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 July 2, 2006 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 Phone Number, Including Area Code)

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

Yes X or No __

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer X Accelerated filer __ Non-accelerated filer __

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 July 26, 2006 was 163,582,737.

PART I. FINANCIAL INFORMATION

ITEM 1: Financial Statements

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

Assets	July 2, 2006	June 26, 2005	Dec. 25, 2005
Current assets			
Cash and cash equivalents	$ 417,087	642,831	942,268
Short-term investments	72,625	-	-
Accounts receivable, less allowance for doubtful accounts of $31,200, $35,700 and $29,800	290,480	348,200	523,232
Inventories	258,500	262,471	179,398
Deferred income taxes	95,943	92,241	103,209
Prepaid expenses	133,719	116,680	82,088
Total current assets	1,268,354	1,462,423	1,830,195
Property, plant and equipment, net	164,057	171,762	164,045
Other assets			
Goodwill	468,634	468,034	467,061
Other intangibles, less accumulated amortization of $623,800, $540,300 and $586,000	577,379	652,213	613,433
Other	256,941	243,282	226,409
Total other assets	1,302,954	1,363,529	1,306,903
Total assets	$ 2,735,365	2,997,714	3,301,143

(continued)

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

Liabilities and Shareholders' Equity	July 2, 2006	June 26, 2005	Dec. 25, 2005
Current liabilities			
Short-term borrowings	$ 10,017	13,177	14,676
Current portion of long-term debt	-	355,005	32,770
Accounts payable	128,277	136,210	152,468
Accrued liabilities	501,459	488,464	710,812
Total current liabilities	639,753	992,856	910,726
Long-term debt, excluding current portion	494,359	247,554	495,619
Deferred liabilities	143,732	150,810	171,322
Total liabilities	1,277,844	1,391,220	1,577,667
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	355,031	370,289	358,199
Deferred compensation	-	(52)	(24)
Retained earnings	1,850,801	1,714,807	1,869,007
Accumulated other comprehensive earnings	26,031	35,866	15,348
Treasury stock, at cost; 45,238,593 shares at July 2, 2006, 31,132,522 at June 26, 2005 and 31,744,960 at December 25, 2005	(879,189)	(619,263)	(623,901)
Total shareholders' equity	1,457,521	1,606,494	1,723,476
Total liabilities and shareholders' equity	$ 2,735,365	2,997,714	3,301,143

See accompanying condensed notes to consolidated financial statements.

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

	Quarter Ended		Six Months Ended	
	Thirteen Weeks Ended July 2, 2006	Thirteen Weeks Ended June 26, 2005	Twenty-Seven Weeks Ended July 2, 2006	Twenty-Six Weeks Ended June 26, 2005
Net revenues	$ 527,764	572,388	995,945	1,027,332
Cost of sales	210,369	224,766	396,461	390,741
Gross profit	317,395	347,622	599,484	636,591
Expenses				
Amortization	19,140	26,930	37,392	51,685
Royalties	30,200	50,795	56,190	91,667
Research and product development	39,606	36,514	77,770	67,555
Advertising	60,466	64,974	115,320	119,164
Selling, distribution and administration	147,384	141,289	294,339	277,860
Total expenses	296,796	320,502	581,011	607,931
Operating profit	20,599	27,120	18,473	28,660
Nonoperating (income) expense				
Interest expense	6,812	7,649	13,938	15,380
Interest income	(6,244)	(5,744)	(13,577)	(14,413)
Other (income) expense, net	(12,471)	(7,475)	(8,937)	(1,772)
Total nonoperating income	(11,903)	(5,570)	(8,576)	(805)
Earnings before income taxes	32,502	32,690	27,049	29,465
Income taxes	5,414	3,236	4,860	3,724
Net earnings	$ 27,088	29,454	22,189	25,741
Net earnings per common share				
Basic	$ .16	.17	.13	.14
Diluted	$ .07	.13	.06	.13
Cash dividends declared per common share	$ .12	.09	.24	.18

See accompanying condensed notes to consolidated financial statements.

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

	Six Months Ended	
	Twenty-Seven Weeks Ended July 2, 2006	Twenty-Six Weeks Ended June 26, 2005
Cash flows from operating activities		
Net earnings	$ 22,189	25,741
Adjustments to reconcile net earnings to net cash (utilized) provided by operating activities:		
Depreciation and amortization of plant and equipment	31,936	31,948
Other amortization	37,392	51,685
Loss on impairment of investment	2,629	-
Change in fair value of liabilities potentially settleable in common stock	(11,940)	(760)
Deferred income taxes	9,487	(10,842)
Stock-based compensation	11,052	46
Excess tax benefits from stock-based compensation	(1,682)	-
Change in operating assets and liabilities (other than cash and cash equivalents):		
Decrease in accounts receivable	240,762	217,905
Increase in inventories	(76,003)	(72,995)
(Increase) decrease in prepaid expenses and other current assets	(23,700)	19,258
Decrease in accounts payable and accrued liabilities	(239,386)	(209,149)
Other, including long-term portion of royalty advances	(91,176)	(34,845)
Net cash (utilized) provided by operating activities	(88,440)	17,992
Cash flows from investing activities		
Additions to property, plant and equipment	(29,944)	(30,640)
Investments and acquisitions	-	(65,000)
Proceeds from sale of property, plant and equipment	959	30,465
Purchases of short-term investments	(704,345)	-
Sales of short-term investments	631,720	-
Other	(277)	768
Net cash utilized by investing activities	(101,887)	(64,407)
Cash flows from financing activities		
Repurchases of and repayments of borrowings with original maturities of more than three months	(32,743)	(21,329)
Net repayments of other short-term borrowings	(3,885)	(4,281)
Purchases of common stock	(279,631)	(7,341)
Stock option transactions	14,967	23,607
Excess tax benefits from stock-based compensation	1,682	-
Dividends paid	(36,502)	(26,711)
Net cash utilized by financing activities	(336,112)	(36,055)
Effect of exchange rate changes on cash	1,258	299
Decrease in cash and cash equivalents	(525,181)	(82,171)
Cash and cash equivalents at beginning of year	942,268	725,002
Cash and cash equivalents at end of period	$ 417,087	642,831

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

	Six Months Ended	
	Twenty-Seven Weeks Ended July 2, 2006	Twenty-Six Weeks Ended June 26, 2005
Supplemental information		
Cash paid during the period for:		
Interest	$13,294	15,943
Income taxes	$51,253	9,807

See accompanying condensed notes to consolidated financial statements.

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

	Quarter Ended		Six Months Ended	
	Thirteen Weeks Ended July 2, 2006	Thirteen Weeks Ended June 26, 2005	Twenty-Seven Weeks Ended July 2, 2006	Twenty-Six Weeks Ended June 26, 2005
Net earnings	$ 27,088	29,454	22,189	25,741
Other comprehensive earnings (loss)	12,010	(30,461)	10,683	(46,522)
Total comprehensive earnings (loss)	$ 39,098	(1,007)	32,872	(20,781)

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 adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position of the Company as of July 2, 2006 and June 26, 2005, 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 six months ended July 2, 2006 is a twenty-seven week period while the six months ended June 26, 2005 is a twenty-six week period. The quarters ended July 2, 2006 and June 26, 2005 were both thirteen week periods.

The results of operations for the quarter ended July 2, 2006 are not necessarily indicative of results to be expected for the full year.

These condensed consolidated financial statements have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. The Company filed audited financial statements for the year ended December 25, 2005 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 25, 2005 with the exception of the accounting for stock-based compensation. Effective December 26, 2005, the first day of fiscal 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which amends Statement of Financial Accounting Standards No. 123, as amended by No. 148, and Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows". The Company adopted SFAS 123R under the modified prospective basis as defined in the statement. In 2006 the Company is recording stock option expense based on all unvested stock options as of the adoption date as well as all stock-based compensation awards granted subsequent to the adoption date. See footnote 4 for further information related to the adoption of this statement.

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

(Thousands of Dollars and Shares Except Per Share Data)

(2) Earnings per share data for the fiscal quarters and six months ended July 2, 2006 and June 26, 2005 were computed as follows:

	2006		2005	
Quarter	Basic	Diluted	Basic	Diluted
Net earnings	$ 27,088	27,088	$ 29,454	29,454
Effect of dilutive securities:				
Change in fair value of liabilities potentially settleable in common stock	-	(15,270)	-	(5,730)
Interest expense on contingent convertible debentures due 2021	-	-	-	1,066
Adjusted net earnings	$ 27,088	11,818	$ 29,454	24,790
Average shares outstanding	169,648	169,648	178,463	178,463
Effect of dilutive securities:				
Liabilities potentially settleable in common stock	-	6,036	-	5,412
Contingent convertible debentures due 2021	-	-	-	11,574
Options and warrants	-	1,692	-	2,181
Equivalent shares	169,648	177,376	178,463	197,630
Net earnings per share	$ .16	.07	$ .17	.13

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

Six Months	2006 Basic	2006 Diluted	2005 Basic	2005 Diluted
Net earnings	$ 22,189	22,189	25,741	25,741
Effect of dilutive securities:				
Change in fair value of liabilities potentially settleable in common stock	-	(11,940)	-	(760)
Adjusted net earnings	$ 22,189	10,249	25,741	24,981
Average shares outstanding	173,475	173,475	178,113	178,113
Effect of dilutive securities:				
Liabilities potentially settleable in common stock	-	5,656	-	5,358
Options and warrants	-	1,915	-	2,239
Equivalent shares	173,475	181,046	178,113	185,710
Net earnings per share	$ .13	.06	.14	.13

Certain warrants containing a put feature that may be settled in cash or common stock are required to be accounted for as a liability at fair value. The Company is required to assess if these warrants, classified as a liability, have a more dilutive impact on earnings per share when treated as an equity contract. For the quarters and six months ended July 2, 2006 and June 26, 2005, the warrants had a more dilutive impact on earnings per share assuming they were treated as an equity contract. Accordingly, for the diluted earnings per share calculation for these periods, the numerator includes an adjustment to earnings to exclude the income included therein related to the fair market value adjustment and the denominator includes an adjustment to include the shares issuable under contract.

For the quarter and six months ended July 2, 2006 and the six months ended June 26, 2005, the effect of the Company's contingent convertible debt was antidilutive. Had the effect of the convertible debt been dilutive, 11,574 shares would have been included in dilutive shares for each of the periods and interest expense, net of tax, of $2,131 for the six months ended July 2, 2006 and June 26, 2005 and $1,066 for the quarter ended July 2, 2006 would have been added back to net earnings to calculate earnings per share. For the quarter ended June 26, 2005, the effect of the contingent convertible debt was dilutive and, accordingly, adjustments have been made to the net earnings and dilutive shares.

Options and warrants to acquire shares totaling 7,824 at July 2, 2006 and 7,887 at June 26, 2005, were excluded from the calculation of diluted earnings per share because to include them would have been antidilutive.

(3) At July 2, 2006, the Company has invested $72,625 in auction rate securities, which are recorded as short-term investments on the consolidated balance sheet. These securities are being accounted for as an available-for-sale security and are reflected at par value, which approximates fair value.

(4) Hasbro has various stock incentive plans for employees and for non-employee members of the Board of Directors (collectively, the "plans") and has reserved 23,914 shares of its common stock for issuance upon exercise of options and the grant of other awards granted or to be granted under the plans. These options generally vest in equal annual amounts over three to five years. The plans provide that options be granted at exercise prices not less than fair market value on the date the option is granted and options are adjusted for such changes as stock splits and stock dividends. Generally, options are exercisable for periods of no more than ten years after date of grant. Certain of the plans permit the granting of awards in the form of stock options, stock appreciation rights, stock awards and cash awards in addition to options. Upon exercise in the case of stock options or grant in the case of restricted stock, shares are issued out of available treasury shares. Additionally, the Company has reserved 17,450 shares of its common stock for issuance upon exercise of outstanding warrants.

The Company on occasion will issue restricted stock and grant deferred restricted stock units to certain key employees. In the first quarter of 2006, the Company issued restricted stock of 20 shares. These shares or units are nontransferable and subject to forfeiture for periods prescribed by the Company. These awards are valued at the market value at the date of grant and are subsequently amortized over the periods during which the restrictions lapse, generally 3 years. Amortization of unearned compensation expense relating to the outstanding restricted stock and deferred restricted stock units was $46 and $13 in the quarters ended July 2, 2006 and June 26, 2005, respectively, and $88 and $46 for the six months ended July 2, 2006 and June 26, 2005, respectively.

Prior to fiscal 2006, Hasbro used the intrinsic-value method of accounting for stock options granted to employees and non-employee members of the Board of Directors. Effective December 26, 2005, the first day of fiscal 2006, the Company adopted SFAS 123R under the modified prospective transition method as defined in the statement. Under this adoption method, the Company is recording stock option expense in 2006 based on all unvested stock options as of the adoption date and any stock option awards made subsequent to the adoption date. Stock-based compensation is recognized on a straight-line basis over the requisite service period of the award. In accordance with the modified prospective transition method, the Company's consolidated financial statements for prior years have not been restated to reflect, and do not include, the impact of SFAS 123R. Compensation expense related to stock options recognized under SF AS 123R for the quarter and six months ended July 2, 2006 was $3,754 and $9,974, respectively, and was recorded as follows:

	Quarter Ended July 2, 2006	Six Months Ended July 2, 2006
Cost of sales	$ 60	145
Research and product development	236	551
Selling, distribution and administration	3,458	9,278
	3,754	9,974
Income taxes	1,254	3,398
	$2,500	6,576

Pro forma information for the second quarter and six months ended June 26, 2005 regarding net earnings as required by SFAS No. 123, "Accounting for Stock-Based Compensation" determined as if the Company had accounted for its stock options under the fair value method is as follows:

	Quarter Ended June 26, 2005	Six Months Ended June 26, 2005
Reported net earnings	$ 29,454	25,741
Add:		
Stock-based employee compensation expense included in reported net earnings, net of related tax effects	8	29
Deduct:		
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(3,488)	(6,965)
Pro forma compensation expense, net of tax	(3,480)	(6,936)
Pro forma net earnings	$ 25,974	18,805
Reported net earnings per share		
Basic	$ .17	.14
Diluted	$ .13	.13
Pro forma net earnings per share		
Basic	$ .15	.11
Diluted	$ .11	.10

(Thousands of Dollars and Shares Except Per Share Data)

Information with respect to stock options for the six months ended July 2, 2006 is as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at beginning of year	20,443	$19.04		
Granted	38	20.36		
Exercised	(1,014)	14.98		
Expired or canceled	(478)	25.23		
Outstanding at end of quarter	18,989	19.11	5.39 years	$27,307
Exercisable at end of quarter	15,505	18.94	5.10 years	$27,236

The Company uses the Black-Scholes valuation model in determining fair value of stock-based awards. The weighted average fair value of options granted in the first quarter of 2006 and the fiscal year 2005 were $5.15 and $5.41, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in the six months ended July 2, 2006 and the fiscal year 2005, respectively:

	2006	2005
Risk-free interest rate	4.58%	3.84%
Expected dividend yield	2.20%	1.75%
Expected volatility	29%	29%
Expected option life	5 years	5 years

The intrinsic value, which represents the difference between the fair market value on the date of exercise and the exercise price of the option, of the 1,014 options exercised during the six months ended July 2, 2006 was $5,510.

In addition to the above, the Company currently has 17,450 warrants outstanding and exercisable at July 2, 2006, which have a weighted average exercise price, weighted average remaining life and intrinsic value at July 2, 2006 of $20.11, 11.96 years, and $2,410, respectively.

At July 2, 2006, the amount of total unrecognized compensation cost related to stock options is $17,214 and the weighted average period over which this will be expensed is 10.08 months. At July 2, 2006, the amount of total unrecognized compensation cost related to restricted stock is $364 and the weighted average period over which this will be expensed is 16.87 months.

(Thousands of Dollars and Shares Except Per Share Data)

In May 2006, the Company granted 52 shares of common stock to its non-employee members of its Board of Directors, of which the receipt of 43 shares have been deferred to the date upon which the respective director ceases to be a member of the Company's Board of Directors. This award was valued at the market value at the date of grant and vested upon grant. Compensation cost of $990 was recorded in connection with this grant.

(5) Other comprehensive earnings (loss) for the quarter and six months ended July 2, 2006 and June 26, 2005 consist of the following:

	Quarter Ended		Six Months Ended	
	July 2, 2006	June 26, 2005	July 2, 2006	June 26, 2005
Foreign currency translation adjustments	$ 14,084	(31,852)	16,101	(55,607)
Changes in value of available-for-sale securities, net of tax	(1,680)	1,267	(4,122)	3,204
(Losses) gains on cash flow hedging activities, net of tax	(3,081)	(10)	(3,667)	3,531
Reclassifications to earnings, net of tax	2,687	134	2,371	2,350
Other comprehensive earnings (loss)	$ 12,010	(30,461)	10,683	(46,522)

Reclassification adjustments from other comprehensive earnings to net earnings of $2,687 and $2,371 for the quarter and six months ended July 2, 2006 includes an impairment charge of $2,629 relating to an other than temporary decrease in the value of the Company's investment in Infogrames SA common stock. The remainder of the reclassification adjustments for the quarter and six months ended July 2, 2006 as well as the reclassification adjustments for the quarter and six months ended June 26, 2005 represent net (gains) losses on cash flow hedging derivatives for which the related transaction has impacted earnings and was reflected in cost of sales. The losses on cash flow hedging derivatives for the quarter and six months ended July 2, 2006 include gains on cash flows reclassified to earnings as the result of hedge ineffectiveness of $3. The losses on cash flow hedging derivatives for the quarter and six mo nths ended June 26, 2005 include gains on cash flows reclassified to earnings as the result of hedge ineffectiveness of $23 and $54, respectively. The Company expects the remaining deferred loss, net of tax, on derivative hedging instruments at July 2, 2006 of $77 in accumulated other comprehensive earnings to be reclassified to earnings within the next twelve months.

(Thousands of Dollars and Shares Except Per Share Data)

(6) The components of the net periodic cost of the Company's defined benefit pension and other postretirement plans for the quarters and six months ended July 2, 2006 and June 26, 2005 are as follows:

	Quarter Ended			
	Pension		Postretirement	
	July 2, 2006	June 26, 2005	July 2, 2006	June 26, 2005
Service cost	$ 3,270	2,941	167	144
Interest cost	4,707	4,471	502	500
Expected return on assets	(5,397)	(4,621)	-	-
Net amortization and deferrals	1,179	864	112	88
Net periodic benefit cost	$ 3,759	3,655	781	732

	Six Months Ended			
	Pension		Postretirement	
	July 2, 2006	June 26, 2005	July 2, 2006	June 26, 2005
Service cost	$ 6,751	5,945	347	288
Interest cost	9,745	9,091	1,044	1,000
Expected return on assets	(11,171)	(9,383)	-	-
Net amortization and deferrals	2,438	1,774	234	175
Net periodic benefit cost	$ 7,763	7,427	1,625	1,463

During the first two quarters of fiscal 2006 the Company has made cash contributions to its pension plans of approximately $36,900. The Company expects to contribute approximately $3,100 during the remainder of fiscal 2006.

(7) Hasbro is a worldwide leader in children’s and family leisure time and entertainment products and services, including the development, manufacture and marketing of games and toys ranging from traditional to high-tech. In 2006 the Company restructured its business by combining the U.S. Toys and Games operations, previously reported as separate segments, with the Canadian and Mexican operations, previously managed as part of the International segment, into one segment, the North American segment. The International segment is now comprised of operations in the European, Asia Pacific and Latin American regions. The Company's manufacturing facilities in East Longmeadow, Massachusetts and Waterford, Ireland, which were previously included in the Games and International segment, respectively, along with the Company's Far East sourcing operations, are now managed as part of the Global Op erations segment.

The North American segment includes the development, marketing and selling of boys' action figures, vehicles and playsets, girls' toys, electronic toys and games, plush products, preschool toys and infant products, electronic interactive products, tween electronic products, toy-related specialty products, traditional board games and puzzles, DVD- based games, fiction books, and trading card and role-playing games within the United States, Canada and Mexico. Within the International segment, the Company develops, markets and sells both toy and certain game products in non-North American markets, primarily the European, Asia Pacific, and Latin American regions. The Global Operations segment is responsible for manufacturing and sourcing finished product for the majority of the Company's segments. The Company has another segment that licenses out certain toy and game properties.

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

2005 segment data has been restated to reflect the 2006 segment structure. In 2006 the Company adopted SFAS 123R, which requires the Company to record expense related to stock options in its consolidated financial statements. Consistent with management's approach in evaluating segment results, 2005 segment operating profit (loss) has been adjusted to include stock-based compensation as disclosed under SFAS 123. The amount of 2005 stock option expense is subtracted from the total segment operating profit (loss) in order to reconcile to the operating profit (loss) in the consolidated financial statements.

With the exception of the treatment of stock-based compensation expense for 2005 management financial statements, the accounting policies of the segments are the same as those referenced in Note 1.

Results shown for the quarter and six months are not necessarily representative of those which may be expected for the full year 2006 nor were those of the comparable 2005 periods representative of those actually experienced for the full year 2005. Similarly, such results are not necessarily those which would be achieved were each segment an unaffiliated business enterprise.

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

Information by segment and a reconciliation to reported amounts for the quarter and six months ended July 2, 2006 and June 26, 2005 are as follows.

	Quarter Ended			
	July 2, 2006		June 26, 2005	
	External	Affiliate	External	Affiliate
Net revenues				
North America	$ 361,956	1,789	387,959	2,938
International	153,244	186	172,534	104
Global Operations (a)	2,607	234,271	2,168	238,341
Other segment	9,957	-	9,727	-
Corporate and eliminations	-	(236,246)	-	(241,383)
	$ 527,764	-	572,388	-

	Six Months Ended			
	July 2, 2006		June 26, 2005	
	External	Affiliate	External	Affiliate
Net revenues				
North America	$ 672,260	4,042	676,635	5,380
International	298,735	297	325,622	104
Global Operations (a)	4,543	423,747	3,866	403,344
Other segment	20,407	-	21,209	-
Corporate and eliminations	-	(428,086)	-	(408,828)
	$ 995,945	-	1,027,332	-

(Thousands of Dollars and Shares Except Per Share Data)

	Quarter Ended		Six Months Ended	
	July 2, 2006	June 26, 2005	July 2, 2006	June 26, 2005
Operating profit (loss) (c)				
North America	$ 30,402	25,374	35,172	30,011
International	(8,093)	1,239	(16,416)	(6,634)
Global Operations (a)	1,095	2,399	1,460	1,588
Other segment	2,958	2,325	6,029	6,958
Corporate and eliminations (b)	(5,763)	(9,459)	(7,772)	(14,079)
Subtotal	20,599	21,878	18,473	17,844
Stock compensation (c)	-	5,242	-	10,816
	$ 20,599	27,120	18,473	28,660

	July 2, 2006	June 26, 2005
Total assets		
North America	$ 2,489,757	2,417,428
International	649,730	898,494
Global Operations	899,828	881,331
Other segment	122,337	106,837
Corporate and eliminations (b)	(1,426,287)	(1,306,376)
	$ 2,735,365	2,997,714

(Thousands of Dollars and Shares Except Per Share Data)

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

(b) Certain intangible assets, primarily goodwill, which benefit operating segments are reflected as Corporate assets for segment reporting purposes. 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 prior to the start of the year based on budgeted amounts. Any differences between actual and budgeted amounts are reflected in the Corporate segment.

(c) As noted in footnote 4, on December 26, 2005, the first day of fiscal 2006, the Company adopted SFAS 123R using the modified prospective method. Under this method, the Company recorded expense related to stock option compensation in 2006 related to unvested options as of that date as well as grants made in 2006. The Company did not restate any of the prior years but has adjusted the operating profit (loss) of each of its segments for the quarter and six months ended June 26, 2005 to reflect compensation for those periods based on the Company's 2005 pro forma disclosure under SFAS 123. As such, the above amount represents the removal of the amount included in the segment disclosures to reconcile to the 2005 reported consolidated operating profit for the quarter and six months ended June 26, 2005. The $5,242 of 2005 pro forma stock option expense for the quarter was allocated as follows: $3,507 to North America, $981 to International, $403 to Global Operations and $351 to Other Segment. The $10,816 of 2005 pro forma stock option expense for the six months was allocated as follows: $7,236 to North America, $2,023 to International, $832 to Global Operations and $725 to Other Segment.
The following table presents consolidated net revenues by class of principal products for the quarters and six month periods ended July 2, 2006 and June 26, 2005. Certain 2005 amounts have been reclassified to conform to the current year presentation.

		Quarter Ended		Six Months Ended	
		July 2, 2006	June 26, 2005	July 2, 2006	June 26, 2005
Boys' toys	$	108,442	171,771	216,926	301,545
Games and puzzles		222,722	223,772	399,019	403,716
Preschool toys		65,015	62,227	123,349	109,816
Tweens toys		40,215	40,516	86,427	78,984
Girls' toys		82,132	64,074	154,658	115,801
Other		9,238	10,028	15,566	17,470
Net revenues	$	527,764	572,388	995,945	1,027,332

(8) In July 2006, the Company's Board of Directors authorized the repurchase of an additional $350,000 in common stock. The Board of Directors had previously authorized the repurchase of $350,000 of common stock in May of 2005. At July 2, 2006, the total cost of repurchases under this authorization, including commissions, totaled $334,270. Purchases of the Company's common stock under these authorizations may be made from time to time, subject to market conditions and may be made in the open market or through privately negotiated transactions. The Company has no obligation to repurchase shares under the authorization and the timing, actual number, and value of shares which are repurchased will depend on a number of factors, including the price of the Company's common stock.

(9) In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), which applies to all tax positions accounted for under Statement of Financial Accounting Standard No. 109, "Accounting for Income Taxes". FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition of such tax positions, classification, interest and penalties, accounting in interim periods and disclosure. FIN 48 is applicable to the Company as of January 1, 2007, the first day of fiscal 2007. The Company is in the process of evaluating FIN 48 and the potential effect it will have on its financial position and results of operations .

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 Except Per Share Data)

EXECUTIVE SUMMARY

The Company earns revenue and generates cash through the sale of a variety of toy and game products. The Company sells these products both within the United States and in a number of international markets. 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 STAR WARS.

In January 2006 the Company announced that it had simplified and integrated its operating segment structure in order to better focus on consumer demands, better anticipate the needs of its retail customers, provide a more integrated toy and game marketing plan, place a greater company-wide focus on its core brands and thereby improve its overall business. The Company's North American toy and games business is now managed under common leadership, providing a combined focus on developing, marketing, and selling products in the U.S., Canada and Mexico. The International segment consists of the Company's European, Asia Pacific and Latin American marketing operations. The Company's world-wide manufacturing and product sourcing operations are managed through its Global Operations segment. The Hasbro Properties Group continues to be responsible for the world-wide licensing of the Company's in tellectual properties and works closely with the North American and International segments on the development and out-licensing of the Company's brands.

The Company's focus remains on growing core owned and controlled brands, developing new and innovative products which respond to market insights, and optimizing efficiencies within the Company to reduce costs, increase operating profits and strengthen its balance sheet. While the Company has sought to achieve 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.

The Company's core brands represent Company-owned or Company–controlled brands, such as G.I. JOE, TRANSFORMERS, MY LITTLE PONY, MONOPOLY, MAGIC: THE GATHERING, PLAYSKOOL 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.

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

With the theatrical release of Lucasfilm's STAR WARS EPISODE III: REVENGE OF THE SITH in May 2005, and the subsequent holiday season DVD release, sales of product related to the Company’s strategic STAR WARS license were a significant contributor to 2005 revenues and have continued to be strong in the first two quarters of 2006. Pairing this key licensed property with the Company's ability to design and produce action figures, role playing toys, and games, as well as its ability to launch an integrated marketing campaign to promote the product globally, was the key to this line's success. While sales of product related to this license performed well in the first two quarters of 2006, they were lower than the first two quarters of 2005 and are expected to be lower for the full year 2006 than 2005 since there is no movie release in 2006.

While the Company's strategy has continued to focus on growing its core brands and developing innovative, new products, it will continue to evaluate and enter into arrangements to license properties when the Company believes it is economically attractive. In the first quarter of 2006, the Company announced that it had entered into a license with Marvel Entertainment, Inc. and Marvel Characters, Inc. (collectively "Marvel") to produce toys and games based on Marvel’s portfolio of characters. While gross profits of theatrical entertainment-based products are generally higher than many of the Company's other products, sales from these products also incur royalty expenses payable to the licensor. Such royalties reduce the impact of these higher gross margins. In certain instances, such as with Lucasfilm's STAR WARS, the Company may also incur amortization expense on property right-based assets a cquired from the licensor of such properties, further impacting profit made on these products.

The Company's strategy in the last several years has also involved reducing fixed costs and increasing operating margins. With a strong balance sheet, and having achieved a debt to capitalization ratio of between 25-30%, the Company will continue to evaluate acquisitions which may complement its current product offerings or allow it entry into an area which is adjacent to and complementary to the toy and game business. Additionally, in July 2006, the Company's Board of Directors (the "Board') authorized the repurchase of an additional $350,000 in common stock. The Board had previously authorized $350,000 in May 2005 for the repurchase of common stock, of which the total cost of repurchases through July 2, 2006, including commissions, totaled $334,270. The Company intends to continue repurchasing shares subject to market conditions.

(Thousands of Dollars Except Per Share Data)

SUMMARY

The relationship between various components of the results of operations, stated as a percent of net revenues, is illustrated below for the fiscal quarters and six months ended July 2, 2006 and June 26, 2005.

	Quarter		Six Months	
	2006	2005	2006	2005
Net revenues	100.0%	100.0%	100.0%	100.0%
Cost of sales	39.9	39.3	39.8	38.0
Gross profit	60.1	60.7	60.2	62.0
Amortization	3.6	4.7	3.8	5.0
Royalties	5.7	8.9	5.6	8.9
Research and product development	7.5	6.4	7.8	6.6
Advertising	11.5	11.3	11.6	11.6
Selling, distribution and administration	27.9	24.7	29.5	27.1
Operating profit	3.9	4.7	1.9	2.8
Interest expense	1.3	1.3	1.4	1.5
Interest income	(1.2)	(1.0)	(1.3)	(1.4)
Other (income) expense, net	(2.3)	(1.3)	(0.9)	(0.2)
Earnings before income taxes	6.1	5.7	2.7	2.9
Income taxes	1.0	0.6	0.5	0.4
Net earnings	5.1%	5.1%	2.2%	2.5%

RESULTS OF OPERATIONS

The six months ended July 2, 2006 was a twenty-seven week period while the six months ended June 26, 2005 was a twenty-six week period. The quarters ended July 2, 2006 and June 26, 2005 were both thirteen week periods. Net earnings for the quarter and six months ended July 2, 2006 were $27,088 and $22,189, respectively, compared with net earnings of $29,454 and $25,741 for the respective periods of 2005. Basic earnings per share for the quarter and six months ended July 2, 2006 were $0.16 and $0.13 compared with basic earnings per share of $0.17 and $0.14 for the respective periods in 2005. Diluted earnings per share were $0.07 and $0.06 for the quarter and six months ended July 2, 2006, compared with diluted earnings per share of $0.13 for both of the respective periods in 2005. On December 26, 2005, the first day of fiscal 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which required that the Company measure all stock-based compensation awards using a fair value method and record such expense in its financial statements. The Company adopted this statement using the modified prospective method. Under this adoption method, the Company is recording expense related to stock option awards that were unvested as of the date of adoption as well as all awards made after the date of adoption.

(Thousands of Dollars Except Per Share Data)

The adoption of this statement resulted in total expense, net of tax, of $2,500 and $6,576 for the quarter and six months ended July 2, 2006, respectively.

Consolidated net revenues for the quarter ended July 2, 2006 decreased 8% to $527,764 compared with $572,388 for the quarter ended June 26, 2005. For the six months ended July 2, 2006, consolidated net revenues were $995,945 compared to $1,027,332 for the six months ended June 26, 2005, a decrease of 3%. Consolidated net revenues were negatively impacted by foreign currency translation in the amount of $500 and $9,200 for the quarter and six months ended July 2, 2006, respectively, as the result of the stronger U.S. dollar in 2006. Operating profit for the quarter ended July 2, 2006 was $20,599 compared to $27,120 in the second quarter of 2005. Operating profit for the 2006 six-month period was $18,473 compared to an operating profit of $28,660 for the six-month period of 2005. Most of the Company's revenues and operating earnings are derived from its two principal segments: the North American segment and the Int ernational segment, which are discussed in detail below. The following table presents net revenues and operating profit (loss) data for the Company's two principal segments for the quarter and six months ending July 2, 2006 and June 26, 2005. 2005 results have been reclassified to conform to the Company's new operating segment structure. The operating profit (loss) for 2005 for each of these segments have been adjusted to include the impact of expense related to stock options as disclosed under SFAS 123, consistent with the Company's management reporting. See footnote 7 to the consolidated financial statements for further details.

	Quarter			Six Months		
	2006	2005	% Change	2006	2005	% Change
Net Revenues						
North American segment	$361,956	387,959	(7%)	672,260	676,635	(1%)
International segment	153,244	172,534	(11%)	298,735	325,622	(8%)
Operating Profit (Loss)						
North American segment	$ 30,402	25,374	20%	35,172	30,011	17%
International segment	(8,093)	1,239	(753%)	(16,416)	(6,634)	(147%)

NORTH AMERICAN SEGMENT

The North American segment net revenues for the quarter ended July 2, 2006 decreased 7% to $361,956 from $387,959 for the quarter ended June 26, 2005. Net revenues for the six months ended July 2, 2006 decreased 1% to $672,260 from $676,635 for the six months ended June 26, 2005. The decrease for both the quarter and six-month period was primarily due to anticipated decreased shipments of STAR WARS products. Shipments of STAR WARS products for the quarter and six months ended July 2, 2006, were approximately $50,200 and $90,900, respectively, versus $97,900 and $182,900 for the comparable periods in 2005. The Company had significant sales of STAR WARS products in 2005 related to the May 2005 theatrical release of STAR WARS EPISODE III: REVENGE OF THE SITH and the subsequent DVD release in the fourth quarter of 2005. The Company expects revenues from the sales of STAR WARS products in 2006 to be significantly lower than 2005.

Sales for the quarter were also negatively impacted to a lesser extent by decreased shipments of FURREAL FRIENDS and NOW products. These decreases were partially offset by higher shipments of LITTLEST PET SHOP products and to a lesser extent, increased sales in a number of the Company's core products including PLAYSKOOL, NERF and MAGIC: THE GATHERING.

The North American segment had an operating profit of $30,402 for the quarter ended July 2, 2006 compared to $25,374 for the quarter ended June 26, 2005. For the six months ended July 2, 2006, the North American segment had an operating profit of $35,172 compared to $30,011 for the six months ended June 26, 2005. Decreases in gross profit as a result of the decrease in sales were more than offset by lower royalty expense and amortization of product rights as the result of decreased sales of licensed products, primarily STAR WARS products. Sales of products related to entertainment-based properties, such as STAR WARS, typically carry a higher gross margin but also carry a higher rate of royalties with the resulting operating profit generally not as high as it is for revenues derived from the sale of Company owned or Company-controlled brands. The results for the six months ended July 2, 2006 were also impac ted by one extra week in the six month period ended July 2, 2006 versus the six month period ended June 26, 2005. The quarters ended July 2, 2006 and June 26, 2005 were both thirteen week periods.

INTERNATIONAL
International segment net revenues decreased by 11% to $153,244 for the quarter ended July 2, 2006 from $172,534 for the quarter ended June 26, 2005. Net revenues for the six months ended July 2, 2006 decreased 8% to $298,735 from $325,622 for the six months ended June 26, 2005. For the quarter and six months ended July 2, 2006, International segment net revenues were negatively impacted by currency translation of approximately $1,300 and $11,700, respectively, as the result of the stronger U.S. dollar. Excluding the negative impact of foreign exchange, the decrease in local currency revenue for the quarter and six-month period was primarily the result of decreased sales of STAR WARS products and, to a lesser extent, decreased sales of DUEL MASTERS products. These decreases were partially offset by increased sales of B-DAMAN and LITTLEST PET SHOP products as well as sales related to the reintroduction of FURBY products. Sales of STAR WARS products for the quarter and six months ended were approximately $ 11,500 and $22,000, respectively, versus $48,600 and $64,300 for the comparable periods of 2005.

The International segment had an operating loss of $8,093 for the quarter ended July 2, 2006, compared to an operating profit of $1,239 for the quarter ended June 26, 2005. Operating loss for the six months ended July 2, 2006 increased to $16,416 from a loss of $6,634 for the six months ended June 26, 2005. Although the stronger U.S. dollar did not materially impact the International segment for the quarter ended July 2, 2006, it did have a net favorable translation impact of approximately $1,000 for the six months ended July 2, 2006. The decrease in operating profit was primarily due to decreased gross profit as the result of lower net revenues. The decrease in gross profit was partially offset by decreased amortization expense resulting from decreased sales of STAR WARS products. Anticipated decreases in royalty expense as a result of the decreased sales of STAR WARS products were partially offset by increased royalty expense as a result of increased sales of other licensed products.

(Thousands of Dollars Except Per Share Data)

GROSS PROFIT
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The Company's gross profit margin decreased to 60.1% for the quarter ended July 2, 2006 from 60.7% for the quarter ended June 26, 2005 while gross margin for the six months ended July 2, 2006 decreased to 60.2% from 62.0% in the comparable period of 2005. The decrease was due to changes in product mix, primarily due to the decreased sales of STAR WARS products, which tend to have a higher gross margin. To a lesser extent, gross margins in 2006 were negatively impacted by lower royalty income in the first six months of 2006 compared to the first six months of 2005. The Company anticipates lower gross margins in 2006 due to the significant STAR WARS product revenues in 2005 in connection with the theatrical and DVD releases of STAR WARS EPISODE III: REVENGE OF THE SITH. However, the Company also expects that the decrease in gross margins attributable to STAR WARS product revenues will be partially offset by decreased royalty expense relating to these sales as well as decreased amortization of related pro duct rights. The Company aggressively monitors its levels of inventory, attempting to avoid unnecessary expenditures of cash and potential charges related to obsolescence. The Company's failure to accurately predict and respond to consumer demand could result in overproduction of less popular items, which could result in higher obsolescence costs, causing a reduction in gross profit.

EXPENSES
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The Company's operating expenses, stated as percentages of net revenues, are illustrated below for the quarters and six-month periods ended July 2, 2006 and June 26, 2005.

	Quarter		Six Months	
	2006	2005	2006	2005
Amortization	3.6%	4.7%	3.8%	5.0%
Royalties	5.7	8.9	5.6	8.9
Research and product development	7.5	6.4	7.8	6.6
Advertising	11.5	11.3	11.6	11.6
Selling, distribution and administration	27.9	24.7	29.5	27.1

For the quarter and six-month period, amortization expense decreased in dollars and as a percentage of net revenues. Amortization expense of $19,140, or 3.6% of net revenues in the second quarter of 2006, compared with $26,930, or 4.7% of net revenues in the second quarter of 2005. For the six months ended July 2, 2006, amortization expense was $37,392, or 3.8% of net revenues compared with $51,685, or 5.0% of net revenues for the six months ended June 26, 2005. A portion of amortization expense relates to licensing rights and is based on expected sales of products related to those licensing rights. The decrease in amortization expense in the quarter and six months ended July 2, 2006 relates to decreased amortization of the product rights related to STAR WARS as a result of decreased sales of STAR WARS products. The Company expects amortization expense to continue to be lower in 2006 compared to 2005 due t o the anticipated decreased product revenues from STAR WARS products.

Royalty expense for the quarter ended July 2, 2006 decreased to $30,200, or 5.7% of net revenues from $50,795, or 8.9% of net revenues in the second quarter of 2005. Royalty expense for the six months ended July 2, 2006 decreased to $56,190, or 5.6% of net revenues from $91,667, or 8.9% of net revenues for the six months ended June 26, 2005. The decrease is primarily due to decreased sales of entertainment-based products, primarily related to STAR WARS. As noted above, the Company expects a lower level of royalties in 2006 compared to 2005 as a result of an anticipated decrease in sales of STAR WARS products.
Investment in research and product development is an important component of the Company's strategy to grow core brands and to create new and innovative toy and game products. Research and product development expenses for the quarter ended July 2, 2006 increased to $39,606, or 7.5% of net revenues from $36,514 or 6.4% of net revenues for the quarter ended June 26, 2005. These expenses increased to $77,770 or 7.8% of net revenues for the six months ended July 2, 2006 from $67,555 or 6.6% of net revenues for the six months ended June 26, 2005. The increase reflects investments in products related to the Company's license agreement with Marvel as well as the increased technology of many of the Company's products as it continues to invest in new innovative electronic products.

For the quarter, advertising expense decreased in dollars to $60,466 in 2006 from $64,974 in 2005, but remained consistent as a percentage of net revenues at 11.5% in 2006 and 11.3% in 2005. For the six months ended July 2, 2006, advertising expense decreased in dollars to $115,320 from $119,164 for the six months ended June 26, 2005, but remained constant as a percentage of net revenues at 11.6% in both 2006 and 2005.

For the quarter ended July 2, 2006, the Company's selling, distribution and administration expenses increased to $147,384, or 27.9% of net revenues, from $141,289, or 24.7% of net revenues, for the quarter ended June 26, 2005. For the six months ended July 2, 2006, these expenses increased to $294,339, or 29.5% of net revenues, from $277,860 or 27.1% of net revenues in 2005. Of the increases in the quarter and six months ended July 2, 2006, $3,458 and $9,278, respectively, reflects the Company's adoption in 2006 of SFAS 123R which requires the Company to record expense related to any unvested stock options as of the beginning of the year as well as any future stock option grants. The increase for the six months ended July 2, 2006 also reflects the additional week in this fiscal period versus the comparable period in 2005.

NONOPERATING (INCOME) EXPENSE
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Interest expense for the second quarter of 2006 was $6,812 compared with $7,649 in the second quarter of 2005. For the six months ended July 2, 2006 interest expense decreased to $13,938 from $15,380 in 2005. For the quarter and six months ended July 2, 2006, decreases resulting from lower levels of debt were partially offset by increased interest expense as the result of higher interest rates.

Interest income for the quarter ended July 2, 2006 was $6,244 compared to $5,744 in 2005. Interest income for the six months ended July 2, 2006 was $13,577 compared to $14,413 in 2005. Interest income for the six months ended June 26, 2005 includes $4,140 related to an IRS tax settlement. Excluding this one-time settlement, the increases for the quarter and six months ended July 2, 2006 represent higher returns on invested cash and short-term investments in 2006 partially offset by lower average cash balances available for investment.

Other income, net, amounted to $12,471 for the second quarter of 2006, which compares to $7,475 for the quarter ended June 26, 2005. For the six-month periods, other income, net was $8,937 in 2006 compared to $1,772 in 2005. Other income for the second quarter and six months ended July 2, 2006 includes non-cash income of $15,270 and $11,940, respectively, related to the decrease in the fair value of certain warrants required to be classified as a liability. These amounts compare to non-cash income of $5,730 and $760 for the quarter and six months ended June 26, 2005, respectively. These warrants are required to be adjusted to their fair value each quarter through earnings. The fair value of these warrants is primarily affected by the Company's stock price, but is also affected by the Company's stock price volatility, dividends, and the risk-free interest rates. Assuming the Company's stock volatility, dividend payments, and the risk-free interest rates remain constant, the fair value of the warrants would increase and the Company would recognize a charge to earnings if the price of the Company's stock increases. If the price of the Company's stock decreases and the Company's stock volatility, dividend payments, and the risk-free interest rates remain constant, the fair value of the warrants will decrease and the Company will recognize income. Based on a hypothetical change in the Company's stock price to $20.00 per share at July 2, 2006 from its actual price of $18.11 per share on that date, the Company would have recognized non-cash income of approximately $6,820 and $3,490, rather than non-cash income of $15,270 and $11,940, for the quarter and six months ended July 2, 2006, respectively, to adjust the warrants to their fair value at July 2, 2006.

INCOME TAXES
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Income tax expense as a percentage of pretax earnings in the second quarter of 2006 was 16.7%, and for the six months was 18.0%, compared to 9.9% and 12.6% in the comparable periods of 2005. Absent the effect of certain non-taxable items, primarily the adjustment of certain warrants to their fair value described above, the 2006 second quarter rate would have been 27.3% and the six months tax rate would have been 27.4%. Income tax expense for the quarter and six months ended June 26, 2005 has been reduced by approximately $4 million, due primarily to the completion of an Internal Revenue Service examination of tax years ended in December 2001.

The income tax rate for the full year 2005 was 31.8%. In addition to the adjustment of certain warrants to their fair value, the 2005 full year tax rate was also impacted by the repatriation of foreign earnings pursuant to the special incentive provided by the American Jobs Creation Act of 2004 as well as the reduction of income tax expense noted above. Absent the effect of these items, the 2005 full year tax rate would have been 24.9%.

The increase in the adjusted rate from the full year 2005 of 24.9% to the first six months of 2006 adjusted rate of 27.4% is primarily due to the expected increase in earnings from jurisdictions with higher statutory tax rates.

OTHER INFORMATION
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The Company's revenue pattern continues to show the second half of the year and within that half, the fourth quarter, to be increasingly more significant to its overall business for the full year. The Company expects that this concentration will continue, particularly as more of its business shifts to larger customers with order patterns concentrated in the second half of the year. The concentration of sales in the second half of the year and, specifically, the fourth quarter increases the risk of (a) underproduction of popular items, (b) overproduction of less popular items, and (c) failure to achieve tight and compressed shipping schedules. In addition, the bankruptcy, restructuring, or other lack of success of one of the Company's significant retail customers could negatively impact the Company's future revenues. The business of the Company is characterized by customer order patterns which vary from year to year largely because of differences in the degree of consumer acceptance of a product line, product availability, marketing strategies, inventory levels, policies of retailers and differences in overall economic conditions. The strategy of larger mass market retailers has been to maintain lower inventories throughout the year and purchase a greater percentage of product within or close to the fourth quarter holiday consumer selling season, which includes Christmas. Quick response inventory management practices now being used result in more orders being placed for immediate delivery and fewer orders being placed well in advance of shipment. Consequently, unshipped orders on any date in a given year are not necessarily indicative of future sales. At July 2, 2006 and June 26, 2005, the Company's unshipped orders were approximately $576,400 and $527,600, respectively.

In January 2006, the Company entered into a five-year license arrangement with Marvel to develop products based on certain Marvel properties. A selection of these products will be available for retail sale during the 2006 holiday season, with the majority available for retail sale beginning January 1, 2007. The arrangement requires the Company to make guaranteed minimum payments in the amount of $215,000 with $105,000 paid in February 2006. Of the remaining payments, $70,000 is expected to be paid in 2007 upon the release of the motion picture SPIDER-MAN 3, $2,500 is expected to be paid in January 2008, $2,500 is expected to be paid in January 2009 and the remainder to be paid upon the release of the motion picture SPIDER-MAN 4, whose release date has yet to be determined. Certain of the future minimum guaranteed contractual royalty payments are contingent upon the theatrical release of the related entertainment property.

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), which applies to all tax positions accounted for under Statement of Financial Accounting Standard No. 109, "Accounting for Income Taxes". FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition of such tax positions, classification, interest and penalties, accounting in interim periods and disclosure. FIN 48 is applicable to the Company as of January 1, 2007, the first day of fiscal 2007. The Company is in the process of evaluating FIN 48 and the potential effect it will have on its financial position and results of operations.

LIQUIDITY AND CAPITAL RESOURCES

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The Company has historically generated a significant amount of cash from operations. In 2005, the Company funded its operations and liquidity needs primarily through cash flows from operations, and, when needed, proceeds from its accounts receivable securitization program and borrowings under its unsecured credit facilities. During 2006, the Company expects to continue to fund its working capital needs primarily through operations and, when needed, using proceeds from the accounts receivable securitization program and borrowings under its available lines of credit. The Company believes that the funds available to it, including cash it expects to generate from operations, and funds available through its securitization program and other available lines of credit are adequate to meet its needs for 2006. However, unforeseen circumstances in the toy or game industry, such as softness in the retail environment or unanticipated changes in consumer preferences could result in a significant decline in reven ues and operating results of the Company, which could result in the Company being non-compliant with covenants under its revolving credit facility and/or receivable securitization program. Non-compliance with its debt covenants could result in the Company being unable to utilize borrowings under its revolving credit facility and other bank lines, a circumstance which potentially could occur when operating shortfalls would most likely require supplemental borrowings to enable the Company to continue to fund its operations. Also, non-compliance with covenants under its accounts receivable securitization program could result in the Company being unable to utilize this program. In addition, a significant deterioration in the business of a major U.S. customer could result in a decrease in eligible accounts receivable that would prevent the Company from being able to fully utilize its receivables securitization program. The Company has been and expects to continue to be in compliance with its borrowing and securitization financial covenants during 2006.

Because of this seasonality in 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, short-term investments, accounts receivable, inventories and short-term borrowings, fluctuate significantly from quarter to quarter, again due to the seasonality of its business, management believes that a comparison to the comparable period in the prior year is generally more meaningful than a comparison to the prior quarter or prior year-end.

Cash flows utilized by operating activities were $88,440 for the six months ended July 2, 2006 compared to cash provided of $17,992 for the six months ended June 26, 2005. Cash flows from operations in 2006 were negatively impacted by the royalty guarantee payment of $105,000 made to Marvel in connection with the new license agreement signed in the first quarter of 2006 and pension plan contributions of approximately $36,900. Of the $105,000 payment to Marvel, $62,875 is classified as long-term and is reflected in the consolidated statement of cash flows in other operating activities while the remainder was recorded to prepaid expenses and is reflected in the statement of cash flows as an increase to prepaid expenses. 2005 cash flows from operations included a $35,000 advance royalty payment made in connection with the release of STAR WARS EPISODE III: REVENGE OF THE SITH. Cash flows from operations for 2005 were also positively impacted by higher non-cash expenses in 2005, including amortization expense, as a result of the increased sales of STAR WARS products as well as the utilization of prepaid royalty amounts related to increased sales of STAR WARS products.

Accounts receivable were $290,480 at July 2, 2006 compared to $348,200 at June 26, 2005. This decrease is primarily due to the higher sales in the second quarter of 2005 related to the STAR WARS release. Days sales outstanding decreased to 50 days in 2006 from 55 days in 2005. Inventories remained consistent at $258,500 at July 2, 2006 compared to $262,471 at June 26, 2005. Prepaid expenses were $133,719 at July 2, 2006 compared to $116,680 at June 26, 2005. The increase was largely the result of the royalty advance paid to Marvel in the first quarter of 2006 partly offset by utilization of prepaid royalties, primarily STAR WARS royalties. Generally when the Company enters into a licensing agreement for entertainment-based properties, an advance royalty payment is required at the inception of the agreement. This payment is then recognized in the consolidated statement of operations as the related sales are made. With respect to the Marvel and STAR WARS licenses, the Company has prepaid royalties recorded in both current and non-current assets. Each reporting period, the Company reflects as current prepaid assets the amount of royalties it expects to reflect in operations in the upcoming twelve months. In periods prior to a major movie release such as with STAR WARS in the first quarter of 2005, larger amounts will be reclassified from non-current to current in anticipation of higher sales during the periods surrounding the release. Accounts payable and accrued expenses increased slightly to $629,736 at July 2, 2006 from $624,674 at June 26, 2005. The decrease in the value of warrants required to be classified as a liability as a result of the decline in the Company's stock price was more than offset by increases in other accrued expenses, primarily relating to treasury share repurchases that were made at the end of the quarter but had not settled as of July 2, 2006 and increased accrued dividends due to the in crease in the dividend rate over the comparable amount of the prior period.

Collectively, property, plant and equipment and other assets at July 2, 2006 decreased $68,280 from June 26, 2005. The decrease is primarily due to amortization of intangibles in the first half of 2006 and the second half of 2005. Decreases from amortization were partially offset by increases in long-term prepaid royalties. The increase in long-term prepaid royalties as a result of the $62,875 long-term portion of the $105,000 Marvel payment made in the first quarter of 2006 was partially offset by a decrease in the long-term portion of prepaid royalties related to the STAR WARS license. The Company made a royalty advance in the second quarter of 2005 of $35,000 in connection with the theatrical release of STAR WARS EPISODE III: REVENGE OF THE SITH.

Net (borrowings) cash (cash and cash equivalents less short-term borrowings, current portion of long-term debt, and long-term debt) decreased to $(87,289) at July 2, 2006 from $27,095 at June 26, 2005. This decrease is primarily due to the Company investing certain amounts of available cash in auction rate securities, which are classified as short-term investments on the balance sheet. At July 2, 2006, the Company had $72,625 invested in these securities. The decrease also reflects the Company's $350,000 share repurchase program which was approved by its Board of Directors in May 2005. Under this plan, the Company repurchased 16,898 shares through July 2, 2006 at a total cost of $334,270. Of these repurchases, 16,538 shares were purchased in the final two quarters of 2005 and the first half of 2006 at a total cost of $326,929. In July 2006, an additional $350,000 was authorized by the Company's Board of Directors to continue to repurchase shares of its common stock.

Cash flows utilized by investing activities were $101,887 in 2006 versus $64,407 in 2005. The increase primarily reflects the net purchases of $72,625 of short-term investments in 2006. Cash utilized by investing activities in 2005 includes the Company's reacquisition of its digital gaming rights for all of its owned or controlled properties that it had originally licensed to Infogrames Entertainment SA in connection with the sale of its interactive business in December 2000. The Company paid $65,000 in cash to reacquire these rights, which were recorded to other intangibles. Cash utilized by investing activities in 2005 were also positively impacted from proceeds from the sale of the Company's manufacturing facility in Spain during the second quarter of 2005.

Cash flows utilized by financing activities were $336,112 in 2006 versus $36,055 in 2005. This primarily reflects an increase in share repurchases as described above. Cash utilized for purchases of common stock were $279,631 in 2006 versus $7,341 in 2005. To a lesser extent, the increase in cash utilized by financing activities is also due to higher long-term debt repayments in 2006 and increased dividends paid as a result of the increase in the quarterly dividend rate to $.12 per share in 2006 from $.09 per share in 2005. Cash proceeds from the exercise of stock options decreased to $14,967 in 2006 from $23,607 in 2005 as a result of lower amounts of exercises attributable to the decrease in the Company's stock price.

Prior to June 2006, the Company had an amended and restated credit agreement, which provided it with an unsecured revolving credit facility of $350,000 and was scheduled to mature in March 2007. The Company was not required to maintain compensating balances under the agreement. The amended and restated agreement contained certain restrictive covenants setting forth minimum cash flow and coverage requirements, and a number of other limitations, including with respect to capital expenditures, investments, acquisitions, share repurchases and dividend payments. In June 2006, the Company entered into a new five-year revolving credit agreement (the "Agreement") which replaces the above amended and restated credit agreement. The Agreement provides the Company with a $300,000 committed borrowing facility. The Company has the ability to request increases in the committed facility in additional increm ents of at least $50 million, up to a total committed facility of $500,000. The Company is not required to maintain compensating balances under the agreement. The Agreement contains certain financial covenants setting forth leverage and coverage requirements, and certain other limitations typical of an investment grade facility, including with respect to liens, mergers and incurrence of indebtedness. The Company was in compliance with all covenants as of and for the quarter ended July 2, 2006. The Company had no borrowings outstanding under its committed revolving credit facility at July 2, 2006. The Company also has other uncommitted lines from various banks, of which approximately $27,523 was utilized at July 2, 2006. Amounts available and unused under the committed line at July 2, 2006 were approximately $296,257.

The Company is party to an accounts receivable securitization program whereby the Company sells, on an ongoing basis, substantially all of its U.S. trade accounts receivable to a bankruptcy remote special purpose entity, Hasbro Receivables Funding, LLC ("HRF"). HRF is consolidated with the Company for financial reporting purposes. The securitization program then allows HRF to sell, on a revolving basis, an undivided interest of up to $250,000 in the eligible receivables it holds to certain bank conduits. The program provides the Company with a cost-effective source of working capital. Based on the amount of eligible accounts receivable as of July 2, 2006, the Company had availability under this program to sell approximately $89,700, all of which was utilized.

The Company had letters of credit of approximately $19,953 and purchase commitments of $340,503 outstanding at July 2, 2006. In February 2006, the Company amended its license arrangement with Marvel to add additional toy lines. As a result of this amendment, the guaranteed minimum payments of $205,000 previously disclosed in the Company's report on Form 10-K increased by $10,000, of which $5,000 was paid in February 2006, $2,500 is expected to be paid in January 2008 and $2,500 is expected to be paid in January 2009. In addition, the Company contributed approximately $36,900 to its pension plans in the first two quarters of 2006 which was higher than the amount expected and disclosed in the Company's report on Form 10-K. The Company expects its total contributions to its defined benefit pension plans in 2006 to be approximately $40,000. Other contractual obligations and commercial commitments, as detailed in the Company's annual report on Form 10-K for the year ended December 25, 2005, did not materially change outside of payments made in the normal course of business.

The Company has outstanding $249,996 in principal amount of senior convertible debentures due 2021. The senior convertible debentures bear interest at 2.75%, subject to an upward adjustment in the rate, with the total rate not to exceed 11%, should the price of the Company's stock trade at or below $9.72 per share for 20 of 30 trading days preceding the fifth day prior to an interest payment date. This contingent interest feature represents a derivative instrument that is recorded on the balance sheet at its fair value, with changes in fair value recognized in the statement of operations. If the closing price of the Company's stock exceeds $23.76 for at least 20 trading days within the 30 consecutive trading day period ending on the last trading day of the calendar quarter, or upon other specified events, the debentures will be convertible at an initial conversion price of $21.60 in the next calendar quarter. This contingent conversion feature was not met in the first quarter of 2006. The holders of these debentures may put the notes back to Hasbro in December 2011 and December 2016 at the original principal amount. At that time, the purchase price may be paid in cash, shares of common stock or a combination of the two, at the Company's discretion. While the Company's current intent is to settle in cash any puts exercised, there can be no guarantee that the Company will have the funds necessary to settle this obligation in cash.

The Company believes that cash from operations, including the securitization facility, and, if necessary, its line of credit, will allow the Company to meet these and other obligations listed. It is the Company's intent to continue to assess the desirability of using available cash from operations to reduce its outstanding long-term debt, as market conditions and the Company's revolving credit agreement and other sources of financing allow.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES

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

Sales allowances for customer promotions, discounts and returns are recorded as a reduction of revenue when the related revenue is recognized. Revenue from product sales is recognized upon passing of title to the customer, generally at the time of shipment. Revenue from product sales, less related sales allowances, is added to royalty revenue and reflected as net revenues in the consolidated statements of operations. The Company routinely commits to promotional sales allowance programs with customers. These allowances primarily relate to fixed programs, which the customer earns based on purchases of Company products during the year. Discounts are recorded as a reduction of related revenue at the time of sale. While many of the allowances are based on fixed amounts, certain of the allowances, such as the returns allowance, are based on market data, historical trends and information from cus tomers and are therefore subject to estimation.

Inventory is valued at the lower of cost or market. Based upon a consideration of quantities on hand, actual and projected sales volume, anticipated product selling prices and product lines planned to be discontinued, slow-moving and obsolete inventory is written down to its net realizable value. Failure to accurately predict and respond to consumer demand could result in the Company under producing popular items or overproducing less popular items. Management estimates are monitored on a quarterly basis and a further adjustment to reduce inventory to its net realizable value is recorded, as an increase to cost of sales, when deemed necessary under the lower of cost or market standard.

Goodwill and other intangible assets deemed to have indefinite lives are tested for impairment at least annually. If an event occurs or circumstances change that indicate that the carrying value may not be recoverable, the Company will perform an interim test at that time. The impairment test begins by allocating goodwill and intangible assets to applicable reporting units. Goodwill is then tested using a two step process that begins with an estimation of the fair value of the reporting unit using an income approach, which looks to the present value of expected future cash flows.

The first step is a screen for potential impairment while the second step measures the amount of impairment if there is an indication from the first step that one exists. Intangible assets with indefinite lives are tested for impairment by comparing their carrying value to their estimated fair value which is also calculated using an income approach. The Company's annual impairment test was performed in the fourth quarter of 2005 and no impairment was indicated. At July 2, 2006, the Company has goodwill and intangible assets with indefinite lives of $544,372 recorded on the balance sheet.

Intangible assets, other than those with indefinite lives, are reviewed for indications of impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. Recoverability of the value of these intangible assets is measured by a comparison of the assets' carrying value to the estimated future undiscounted cash flows the asset is expected to generate. If such assets were considered to be impaired, the impairment would be measured by the amount by which the carrying value of the asset exceeds its fair value based on estimated future discounted cash flows.

The estimation of future cash flows requires significant judgments and estimates with respect to future revenues related to the respective asset and the future cash outlays related to those revenues. Actual revenues and related cash flows or changes in anticipated revenues and related cash flows could result in a change in this assessment and result in an impairment charge. The estimation of discounted cash flows also requires the selection of an appropriate discount rate. The use of different assumptions would increase or decrease estimated discounted cash flows and could increase or decrease the related impairment charge. Intangible assets covered under this policy were $497,869 at July 2, 2006. During 2006, there have been no impairment charges related to these intangible assets.

The recoverability of royalty advances and contractual obligations with respect to minimum guaranteed royalties is assessed by comparing the remaining minimum guaranty to the estimated future sales forecasts and related cash flow projections to be derived from the related product. If sales forecasts and related cash flows from the particular product do not support the recoverability of the remaining minimum guaranty or, if the Company decides to discontinue a product line with royalty advances or commitments, a charge to royalty expense to write-off the remaining minimum guaranty is required. The preparation of revenue forecasts and related cash flows for these products requires judgments and estimates. Actual revenues and related cash flows or changes in the assessment of anticipated revenues and cash flows related to these products could result in a change to the assessment of recoverability o f remaining minimum guaranteed royalties. At July 2, 2006, the Company had $212,255 of prepaid royalties, $84,258 of which are included in prepaid expenses and other current assets and $127,997 which are included in other assets.

The Company, except for certain international subsidiaries, has pension plans covering substantially all of its full-time employees. Pension expense is based on actuarial computations of current and future benefits using estimates for expected return on assets, expected compensation increases, and applicable discount rates. The estimates for the Company's domestic plans are established for the upcoming year at the Company's measurement date of September 30. The Company estimates expected return on assets using a weighted average rate based on historical market data for the investment classes of assets held by the plan, the allocation of plan assets among those investment classes, and the current economic environment. Based on this information, the Company's estimate of expected return on plan assets for its domestic plans is 8.75% for 2006, which is the same estimate used in 2005. A decrease in the estimate used for expected return on plan assets would increase pension expense, while an increase in this estimate would decrease pension expense. For the Company's domestic plans, a decrease of .25% in the 2005 estimate of expected return on plan assets would have increased 2005 annual pension expense by approximately $470. Expected compensation increases are estimated using a combination of historical compensation increases with expected compensation increases in the Company's long-term business forecasts. Based on this analysis, the Company's estimate of expected long-term compensation increases for its domestic plans is 4.0% in 2006, which is the same estimate used in 2005. Increases in estimated compensation increases would result in higher pension expense while decreases would lower pension expense. Discount rates are selected based upon rates of return at the measurement date on high quality corporate bond investments currently available and expected to be available during the period to maturity of pension benefit s.

Based on this long-term corporate bond yield at September 30, 2005, the Company's measurement date for its pension assets and liabilities, the Company's discount rate for its domestic plans was 5.50% compared to a rate of 5.75% selected at September 30, 2004. Pension expense for the Company's domestic plans in 2005 was based on a discount rate of 5.75%. A decrease in the discount rate would result in greater pension expense while an increase in the discount rate would decrease pension expense. For the Company's domestic plans, a decrease of .25% in the Company's 2005 discount rate would have increased 2005 annual pension expense and the projected benefit obligation by approximately $995 and $11,110, respectively. In accordance with Statement of Financial Accounting Standards No. 87, "Employers Accounting for Pensions", actual results that differ from the actuarial assumptions are accumulated and, if outside a cer tain corridor, amortized over future periods and, therefore generally affect recognized expense and the recorded obligation in future periods. Assets in the plan are valued on the basis of their fair market value on the measurement date. In March 2006, the Financial Accounting Standards Board ("FASB") issued an exposure draft of a proposed FASB statement, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans", which would amend Statements of Financial Accounting Standards No. 87, 88, 106 and 132R. Under the proposed statement, the Company would recognize on its balance sheet actuarial gains and losses and prior service costs that have not yet been included in income as a reduction of equity through other comprehensive income and an increase to the accrued pension liability. In addition, the measurement date for plan assets and liabilities would be required to be the Company's fiscal year end. The proposed statement would be effective for the Company in the fourth quarter of 2006. Until a final statement is issued, the Company cannot estimate the effect that this change in accounting would have on its consolidated balance sheet or statement of operations.

The Company has stock-based employee compensation plans and plans for non-employee members of the Company's Board of Directors. Under these plans, the Company grants stock options at or above the fair market value of the Company's stock. On December 26, 2005, the first day of fiscal 2006, the Company adopted SFAS 123R, which requires the Company to measure all stock-based compensation awards using a fair value method and record such expense in its consolidated financial statements. The Company uses the Black-Scholes option pricing model to value the stock options that are granted under these plans. The Black-Scholes method includes four significant assumptions: (1) expected term of the option, (2) risk-free interest rate, (3) expected dividend yield, and (4) expected stock price volatility. For the Company's 2005 stock option grant, the weighted average expected term used was approximately 5 years. This amount is based on a review of employees' exercise history relating to stock options as well as the contractual term of the option. The weighted average risk-free interest rate used for 2005 stock option grants was 3.84%. This estimate was based on the interest rate available on U.S. treasury securities with durations that approximate the expected term of the option. For 2005 stock option grants, the weighted average expected dividend yield used was 1.75% which is based on the Company's current annual dividend amount divided by the stock price on the date of the grant. The weighted average expected stock price volatility used for 2005 stock option grants was 29%. This amount was estimated using a combination of historical price volatility over the most recent period approximating the expected term of the option and implied price volatility. Implied price volatility represents the volatility implied in publicly traded options on the Company's stock, which the Company believes represents the expected future volatility of the Company's stock price. The Company believes that since this is a market-based estimate, it can provide a better estimate of expected future volatility.

FINANCIAL RISK MANAGEMENT

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

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

At July 2, 2006, the Company had fixed rate long-term debt, including current portions and excluding fair value adjustments, of $494,983. Also at July 2, 2006, the Company had fixed-for-floating interest rate swaps with notional amounts of $75,000. The interest rate swaps are designed to adjust the amount of the Company's debt subject to a fixed interest rate. The interest rate swaps are matched with specific long-term debt issues and are designated and effective as hedges of the change in the fair value of the associated debt. Changes in fair value of these contracts are wholly offset in earnings by changes in the fair value of long-term debt. At July 2, 2006, these contracts had a fair value of $(624), which was included in liabilities, with a corresponding fair value adjustment to decrease long-term debt.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Item 4. Controls and Procedures.

The Company maintains disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"), that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, o f the effectiveness of the design and operation of the Company's disclosure controls and procedures as of July 2, 2006. Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

There were no changes in the Company's internal control over financial reporting, as defined in Rule 13a-15(f) promulgated under the Exchange Act, during the quarter ended July 2, 2006, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

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

The Company's actual results or experience may differ materially from those expected or anticipated in the forward-looking statements. The Company has included, under Item 1A. of its Annual Report on Form 10-K, for the year ended December 25, 2005 (the "Annual Report"), a discussion of factors which may impact these forward-looking statements. In furtherance, and not in limitation, of the more detailed discussion set forth in the Annual Report, specific factors that might cause such a difference include, but are not limited to:

- the Company's ability to manufacture, source and ship new and continuing products in a timely manner and customers' and consumers' acceptance of those products at prices that will be sufficient to profitably recover development, manufacturing, marketing, royalty and other costs of products;
- economic and public health conditions, including factors which impact the retail market and retail demand or the Company's ability to manufacture and deliver products, higher fuel and commodity prices, higher transportation costs and potential transportation delays, currency fluctuations, government regulation and other conditions in the various markets in which the Company operates throughout the world;
- the concentration of the Company's customers;
- the Company's ability to generate sales during the fourth quarter, particularly during the relatively brief holiday season, which is the period in which the Company derives a substantial portion of its revenues;
- the inventory policies of retailers, including the concentration of the Company's revenues in the second half and fourth quarter of the year, together with the increased reliance by retailers on quick response inventory management techniques, which increases the risk of underproduction of popular items, overproduction of less popular items and failure to achieve tight and compressed shipping schedules;
- work stoppages, slowdowns or strikes, which may impact the Company's ability to manufacture or deliver product;
- concentration of manufacturing of many of the Company's products in the People's Republic of China and the associated impact to the Company of health conditions and other factors affecting social and economic activity in China, affecting the movement of people and products into and out of China or affecting the exchange rates for the Chinese Renminbi, including, without limitation, the impact of tariffs or other trade restrictions being imposed upon goods manufactured in China;

- an adverse change in purchasing policies or the bankruptcy or other lack of success of one or more of the Company's significant retailers comprising its relatively concentrated retail customer base, which could negatively impact the Company's revenues, operating margins, or bad debt exposure;
- the impact of competition on revenues, margins and other aspects of the Company's business, including the ability to secure, maintain and renew popular licenses and the ability to attract and retain employees in a competitive environment;
- the risk that anticipated benefits of acquisitions may not occur or be delayed or reduced in their realization;
- the risk that the market appeal of the Company's licensed products will be less than expected or that the sales revenue generated by those products will be insufficient to cover the minimum guaranteed royalties;
- the Company's ability to obtain and enforce intellectual property rights both in the United States and other worldwide territories;
- the risk that any litigation or arbitration disputes or regulatory investigations could entail significant expense and result in significant fines or other harm to the Company's business;
- the Company's ability to obtain external financing on terms acceptable to it in order to meet working capital needs;
- the Company's ability to generate sufficient available cash flow to service its outstanding debt;
- restrictions that the Company is subject to under its credit agreement;
- unforeseen circumstances, such as severe softness in or collapse of the retail environment that may result in a significant decline in revenues and operating results of the Company, thereby causing the Company to be in non-compliance with its debt covenants and the Company being unable to utilize borrowings under its revolving credit facility, a circumstance likely to occur when operating shortfalls would result in the Company being in the greatest need of such supplementary borrowings;
- market conditions, third party actions or approvals, the impact of competition and other factors that could delay or increase the cost of implementation of the Company's consolidation programs, or alter the Company's actions and reduce actual results;
- the risk that the Company may be subject to governmental sanctions for failure to comply with applicable regulations or to product liability suits relating to products it manufactures and distributes;
- the risk that the Company's reported goodwill may become impaired, requiring the Company to take a charge against its income;
- other risks and uncertainties as are or may be detailed from time to time in the Company's public announcements and filings with the SEC, such as filings on Forms 8-K, 10-Q and 10-K.

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

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

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

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Units)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
April 2006 4/3/06 - 4/30/06	2,400,000	$20.7130	2,400,000	$158,789,446
May 2006 5/1/06 – 6/4/06	3,929,500	$19.3457	3,929,500	$82,770,633
June 2006 6/5/06 - 7/2/06	3,658,200	$18.1876	3,658,200	$16,236,662
Total	9,987,700	$19.2501	9,987,700	$16,236,662

On May 19, 2005, the Company's Board of Directors authorized the repurchases of up to $350 million in common stock. This authorization replaced a prior authorization, dated December 6, 1999 of $500 million, which had $204.5 million remaining. Purchases of the Company's common stock may be made from time to time, subject to certain market conditions. These shares may be repurchased in the open market or through privately negotiated transactions. The Company has no obligation to repurchase shares under the authorization, and the timing, actual number, and value of the shares that are repurchased will depend on a number of factors, including the price of the Company's stock. The Company may suspend or discontinue the program at any time and there is no expiration date. In July 2006, the Company utilized the remainder of the May 2005 authorization and its Board of Directors authorized the repurchase of up to an additiona l $350 million in common stock.

Item 3. Defaults Upon Senior Securities.

None.

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

At the Company's Annual Meeting of Shareholders on May 25, 2006 (the "Annual Meeting"), the Company's shareholders re-elected the following persons to the Board of Directors of the Company: Basil L. Anderson (160,036,820 votes for, 1,267,529 votes withheld), Alan R. Batkin (154,960,611 votes for, 6,343,737 votes withheld), Frank J. Biondi, Jr. (158,381,204 votes for, 2,923,145 votes withheld), John M. Connors, Jr. (160,291,246 votes for, 1,013,102 votes withheld), Michael W.O. Garrett (160,294,911 votes for, 1,009,438 votes withheld), E. Gordon Gee (158,838,160 votes for, 2,466,189 votes withheld), Jack M. Greenberg (160,031,307 votes for, 1,273,042 votes withheld), Alan G. Hassenfeld (156,824,634 votes for, 4,479,715 votes withheld), Claudine B. Malone (157,850,637 votes for, 3,453,712 votes withheld), Edward M. Philip (155,735,251 votes for, 5,569,098 votes withheld), Paula Stern (160,186,424 votes for, 1,117,925 votes withheld), and Alfred J. Verrecchia (160,029,950 votes for, 1,274,399 votes wi thheld).

At the Annual Meeting, the Company's shareholders also approved the ratification of the selection of KPMG LLP as the Company's independent auditor for the 2006 fiscal year by a vote of 152,991,151 votes for and 7,409,561 against, while 903,637 shares abstained.
Finally, at the Annual Meeting the Company's shareholders rejected the "Hasbro, Inc. – Global Human Rights Standards" shareholder proposal which requested that Hasbro commit itself to the implementation of a code of corporate conduct based on the International Labor Organization human rights standards and United Nations' Norms on the Responsibilities of Transnational Corporations with regard to Human Rights and commit to a program of outside, independent monitoring of compliance with those standards. This proposal was rejected by a vote of 119,541,680 against, 13,030,333 for, while 16,515,125 shares abstained and there were 12,217,210 broker non-votes.

Item 5. Other Information

None.

Item 6. Exhibits

3.1 Restated Articles of Incorporation of the Company. (Incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended July 2, 2000, File No. 1-6682.)

3.2 Amendment to Articles of Incorporation, dated June 28, 2000. (Incorporated by reference to Exhibit 3.4 to the Company's Quarterly Report on Form 10-Q for the period ended July 2, 2000, File No. 1-6682.)

3.3 Amendment to Articles of Incorporation, dated May 19, 2003. (Incorporated by reference to Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q for the period ended June 29, 2003, File No. 1-6682.)

3.4 Amended and Restated Bylaws of the Company, as amended. (Incorporated by reference to Exhibit 3.4 to the Company's Quarterly Report on Form 10-Q for the period ended June 29, 2003, File No. 1-6682.)

3.5 Certificate of Designations of Series C Junior Participating Preference Stock of Hasbro, Inc. dated June 29, 1999. (Incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the period ended July 2, 2000, File No. 1-6682.)

Item 6. Exhibits (continued)

3.6 Certificate of Vote(s) authorizing a decrease of class or series of any class of shares. (Incorporated by reference to Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q for the period ended July 2, 2000, File No 1-6682.)

4.1 Indenture, dated as of July 17, 1998, by and between the Company and Citibank, N.A. as Trustee. (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated July 14, 1998, File No. 1-6682.)

4.2 Indenture, dated as of March 15, 2000, by and between the Company and the Bank of Nova Scotia Trust Company of New York. (Incorporated by reference to Exhibit 4(b)(i) to the Company's Annual Report on Form 10-K for the year ended December 26, 1999, File No. 1-6682.)

4.3 Indenture, dated as of November 30, 2001, by and between the Company and The Bank of Nova Scotia Trust Company of New York. (Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3, File No. 333-83250, filed February 22, 2002.)

4.4 Rights Agreement, dated as of June 16, 1999, between the Company and Fleet National Bank (the Rights Agent). (Incorporated by reference to Exhibit 4 to the Company's Current Report on Form 8-K dated as of June 16, 1999.)

4.5 First Amendment to Rights Agreement, dated as of December 4, 2000, between the Company and the Rights Agent. (Incorporated by reference to Exhibit 4(f) to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, File No. 1-6682.)

10.1 Revolving Credit Agreement, dated as of June 23, 2006, by and among Hasbro, Inc., Hasbro SA, Bank of America, N.A., Citibank, N.A., Citizens Bank of Massachusetts, Commerzbank AG, New York and Grand Cayman Branches, BNP Paribas, Banc of America Securities LLC and the other banks party thereto. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 23, 2006, File No. 1-6682.)

10.2 Third Amendment to Hasbro, Inc. 2003 Stock Incentive Performance Plan

12 Computation of Ratio of Earnings to Fixed Charges
Six Months and Quarter Ended July 2, 2006.

31.1 Certification of the Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.

31.2 Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.

32.1 Certification of the Chief Executive Officer Pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934.

32.2 Certification of the Chief Financial Officer Pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934.

SIGNATURES

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

HASBRO, INC.
- ---------------------
(Registrant)

Date: August 7, 2006

By: /s/ David D.R. Hargreaves

David D. R. Hargreaves
Senior Vice President and
Chief Financial Officer
(Duly Authorized Officer and
Principal Financial Officer)

HASBRO, INC. AND SUBSIDIARIES
Quarterly Report on Form 10-Q
For the Period Ended July 2, 2006

Exhibit Index

Exhibit No.	Exhibits
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32.2	Certification of the Chief Financial Officer Pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934.

Exhibit 32.1

CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Chief Executive Officer of Hasbro, Inc., a Rhode Island corporation (the "Company"), does hereby certify that to the best of the undersigned's knowledge:

1) the Company's Quarterly Report on Form 10-Q for the quarter ended July 2, 2006, as filed with the Securities and Exchange Commission (the "10-Q Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in the Company's 10-Q Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Alfred J. Verrecchia
Alfred J. Verrecchia
President and Chief Executive Officer of Hasbro, Inc.

Dated: August 7, 2006

A signed original of this written statement required by Section 906 has been provided to Hasbro, Inc. and will be retained by Hasbro, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Chief Financial Officer of Hasbro, Inc., a Rhode Island corporation (the "Company"), does hereby certify that to the best of the undersigned's knowledge:

1) the Company's Quarterly Report on Form 10-Q for the quarter ended July 2, 2006, as filed with the Securities and Exchange Commission (the "10-Q Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in the Company's 10-Q Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David D.R. Hargreaves
David D.R. Hargreaves
Senior Vice President and Chief Financial Officer
of Hasbro, Inc.

Dated: August 7, 2006

A signed original of this written statement required by Section 906 has been provided to Hasbro, Inc. and will be retained by Hasbro, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION

I, Alfred J. Verrecchia, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hasbro, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2006

/s/ Alfred J. Verrecchia

Alfred J. Verrecchia
President and Chief
Executive Officer

Exhibit 31.2

CERTIFICATION

I, David D.R. Hargreaves, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hasbro, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2006

/s/ David D.R. Hargreaves

David D.R. Hargreaves
Senior Vice President and
Chief Financial Officer

EXHIBIT 12

HASBRO, INC. AND SUBSIDIARIES

Computation of Ratio of Earnings to Fixed Charges
Six Months and Quarter Ended July 2, 2006

(Thousands of Dollars)

	Six Months	Quarter
Earnings available for fixed charges:		
Net earnings	$ 22,189	27,088
Add:		
Fixed charges	19,588	9,689
Taxes on income	4,860	5,414
Total	$ 46,637	42,191
Fixed charges:		
Interest on long-term debt	$ 11,977	5,688
Other interest charges	824	306
Amortization of debt expense	1,137	818
Rental expense representative of interest factor	5,650	2,877
Total	$ 19,588	9,689
Ratio of earnings to fixed charges	2.38	4.35

EXHIBIT 10.2

THIRD AMENDMENT TO

HASBRO, INC. 2003 STOCK INCENTIVE PERFORMANCE PLAN

The Hasbro, Inc. 2003 Stock Incentive Performance Plan (the "2003 Plan"), as amended, is hereby further amended in the manner set forth below by this third amendment (the “Third Amendment”). The effective date for this Third Amendment is May 24, 2006 (the “Effective Date”). Any terms used herein and not otherwise defined shall have the meanings ascribed to such terms in the 2003 Plan.

1. Effective with respect to all Awards to be made on or after the Effective Date, the following amendment to the definition of a Change in Control, as such term is currently used in the 2003 Plan, be and hereby is made:

In the first sentence of Section (i) of the definition of a “Change in Control”, the figure “20%” be and hereby is replaced with the figure “35%”, such that the threshold for acquisition of beneficial ownership of Outstanding Stock or for the acquisition of the combined voting power of Outstanding Voting Securities to be considered a Change in Control, subject to the existing exceptions set forth in the 2003 Plan, is raised from “20% or more” to “35% or more”.