes were issued, the Company's ratings from Moody's Investor Services, Inc., Standard & Poor's Ratings Services and Fitch Ratings were Baa2, BBB and BBB+, respectively. The interest rate adjustment is dependent on the degree of decrease of the Company's ratings and could range from 0.25% to a maximum of 2.00%. The Company may redeem the Notes at its option at the greater of the principal amount of the Notes or the present value of the remaining scheduled payments discounted using the effective interest rate on applicable U.S. Treasury bills at the time of repurchase. The proceeds from the issuance of the Notes were primarily used to purchase a 50% interest in the joint venture with Discovery for \$300,000.

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

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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.

Net cash utilized by operating activities in the first nine months of 2009 was \$210,531 compared to net cash provided of \$24,274 in the first nine months of 2008. Net cash utilized in 2009 as compared to net cash provided in 2008 primarily reflects an increase in accounts receivable as a result of the Company's decision not to utilize its securitization program at September 27, 2009. At September 28, 2008, approximately \$172,600 was utilized under the program. In addition, net cash utilized in 2009 compared to net cash provided in 2008 reflects increased royalty payments, including a \$50,000 guaranteed royalty payment to Marvel in the first quarter of 2009 related to the extension of the current agreement from the end of 2011 through the end of 2017 and a \$25,000 guaranteed royalty payment to the Discovery joint venture in the third quarter of 2009.

Accounts receivable increased to \$1,116,033 at September 27, 2009 from \$