



**Hasbro Third Quarter 2010 Financial Results Conference Call
Management Remarks
October 18, 2010**

Debbie Hancock, Hasbro, Vice President, Investor Relations:

Thank you and good morning everyone. Joining me today are Brian Goldner, President and Chief Executive Officer; David Hargreaves, Chief Operating Officer; and Deb Thomas, Chief Financial Officer.

Our third quarter earnings release was issued earlier this morning and is available on our website. The press release includes information regarding Non-GAAP financial measures included in today's call.

Additionally, whenever we discuss earnings per share or EPS, we are referring to earnings per diluted share.

This morning Brian will discuss key factors impacting our results and Deb will review the financials. We will then open the call to your questions.

Before we begin, let me note that during this call and the question and answer session that follows, members of Hasbro management may make forward-looking statements concerning management's expectations, goals, objectives and similar matters. These forward-looking statements may include comments concerning our product and entertainment plans, anticipated product performance, business opportunities and strategies, costs, financial goals and expectations for our future financial performance and achieving our objectives.

There are many factors that could cause actual results and experience to differ materially from the anticipated results or other expectations expressed in these forward-looking statements.

Some of those factors are set forth in our annual report on form 10-K, in today's press release and in our other public disclosures.

We undertake no obligation to update any forward looking statements made today to reflect events or circumstances occurring after the date of this call.

Now, I would like to introduce Brian Goldner.

Brian Goldner, Hasbro President and CEO:

Thank you, Debbie.

Good morning everyone and thank you for joining us today.

Our business grew in the third quarter, reflecting the continued execution of our long-term strategy, our steadfast focus on innovation and immersive consumer experiences, backed by a strong performance from the Hasbro team globally. Our growth was broad based both geographically and across numerous world class brands. While **Transformers** and **G.I. Joe** shipments present a difficult challenge in 2010, we are overcoming this comparison through a number of global brand initiatives across categories.

This success is also translating to our bottom line. Operating profit reached record third quarter levels as we continue to unlock the profitability in our business and better leverage our investments globally.

Taking a closer look at our third quarter performance, we experienced growth in the Preschool, Boys and Games & Puzzles category, while the Girls category declined slightly in the quarter.

Several of our mega brands contributed to growth this quarter including:

- **Nerf** which continues to post strong revenue gains globally. The new **Nerf Stampede** launched globally on 9.9 and was the single most successful product launch in the history of the **Nerf** brand. The **Stampede** is on a number of the hot toy lists for this holiday season;
- **Magic: The Gathering** again this quarter was a stand-out performer. The team has done a great job re-igniting this brand over the past few years;
- **Playskool** also continues to post strong year-over-year performances with successful new initiatives including **Alphie**, **Weebles** and Juvenile products as well as growth in **Mr. and Mrs. Potato Head**;
- As anticipated, **Transformers and G.I. Joe** will continue to present difficult comparisons in 2010 although the revenue decline in the third quarter was not as great in absolute dollars as it was in the second quarter.

I spoke earlier to the broad-based brand strength and innovation driving our results. Beyond our mega brands, we have a number of brands contributing to growth this quarter including **Baby Alive**, **Furreal Friends**, **Play-Doh**, **Tonka**, **Iron Man**, and **BeyBlade**. Our board game business grew in the quarter with increases in a number of brands including **Operation**, **Scrabble**, **U-Build**, **Bop-It** and games based on **Toy Story 3**.

“Must have” toy and award lists for this holiday reflect the broad portfolio of Hasbro brands we are showcasing this season including the **Nerf Stampede, Tonka Chuck and Friends - Chuck Stunt Park, Weebles Musical Treehouse, Play-Doh Shape & Spin Elmo, Alpie and others.** As well as games like **Scrabble Flash, Monopoly Revolution, U-Build, Sorry Spin, Twister Hoopla,** and **Cuponk,** a new skill and action game in our line this year.

Through our ongoing efforts to deliver innovation at a great value, brands like **Furreal Friends** have brought technology into affordable price points for the consumer with products such as **Go Go My Walking Pup.** For consumers looking for premium product and gifts this holiday, select higher price point items return to our line including **Furreal Friends Biscuit** and **Butterscotch Pony; Star Wars Millenium Falcon; Transformers Movie Ultimate Bumblebee** and the **Scrabble Premiere Wood Edition.**

Our marketing campaigns began in earnest in the fourth quarter and we are well positioned to meet demand with a good supply of high quality, safe toys this holiday season, although some of the hotter items may run in short supply due to high consumer demand. We spoke with you last quarter about our efforts to ensure product availability this holiday season given potential disruptions in the supply chain related to container availability. We believe the steps we took to

secure appropriate shipping capacity will maintain a smooth flow of goods and avoid any impact to our supply chain this holiday season. We have worked closely with our retailers to ensure they have the products on the shelves consumers want for the holidays.

We started the fourth quarter with the highly anticipated launch on 10-10-10 of The Hub, our new childrens' and family television network with Discovery Communications. We are very excited about the initial results, the look and feel of The Hub and the strong programming lineup which continues to rollout throughout the quarter. Hasbro Studios has created a number of fantastic programs airing currently on The Hub including *Family Game Night*, *Pictureka*, *My Little Pony Friendship is Magic*, *Pound Puppies* and *The Adventures of Chuck & Friends*.

In addition, Margaret Loesch and The Hub team have put together a tremendous line up of programs from the industry's best creative stewards including R.L. Stine's "*The Haunting Hour: The Series*"; *Dan Vs.*; *Twisted Whiskers*; *In The Night Garden*; *The WotWots*; and classic shows such as *Happy Days*, *Doogie Howser*, *The Wonder Years* and *Family Ties*. The network will also be the exclusive home for a limited series of original musical specials featuring singing sensation Taylor Swift, produced for the network by Hasbro Studios.

The Hub's launch marketing campaign is themed "Where Great Things Come Together" – reinforcing The Hub as a destination for kids and their families as well as showcasing an array of great brands. The launch campaign will continue throughout the fourth quarter with substantial support for exciting programming and marketing events.

Hasbro continues to support The Hub's launch with marketing initiatives, including product stickers on at least 34 million retail packages promoting the network, and the placement of TV schedules in shipments of all orders placed on HasbroToyShop.com during the upcoming holidays.

If you haven't already tuned in, we encourage you to do so. You can find the schedule and the channel locator at Hubworld.com. The site also hosts program descriptions, videos and games to play. We know building a successful kids network is a long-term endeavor but we are proud of what the Hasbro Studios team and The Hub team have accomplished in such a short period of time.

Additionally, from a film perspective, ***Transformers 3***, which is scheduled for July 1, 2011 and ***Battleship***, scheduled for May 18, 2012, are currently filming and we continue to develop a number of additional brands with Universal, Paramount and Sony.

We also remain excited about the movie slate from key partners. In 2011, Marvel will deliver *Thor* and *Captain America: The First Avenger*

to theatres globally. In addition, Lucasfilm and Fox recently announced the *Star Wars* Saga will be converted to 3D, with *Star Wars: Episode I The Phantom Menace* expected to be released theatrically in 2012.

For the full year 2010, we continue to believe we should be able to grow revenues and earnings per share, including the dilution from our television investments and barring a further decline in consumer spending, global economic conditions or foreign exchange.

As we look ahead to 2011 and beyond, our global teams are actively executing our long-term strategy by re-imagining, re-inventing and re-igniting our brands to develop innovative toys, games and immersive experiences consumers can enjoy anytime and anywhere. We look forward to updating you further at our Investor Day here in Rhode Island on November 9.

I will now turn the call over to Deb.

Deb Thomas, Hasbro CFO

Thank you Brian and good morning.

Our third quarter performance highlights the strength of our brands and the quality of execution from our global teams. To date we have been able to offset the difficult revenue comparisons from **Transformers** and **G.I. Joe** in 2009 while improving profitability, investing in our business and returning cash to our shareholders.

For the third quarter, worldwide net revenues grew 3% to \$1.31 billion, compared to \$1.28 billion last year. Excluding the negative \$16.2 million impact of foreign exchange, net revenues grew 4% in the quarter.

Operating profit in the quarter grew 3% to \$237.8 million or 18.1% of revenue versus \$230.7 million or 18.0% of revenue in 2009.

Looking at our third quarter segment results:

U.S. and Canada segment net revenues increased 4% to \$825.5 million compared to \$791.9 million last year. The results reflect growth in the Preschool, Boys and Games & Puzzles categories, while revenue in the Girls category declined.

U.S. and Canada operating profit for the quarter increased 23% to \$158.8 million, or 19.2% of revenues, compared to \$129.1 million or 16.3% of revenues last year. Operating margin increased primarily due to lower royalty and amortization expense.

Net revenues in the International segment increased 3% to \$458.9 million compared to \$444.1 million a year ago. Revenues in the International segment grew 7% excluding the negative \$17.8 million impact from foreign exchange. The results reflect growth in the Preschool and Games & Puzzles categories as well as in the Girls category, which more than offset a decline in the Boys category. Growth in the emerging markets also contributed to the segment's revenue gains.

Operating profit in the International segment increased 10% to \$70.8 million, or 15.4% of revenues, compared to \$64.1 million last year or 14.4% of revenues. The year-over-year increase was primarily the result of lower royalties due to the mix of products sold.

The Entertainment and Licensing segment net revenues decreased to \$27.5 million compared to \$41.6 million a year ago.

This is primarily due to a decrease in movie-related revenues for **Transformers** and **G.I. Joe**.

The Entertainment and Licensing segment operating profit decreased to \$5.9 million compared to \$19.8 million last year

reflecting lower revenues and additional expenses associated with our television initiatives, including \$5.0 million of programming amortization costs.

Now let's look at earnings:

- **For the quarter, we reported net earnings of \$155.2 million or one dollar and nine cents per diluted share, compared to \$150.4 million, or ninety-nine cents per diluted share a year ago.** The third quarter 2010 includes a negative seven cents per share impact from our television related activities, versus a negative three cents per share impact in the third quarter 2009.

Cost of sales in the quarter was \$596.6 million, or 45.4% of revenues, versus \$550.0 million, or 43.0% of revenues, in 2009.

This includes the \$5.0 million in programming amortization I mentioned previously. In addition, the increase in cost of sales as a percentage of revenue in the quarter was the result of a change in revenue mix, which includes the decline in Entertainment and Licensing revenue, as well as changes in foreign currency as opposed to an increase in commodity prices.

Operating profit increased 3% and represents 18.1% of net revenues versus 18.0% last year.

Consistent with the second quarter 2010,

- **Royalties declined** due to lower entertainment based revenue, including the decline in **Transformers** and **G.I. Joe**.
- **Amortization is down** as the intangible assets associated with the Wizards of the Coast and Larami acquisitions have been fully amortized.

Hasbro's profitability enables us to continue investing in our business – including investments in product development to drive innovation in future years; television programming and the overall support of our television initiative; and continued expansion and marketing of our business in emerging markets.

Below the operating profit line:

- **Interest expense increased by \$4.0 million to \$21.7 million** primarily due to the debt offering we completed in March 2010.
- **Other income, net, totaled \$3.0 million compared to \$4.8 million** a year ago. Our 50% share of the joint venture results is included in this line on the P&L. This quarter, our share of the earnings in the joint venture was a loss of \$874 thousand as The Hub began spending to support its launch earlier this month. The bulk of the spending is slated for the fourth quarter 2010. In the third quarter 2009, our share of the earnings in The Hub was a positive \$1.5 million.

In the third quarter 2010, our underlying tax rate was 28.8%, compared to 29.7% last year.

Now let's turn to the **balance sheet**:

At quarter end, cash totaled \$497.9 million compared to \$297.4 million a year ago. Over the past twelve months we have generated over \$480 million in cash from operations. Our cash generation is healthy and we continue investing in our business. This includes approximately \$31 million in television programming

costs to date. Our next \$25 million royalty payment to The Hub is due later this quarter.

In March 2010, we raised \$500 million through a debt offering. On March 29 we called our outstanding two and three quarter percent convertible debt. Prior to the end of the call period, substantially all the debentures were converted into 11.6 million shares.

In the third quarter we repurchased 6.1 million shares of common stock at a total cost of \$260.1 million and an average price of \$42.39 per share. In the first three quarters of 2010, we have repurchased 15.6 million shares of common stock at a total cost of \$629.2 million and an average price of \$40.32 per share. At the end of the third quarter, \$157.5 million remained in our current share repurchase authorization.

- **The quality of our receivables portfolio remains good and receivables at quarter end were \$1.2 billion compared to \$1.1 billion last year.** We did not utilize our securitization facility in the third quarter 2010 or 2009.

DSO's increased 4 days to 83 days due to the timing of sales and collections as well as lower royalty revenue in the quarter compared with a year ago.

- **Inventories at \$468.0 million** in the quarter compared to \$399.9 million a year ago. We managed through potential shipping disruptions in the quarter and we brought product into our warehouses early. As a result, we are well positioned with good quality inventory to meet demand this holiday season.

We are pleased with the growth in our business to date and our ability to not only increase revenues but earnings as well in a year with difficult comparisons and challenging economic conditions. We are in a strong position fiscally and have entered the important holiday season with a good supply of innovative toys, games and immersive experiences for our consumers. For the full year 2010, we continue to believe we should be able to grow revenues and earnings per share, including the dilution from our television investments and barring a further decline in consumer spending, global economic conditions or foreign exchange.

As Brian said, we look forward to sharing more of our future plans with you during our Investor Day on November 9th.