

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

Form 10-K

Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the fiscal year ended December 28, 1997 Commission file number 1-6682

Hasbro, Inc.

(Name of Registrant)

Rhode Island

05-0155090

(State of Incorporation)

(I.R.S. Employer
Identification No.)

1027 Newport Avenue, Pawtucket, Rhode Island 02861

(Address of Principal Executive Offices)

(401) 431-8697

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|----------------------------------|--|
| Common Stock | American Stock Exchange |
| Preference Share Purchase Rights | American Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part II of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock held by non-affiliates of the registrant computed by reference to the price at which the stock was sold on March 20, 1998 was \$4,489,943,387.

The number of shares of Common Stock outstanding as of March 20, 1998 was 133,122,242.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of registrant's definitive proxy statement for its 1998 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report.

Selected information contained in registrant's Annual Report to Shareholders for the fiscal year ended December 28, 1997, is included as Exhibit 13, and incorporated by reference into Parts I and II of this Report.

PART I

ITEM 1. BUSINESS

(a) General Development of Business

The Company designs, manufactures and markets a diverse line of toy products and related items throughout the world. Included in its offerings are games, including traditional board and card, hand-held electronic and interactive CD-ROM, and puzzles, preschool, boys' action and girls' toys, dolls, plush products and infant products. The Company also licenses various tradenames, characters and other property rights for use in connection with

the sale by others of noncompeting toys and non-toy products.

Except as expressly indicated or unless the context otherwise requires, as used herein, the "Company" means Hasbro, Inc., a Rhode Island corporation organized on January 8, 1926, and its subsidiaries.

During 1996, the Company began to take steps to become more marketing and brands driven and globally focused. The new focus is designed to allow the development of brands and products globally, which will provide greater coordination of key brands from a world-wide perspective, while still recognizing regional differences in product requirements and the sales process. It also will allow for the global coordination of production and sourcing requirements.

During 1997, the Company operated through its existing units, Games, Toys and International, while at the same time put into place a new organizational structure. The new organizational structure includes three primary groups; Global Brands and Product Development, which has the responsibility for developing and managing the Company's global and regional brands, acquiring new brands and licenses, developing products and determining strategies for marketing those products; Global Operations, which is responsible for manufacturing or otherwise sourcing products developed by the Brands Group; and Regional Sales and Marketing, which is responsible for taking the products developed by the Brands Group and manufactured or sourced by the Operations Group and marketing them throughout the world. The Company's interactive and emerging business units will not be operated within the confines of the three primary groups but will rather operate as 'stand alone' units, utilizing the expertise of those groups.

(b) Description of Business Products

Within the United States, the Company's products sold by the Sales and Marketing group are categorized for marketing purposes as follows:

(i) Boys' Toys

Boys' toys are offered in a wide range of products, many of which are tied to entertainment properties, including Star Wars(R), Batman(R) and Jurassic Park(TM) action figures and accessories. It also offers such classic properties as G.I. Joe(R), Action Man(TM), Starting Line-Up(R), Transformers(R), the Tonka(R) line of trucks, and vehicles including the XRC(R) radio-controlled vehicles and the Nerf(R) line of soft action play equipment. The focus in 1998 for this category will be on the core brands, with introductions of new action figures and accessories utilizing the Action Man, G.I. Joe, Star Wars, Batman, Jurassic Park and Starting Line-Up brands. Additionally, the Company will offer a range of action figures and accessories using characters associated with DreamWorks' forthcoming movie, Small Soldiers(TM) and several new collectible figurines of NASCAR drivers and additions to the Winner's Circle(TM) line of die cast vehicle assortments.

(ii) Games

The Company markets its games and puzzles under both the Milton Bradley(R) and Parker Brothers(R) brands. Milton Bradley maintains a line of board, strategy and word games, skill and action games, hand-held electronic games and travel games with a diversified line of more than 200 games and puzzles for children and adults. Its staple items include Battleship(R), The Game of Life(R), Scrabble(R), Chutes and Ladders(R), Candy Land(R), Trouble(R), Mousetrap(R), Operation(R), Hungry Hungry Hippos(R), Connect Four(R), Twister(R) and Big Ben(R) Puzzles. The Company also provides games and puzzles for the entire family, including such games as Yahtzee(R), Parcheesi(R), Aggravation(R), Jenga(R) and Scattergories(R) and Puzz 3-D(R), a series of three dimensional jigsaw puzzles. Items added within the Milton Bradley brand for 1998 include Totally Twister(TM), TV Guide(R)-The Game and Fishin' Around(TM), a game for younger players.

Under the Parker Brothers brand, the Company markets a full line of games for families, children and adults. Its classic line of family board games includes Monopoly(R), Clue(R), Sorry!(R), Risk(R), Boggle(R), Ouija(R) and Trivial Pursuit(R), some of which have been in the Parker Brothers' line for more than 50 years. The Company also markets traditional card games such as Mille Bornes(R), Rook(R) and Rack-O(R), games for adults such as Outburst(R) and Catch Phrase(R), a line of Playskool(R) Games for children, including Kanga-Banga Roo(TM) and Mr. Potato Head Pals(TM), as well as a line of puzzles. New under the Parker Brothers' brand in 1998 are the Electronic Hand-Held Monopoly(R) game and Bamboozle(TM), a game for adult play.

(iii) Girls' Toys

Hasbro's girls' items include the Raggedy Ann(R) and Raggedy Andy(R) line of rag dolls along with a large doll line which includes Baby Go Bye Bye(TM). Included in its new introductions for 1998 are McDonaldland(R) Happy Meal(R) Girl Doll and Dial-A-Doctor Baby(TM) Doll large dolls and figures and accessories based on the soon to be released movie, Quest for Camelot(TM). Also being reintroduced in 1998 is a line of My Little Pony(R) figures and playsets.

(iv) Preschool

The preschool line is focused on four key brands; Playskool(R); Barney(TM); Arthur(TM); and, being launched this year, Teletubbies(TM). The Playskool brand includes such well known products as Mr. Potato Head(R), 1-2-3 Bike(TM) and the "Busy(R)" line of toys; electronic items including the new Real Recordin' Message Center(TM) and Police Talk(TM) Radio; and sports toys such as 1-2-3 Baseball(TM) and Flash `n Go In-Line Skates(TM). Other new items within this brand for 1998 include Knock-Knock Mr. Potato Head(R), an interactive soft toy which tells over 50 `knock-knock" jokes and the Musical Ice Cream Cart(TM). The Barney brand includes a range of products including Talking Barney(R) and other products featuring the purple dinosaur and his friends. The PBS television show, Arthur, inspired a line of products featuring this child-like aardvark and his sister D.W.(TM). Teletubbies are based on the new PBS series featuring four lovable characters: Dipsy(TM); Po(TM); Laa-Laa(TM); and Tinky Winky(TM).

(v) Creative Play

Creative play items for both girls and boys include such classic lines as Play-Doh(R), Easy-Bake(R) Oven, Tinkertoy(R), Lincoln Logs(R) and the Spirograph(R) design toy. New offerings for 1998 include an Easy Bake licensed bake set assortment using the M&M(R) and Oreo(R) brands, several new Play-Doh playsets and several items featuring characters from Small Soldiers.

The Company also develops and markets certain products, both in the United States and internationally, through two other organizations, Hasbro Interactive and the Emerging Business Group.

(vi) Hasbro Interactive

Hasbro Interactive, Inc. develops and markets interactive CD-ROM games based on the Company's traditional games and brands, including Monopoly, Risk, Sorry!, Battleship and, for younger children, Tonka Construction(TM). It also produces games using licensed properties such as Frogger(R). Among its 1998 introductions will be Wheel of Fortune(R) and Jeopardy(R), in both CD-ROM and Sony(R) Playstation(TM) versions, and two interactive playsets. In 1998, Hasbro Interactive will also launch, Centipede(R), its first game utilizing the recently acquired rights from Atari.

(vii) Emerging Business Group

The emerging business group develops and markets the Larami(R) Super Soaker(TM) line of water products, the Koosh(R) range of soft play items and a line of interactive candy. Included in this group's line of interactive candy in 1998 will be Sound Bites(TM) which allows one to hear sounds inside one's head while eating the candy.

The Company conducts its international operations through subsidiaries in more than 25 countries which sell a representative range of the global brands and products marketed in the United States together with some items which are sold only internationally.

To further extend its range of products, the Company has Hong Kong units which market directly to retailers, both in the United States and internationally, a line of high quality, low priced toys, games and related products, primarily on a direct import basis.

In addition, certain toy products are licensed to other toy companies to manufacture and sell product in certain international markets where the Company does not otherwise have a presence.

For all of the Company's units, the Operations group manufactures products in the United States, Mexico, Ireland and Spain and sources products, largely through a Hong Kong subsidiary working primarily through unrelated manufacturers in various Far East countries. The Company has small investments in joint ventures in India and the Peoples Republic of China which manufacture and sell products both to the Company and unaffiliated customers.

Working Capital Requirements

Production has been financed historically by means of short-term borrowings which reach peak levels during September through November of each year when receivables also generally reach peak levels. The revenue pattern of the Company continues to shift with the second half of the year growing in significance to its overall business and, within that half, the fourth quarter becoming more prominent. The Company expects that this trend will continue. The toy business is also characterized by customer order patterns which vary from year to year largely because of differences each year in the degree of consumer acceptance of a product line, product availability, marketing strategies and inventory levels of retailers and differences in overall economic conditions. As a result, comparisons of unshipped orders on any date with those at the same date in a prior year are not necessarily indicative of sales for that entire given year. Also, quick response inventory management practices now being used results in fewer orders being placed in advance of shipment and more orders, when placed, for immediate delivery. The Company's unshipped orders at March 1, 1998 and March 2, 1997 were approximately \$155,000,000 and \$215,000,000, respectively. Also, it is a

general industry practice that orders are subject to amendment or cancellation by customers prior to shipment. The backlog at any date in a given year can be affected by programs the Company may employ to induce its customers to place orders and accept shipments early in the year. This method is a general industry practice. The programs the Company is employing to promote sales in 1998 are not substantially different from those employed in 1997.

As part of the traditional marketing strategies of the toy industry, many sales made early in the year are not due for payment until the fourth quarter or early in the first quarter of the subsequent year, thus making it necessary for the Company to borrow significant amounts pending these collections. During the year, the Company relies on internally generated funds and short-term borrowing arrangements, including commercial paper, to finance its working capital needs. Currently, the Company has available to it unsecured lines of credit, which it believes are adequate, of approximately \$1,000,000,000 including a \$440,000,000 revolving credit agreement with a group of banks which is also used as a back-up to commercial paper issued by the Company.

Royalties, Research and Development

The Company's business is based to a substantial extent on the continuing development of new products and the redesigning of existing items for continuing market acceptance. In 1997, 1996 and 1995, approximately \$154,710,000, \$152,487,000 and \$148,057,000, respectively, were incurred on activities relating to the development, design and engineering of new products and their packaging (including items brought to the Company by independent designers) and to the improvement or modification of ongoing products. Much of this work is performed by the Company's staff of designers, artists, model makers and engineers.

In addition to its own staff, the Company deals with a number of independent toy designers for whose designs and ideas the Company competes with other toy manufacturers. Rights to such designs and ideas, when acquired by the Company, are usually exclusive under agreements requiring the Company to pay the designer a royalty on the Company's net sales of the item. These designer royalty agreements in some cases provide for advance royalties and minimum guarantees.

The Company also produces a number of toys under trademarks and copyrights utilizing the names or likenesses of familiar movie, television and comic strip characters, for whose rights the Company competes with other toy manufacturers. Licensing fees are generally paid as a royalty on the Company's net sales of the item. Licenses for the use of characters are generally exclusive for specific products or product lines in specified territories. In many instances, advance royalties and minimum guarantees are required by character license agreements. Under terms of currently existing agreements, in certain circumstances the Company may be required to pay an aggregate of up to \$500,000,000 in guaranteed or minimum royalties between 1998 and 2005.

Marketing and Sales

The Company's products are sold nationally and internationally to a broad spectrum of customers including wholesalers, distributors, chain stores, discount stores, mail order houses, catalog stores, department stores and other retailers, large and small. The Company and its subsidiaries employ their own sales forces which account for nearly all of the sales of their products. Remaining sales are generated by independent distributors who sell the Company's products principally in areas of the world where the Company does not otherwise maintain a presence. The Company maintains showrooms in New York and selected other major cities world-wide as well as at most of its subsidiary locations. Although the Company has more than 2,000 customers in the United States and Canada, most of which are wholesalers, distributors or large chain stores, there has been significant consolidation at the retail level over the last several years. In other countries, the Company has in excess of 20,000 customers, many of which are individual retail stores. During 1997, sales to the Company's two largest customers, Toys R Us, Inc. and Wal-Mart Stores, Inc., represented 22% and 15%, respectively, of consolidated net revenues.

The Company advertises many of its toy and game products extensively on television. The Company generally advertises selected items in its product groups in a manner designed to promote the sale of other specific items in those product groups. Each year, the Company introduces its new products at its New York City showrooms at the time of the American International Toy Fair in February. It also introduces some of its products to major customers during the prior year.

In 1997, the Company spent approximately \$411,574,000 in advertising, promotion and marketing programs compared to \$418,003,000 in 1996 and \$417,886,000 in 1995.

Manufacturing and Importing

The Company manufactures its products in facilities within the United States and various other countries (see "Properties"). Most of its products are manufactured from basic raw materials such as plastic and cardboard which are readily available but which may be subject to significant fluctuations in price. The Company's manufacturing process includes injection molding, blow molding, metal stamping, spray painting, printing, box making, assembly and wood processing. The Company purchases certain components and accessories used in its toys and games and some finished items from United States manufacturers as well as from manufacturers in the Far East, which is the largest manufacturing center of toys in the world, and other countries. The 1996 implementation of the General Agreement on Tariffs and Trade reduced or eliminated customs duties on many products imported by the Company. The Company believes that the manufacturing capacity of its facilities and the supply of components, accessories and completed products which it purchases from unaffiliated manufacturers is adequate to meet the foreseeable demand for the products which it markets. The Company's reliance on external sources of manufacturing can be shifted, over a period of time, to alternative sources of supply for products it sells, should such changes be necessary.

However, if the Company is prevented from obtaining products from a substantial number of its current Far East suppliers due to political, labor or other factors beyond its control, the Company's operations would be disrupted while alternative sources of product were secured. The imposition of trade sanctions by the United States or the European Union against a class of products imported by the Company from, or the loss of "most favored nation" trading status by, the People's Republic of China could significantly increase the cost of the Company's products imported into the United States or Europe from China.

The Company makes its own tools and fixtures but purchases dies and molds principally from independent United States and international sources. Several of the Company's North American production departments operate on a two-shift basis and its molding departments operate on a continuous basis through most of the year.

Competition

The Company's business is highly competitive and it competes with several large and many small United States and international manufacturers. The Company is a worldwide leader in the design, manufacture and marketing of toys and games.

Employees

The Company employs approximately 12,000 persons worldwide, approximately 6,500 of whom are located in the United States.

Trademarks, Copyrights and Patents

The Company's products are protected, for the most part and in as many countries as practical, by registered trademarks, copyrights and patents to the extent that such protection is available and meaningful. The loss of such rights concerning any particular product would not have a material adverse effect on the Company's business, although the loss of such protection for a number of significant items might have such an effect.

Government Regulation

The Company's toy products sold in the United States are subject to the provisions of the Consumer Product Safety Act (the "CPSA"), The Federal Hazardous Substances Act (the "FHSA") and the regulations promulgated thereunder. The CPSA empowers the Consumer Product Safety Commission (the "CPSC") to take action against hazards presented by consumer products, including the formulation and implementation of regulations and uniform safety standards. The CPSC has the authority to seek to declare a product "a banned hazardous substance" under the CPSA and to ban it from commerce. The CPSC can file an action to seize and condemn an "imminently hazardous consumer product" under the CPSA and may also order equitable remedies such as recall, replacement, repair or refund for the product. The FHSA provides for the repurchase by the manufacturer of articles which are banned. Similar laws exist in some states and cities within the United States and in Canada, Australia and Europe. The Company maintains laboratories which have testing and other procedures intended to maintain compliance with the CPSA and FHSA.

Notwithstanding the foregoing, there can be no assurance that all of the Company's products are or will be hazard free. While the Company neither has had any material product recalls nor knows of any currently, should any such problem arise, it could have an effect on the Company depending on the product and could affect sales of other products.

The Children's Television Act of 1990 and the rules promulgated thereunder by the United States Federal Communications Commission as well as the laws of certain countries place certain limitations on television commercials during children's programming.

The Company maintains programs to comply with various United States federal, state, local and international requirements relating to the environment, plant safety and other matters.

Toys "R" Us Litigation

On September 25, 1997, an administrative law judge ("ALJ") of the Federal Trade Commission (the "Commission") issued an Initial Decision against Toys "R" Us, finding that Toys "R" Us had engaged in unfair business practices in violation of Section 5 of the Federal Trade Commission Act. In particular, the ALJ found that Toys "R" Us entered into vertical agreements with, and facilitated horizontal agreements among, various toy manufacturers, including the Company, to restrict the supply of certain toys to warehouse club retailers. Toys "R" Us' appeal of the ALJ's decision is currently pending before the Commission. Although the Company voluntarily produced documents and witnesses in the action, the Company was not named a defendant by the Commission in the action.

In the wake of the ALJ's decision, numerous antitrust actions have been filed naming Toys "R" Us, the Company, and certain other toy manufacturers as defendants. All of these actions generally allege that Toys "R" Us orchestrated an illegal conspiracy with various toy manufacturers to improperly cut-off supplies of popular toys to the warehouse clubs and other low margin retailers that compete with Toys "R" Us. The Company has been named as a defendant in twenty-seven private antitrust class actions in federal courts in California, Illinois, Maryland, New Jersey, New York, Pennsylvania and Vermont, all of which purport to represent nationwide classes of customers. These actions allege, among other things, violations of the Sherman and Clayton Acts. In addition, on October 2, 1997, the Attorney General of the State of New York ("NYAG") filed an action against Toys "R" Us, the Company, and several other toy manufacturers alleging violations of federal and state antitrust law, on behalf of all persons in the State of New York who purchased toy products from retailers from 1989 to the present. The NYAG complaint has been amended to add as plaintiffs attorneys general from an additional thirty-seven states, the District of Columbia and the Commonwealth of Puerto Rico.

On February 11, 1998, the Judicial Panel on Multi-District Litigation consolidated and transferred, for all pretrial proceedings, the NYAG action and all of the pending private actions in the federal courts. The consolidated cases are titled In Re Toys "R" Us Antitrust Litigation, MDL-1211 and are pending in the Federal District Court in the Eastern District of New York.

In addition, the Company has been named as a defendant, along with Toys "R" Us and certain other toy manufacturers, in an action titled Struthers v. Toys "R" Us et al., No. H198813-6, filed in the Superior Court for the State of California, Alameda County, alleging violations of state antitrust laws. On February 9, 1998, the Superior Court ordered the Struthers case to be coordinated with three pending state court actions previously filed against Toys "R" Us in California. On March 2, 1998, the Superior Court entered an order providing for six months hiatus in all of the California litigations to encourage the parties to pursue settlement discussions and negotiations in good faith. These discussions are to be coordinated with a mediation ordered in a case titled Wilson v. Toys "R" Us, Case No. CV96-574, pending in Tuscaloosa County Circuit Court in Alabama. The Company is not a party to the Alabama case.

All of the foregoing complaints seek injunctive relief, unspecified treble damages, expenses or costs and attorneys fees. The Company has not responded to the complaints in any of these actions, and there are no current dates for responding to any of the complaints.

The Company intends to vigorously defend the actions in which it is named as a defendant involving the Toys "R" Us matter. Due to the preliminary nature of the various actions and proceedings against the Company, the ultimate outcome and materiality of these matters cannot presently be determined.

Forward-Looking Information

From time to time, the Company may publish forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new products, research and development activities and similar matters. Forward-looking statements are inherently subject to risks and uncertainties, many of which are known by, or self-evident to, the investing public. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, the Company notes that a variety of factors could cause its actual results and experience to differ materially from the anticipated results or other expectations expressed in its forward-looking statements. The risks and uncertainties that may affect the operations, performance, development and results of Hasbro's business include the following:

- 1) The Company's dependence on its timely development and introduction of new products and the acceptance, in a competitive product environment, by both the customer and consumer, of new and continuing products;
- 2) The impact of competition on revenue, margins and other aspects of the Company's business;
- 3) Economic conditions and currency fluctuations in the various markets in which the Company operates throughout the world, including the effect of currency fluctuations on reportable income;

4) The continuing trend of increased concentration of Hasbro's revenues in the second half and fourth quarter of the year, together with the increased reliance by retailers on quick response inventory management practices, which increases the risk of the Company's underproduction of popular items, overproduction of less popular items and failure to achieve tight and compressed shipping schedules;

5) Third party actions or approval that could delay, modify or increase the cost of implementation of the Company's global integration and profit enhancement program;

6) The risk that anticipated benefits of acquisitions may not occur or be delayed or reduced in their realization; and

7) Other risks and uncertainties as are or may be detailed from time to time in Hasbro's public announcements and filings with the Securities and Exchange Commission.

(c) Financial Information About International and United States

Operations and Export Sales

The information required by this item is included in note 16 of Notes to Consolidated Financial Statements in Exhibit 13 to this Report and is incorporated herein by reference.

ITEM 2. PROPERTIES

| Location | Use | Square Feet | Type of Possession | Lease Expiration Dates |
|----------------------|--|-------------|--------------------|------------------------|
| Rhode Island | | | | |
| Pawtucket | Executive, Sales & Marketing Offices & Product Development | 343,000 | Owned | -- |
| Pawtucket | Administrative Office | 23,000 | Owned | -- |
| East Providence | Administrative Office | 120,000 | Leased | 1999 |
| Central Falls | Manufacturing | 261,500 | Owned (1) | -- |
| California | | | | |
| Petaluma | Warehouse | 80,000 | Leased | 1998 |
| Campbell | Office | 17,000 | Leased | 2002 |
| Massachusetts | | | | |
| East Longmeadow | Office, Manufacturing & Warehouse | 1,147,500 | Owned | -- |

| | | | | |
|-----------------|--------------------------------------|---------|-----------|------|
| East Longmeadow | Office, Manufacturing & Warehouse | 254,400 | Owned (1) | -- |
| East Longmeadow | Warehouse | 500,000 | Leased | 2000 |
| Beverly | Office | 100,000 | Owned | -- |
| New Jersey | | | | |
| ----- | | | | |
| Northvale | Warehouse | 75,000 | Leased | 2002 |
| Mt. Laurel | Office | 11,000 | Leased | 1999 |
| New York | | | | |
| ----- | | | | |
| New York | Office & Showroom | 70,300 | Leased | 2000 |
| New York | Offices & Showrooms | 32,300 | Leased | 1999 |
| Ohio | | | | |
| ----- | | | | |
| Bedford Heights | Office and warehouse | 187,100 | Leased | 2000 |
| Euclid | Warehouse | 29,300 | Leased | 1998 |
| Cincinnati | Office | 174,000 | Leased | 2007 |
| Cincinnati | Warehouse | 31,800 | Leased | 2008 |
| Texas | | | | |
| ----- | | | | |
| El Paso | Manufacturing & Warehouse | 373,000 | Owned (1) | -- |
| El Paso | Warehouse | 744,900 | Leased | 2008 |
| El Paso | Warehouses | 111,000 | Leased | 1998 |
| Vermont | | | | |
| ----- | | | | |
| Fairfax | Manufacturing | 43,000 | Owned (1) | -- |
| Washington | | | | |
| ----- | | | | |
| Seattle | Office & Warehouse | 125,100 | Leased(2) | 1998 |
| Australia | | | | |
| ----- | | | | |
| Lidcombe | Office & Warehouse | 161,400 | Leased | 2002 |
| Eastwood | Office | 16,900 | Leased | 2001 |
| Argentina | | | | |
| ----- | | | | |
| Buenos Aires | Office and Warehouse | 61,000 | Leased | 2000 |
| Austria | | | | |
| ----- | | | | |
| Vienna | Office | 2,500 | Leased | 1998 |
| Belgium | | | | |
| ----- | | | | |
| Brussels | Office & Showroom | 20,700 | Leased | 1998 |

| | | | | |
|----------------------|--------------------------------------|---------|--------|------|
| Canada | | | | |
| ----- | | | | |
| Montreal | Office, Manufacturing & Showroom | 133,900 | Leased | 2001 |
| Mississauga | Sales Office & Showroom | 16,300 | Leased | 1998 |
| Montreal | Warehouse | 88,100 | Leased | 1998 |
| Chile | | | | |
| ----- | | | | |
| Santiago | Warehouse | 23,800 | Leased | 1998 |
| Santiago | Office | 3,500 | Leased | 1999 |
| Denmark | | | | |
| ----- | | | | |
| Glostrup | Office | 9,200 | Leased | 1999 |
| England | | | | |
| ----- | | | | |
| Uxbridge | Office & Showroom | 94,500 | Leased | 2013 |
| Finland | | | | |
| ----- | | | | |
| Helsinki | Office | 8,000 | Leased | 2001 |
| France | | | | |
| ----- | | | | |
| Le Bourget du Lac | Office, Manufacturing & Warehouse | 108,300 | Owned | -- |
| Savoie Technolac | Office | 33,500 | Owned | -- |
| Creutzwald | Warehouse | 92,900 | Owned | -- |
| Gresy | Warehouse | 265,000 | Leased | 1998 |
| Germany | | | | |
| ----- | | | | |
| Dietzenbach | Office | 39,400 | Leased | 1998 |
| Soest | Office & Warehouse | 156,300 | Owned | -- |
| Greece | | | | |
| ----- | | | | |
| Athens | Office & Warehouse | 84,700 | Leased | 1998 |
| Hong Kong | | | | |
| ----- | | | | |
| Kowloon | Office | 36,800 | Leased | 2000 |
| Shatkin | Office & Warehouse | 17,800 | Leased | 1999 |
| Hungary | | | | |
| ----- | | | | |
| Budapest | Office | 6,300 | Leased | 1999 |

| | | | | |
|-------------------------|--------------------------------------|---------|-----------|------|
| Ireland | | | | |
| ----- | | | | |
| Waterford | Office, Manufacturing & Warehouse | 244,400 | Owned | -- |
| Italy | | | | |
| ----- | | | | |
| Milan | Office & Showroom | 12,100 | Leased | 2002 |
| Japan | | | | |
| ----- | | | | |
| Tokyo | Office | 7,200 | Leased | 1998 |
| Malaysia | | | | |
| ----- | | | | |
| Selangor Darul Ehsan | Office | 4,900 | Leased | 2000 |
| Mexico | | | | |
| ----- | | | | |
| Tijuana | Office & Manufacturing | 143,800 | Leased | 1998 |
| Tijuana | Manufacturing | 205,000 | Leased | 1998 |
| Tijuana | Warehouse | 46,900 | Leased | 1998 |
| Periferico | Office | 16,100 | Leased | 2001 |
| Juarez | Manufacturing | 169,500 | Owned (1) | -- |
| Venados | Warehouses | 118,100 | Leased | 1999 |
| The Netherlands | | | | |
| ----- | | | | |
| Ter Apel | Office & Warehouse | 139,300 | Owned | -- |
| Ter Apel | Warehouse | 79,400 | Leased | 1998 |
| Utrecht | Office | 17,000 | Leased | 1999 |
| New Zealand | | | | |
| ----- | | | | |
| Auckland | Office, Manufacturing & Warehouse | 110,900 | Leased(1) | 2005 |
| Norway | | | | |
| ----- | | | | |
| Asker | Office | 6,500 | Leased | 1999 |
| Peru | | | | |
| ----- | | | | |
| Lima | Warehouse | 32,400 | Leased | 1999 |
| Lima | Office | 11,000 | Leased | 1998 |
| Poland | | | | |
| ----- | | | | |
| Warsaw | Office | 5,000 | Leased | 1998 |
| Portugal | | | | |
| ----- | | | | |
| Estoril-Lisboa | Office | 2,900 | Leased | 1998 |

| | | | | |
|-------------|--------------------------------------|---------|--------|------|
| Singapore | | | | |
| ----- | | | | |
| Singapore | Office & Warehouse | 9,300 | Leased | 2000 |
| Spain | | | | |
| ----- | | | | |
| Valencia | Office, Manufacturing & Warehouse | 115,100 | Leased | 1998 |
| Valencia | Office | 27,600 | Leased | 2011 |
| Valencia | Manufacturing & Warehouse | 201,900 | Leased | 2011 |
| Valencia | Warehouse | 48,100 | Leased | 1998 |
| Valencia | Warehouse | 161,700 | Leased | 2002 |
| Sweden | | | | |
| ----- | | | | |
| Vosby | Office | 7,400 | Leased | 1998 |
| Switzerland | | | | |
| ----- | | | | |
| Mutschellen | Office & Warehouse | 23,400 | Leased | 1998 |
| Taiwan | | | | |
| ----- | | | | |
| TPE County | Warehouse | 14,400 | Leased | 1998 |
| Wales | | | | |
| ----- | | | | |
| Newport | Warehouse | 76,000 | Leased | 2003 |
| Newport | Warehouse | 52,000 | Owned | -- |

- (1) As part of its global integration and profit enhancement program, the Company has announced that it will cease manufacturing at this location during 1998.
- (2) In addition, at this location the Port of Seattle operates a 400,000 square foot distribution facility pursuant to an agreement with the Company.

In addition to the above listed facilities, the Company either owns or leases various other properties approximating 350,000 square feet which are utilized in its operations. The Company also either owns or leases an aggregate of approximately 250,000 square feet not currently being utilized in its operations. Most of these properties are being leased, subleased or offered for sublease or sale.

The foregoing properties consist, in general, of brick, cinder block or concrete block buildings which the Company believes are in good condition and well maintained.

ITEM 3. LEGAL PROCEEDINGS

The Company is party to certain legal proceedings, substantially involving routine litigation incidental to the Company's business, none of which, individually or in the aggregate, is deemed to be material to the financial condition of the Company. For a description of the "Toys `R' Us litigation", see Item 1.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following persons are the executive officers of the Company and its subsidiaries and divisions. Such executive officers are elected annually. The position and office listed below are the principal position(s) and office(s) held by such person with the Company, subsidiary or divisions employing such person. The persons listed below generally also serve as officers and directors of the Company's various subsidiaries at the request and convenience of the Company.

| Name ----- | Age | Position and Office Held ----- | Period Serving in Current Position ----- |
|-------------------------|-----|--|--|
| Alan G. Hassenfeld | 49 | Chairman of the Board, President and Chief Executive Officer | Since 1989 |
| Harold P. Gordon (1) | 60 | Vice Chairman | Since 1995 |
| Adam Klein (2) | 46 | Executive Vice President, Global Strategy and Development | Since 1996 |
| John T. O'Neill | 53 | Executive Vice President and Chief Financial Officer | Since 1989 |
| Alfred J. Verrecchia(3) | 55 | Executive Vice President and President, Global Operations | Since 1996 |
| Virginia H. Kent (4) | 43 | President, Global Brands and Product Development | Since 1996 |
| E. David Wilson (5) | 60 | President, Hasbro Americas | Since 1996 |
| George B. Volanakis (6) | 50 | President, European Sales and Marketing | Since 1998 |

| | | | |
|-------------------------|----|---|------------|
| Dan D. Owen (7) | 49 | President, Emerging Business Group | Since 1997 |
| Donal A. Barksdale (8) | 47 | Senior Vice President and Chief Information Officer | Since 1997 |
| Richard B. Holt | 56 | Senior Vice President and Controller | Since 1992 |
| Cynthia S. Reed (9) | 42 | Senior Vice President and General Counsel | Since 1995 |
| Martin R. Trueb (10) | 46 | Senior Vice President and Treasurer | Since 1997 |
| Phillip H. Waldoks (11) | 45 | Senior Vice President - Corporate Legal Affairs and Secretary | Since 1995 |

- (1) Prior thereto, Partner, Stikeman, Elliott (law firm).
- (2) Prior thereto, President, Klein & Co. (consulting firm specializing in managing strategic change).
- (3) Prior thereto, Chief Operating Officer, Domestic Toy Operations.
- (4) Prior thereto, General Manager, Girls/Boys/Nerf, from 1994 to 1996; prior thereto, Senior Vice President, Marketing, Kenner.
- (5) Prior thereto, President Hasbro Games Group, from 1995 to 1996; prior thereto, President, Milton Bradley.
- (6) Prior thereto, President and Chief Executive Officer, The Ertl Company, Inc.
- (7) Prior thereto, President, Hasbro USA, from 1996 to 1997; prior thereto, President, Hasbro Toy Group, from 1994 to 1996; prior thereto, President, Playskool.
- (8) Prior thereto, Senior Director, Applications Development, Anheuser-Busch Companies, Inc., from 1996 to 1997; prior thereto, Vice President, Information Systems, General Electric Company.
- (9) Prior thereto, Vice President - Legal.
- (10) Prior thereto, Assistant Treasurer, Amway Corporation, from 1995 to 1997; prior thereto, Director, International Treasury, RJR Nabisco, Inc.
- (11) Prior thereto, Senior Vice President - Corporate Legal Affairs.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED

STOCKHOLDER MATTERS

On October 14, 1997, the Company issued an aggregate of 6,500,000 warrants to purchase 6,500,000 shares of common stock, par value \$.50 per share, of the Company, at an exercise price of \$28.00 per share, subject to anti-dilution adjustment in certain events, to a motion picture studio and a subsidiary thereof, in connection with, and as partial consideration for, the acquisition of certain long-term rights. The warrants were issued without registration under the Securities Act of 1933 (the "Act") on the basis of Section 4(2) of the Act in reliance upon the representations of each warrant holder that it is an accredited investor, as defined in Rule 501 of Regulation D under the Act, and that it is acquiring the warrants for investment purposes only and not with a view to, or for resale in connection with, any "distribution" thereof for purposes of the Act. The warrants are not exercisable prior to the occurrence of an event expected to take place in 1999, except that exercisability would be accelerated on a change in control of the Company. The warrants would remain exercisable, with respect to 3,900,000 warrants until October 14, 2008 and with respect to 2,600,000 warrants until October 14, 2009.

The remainder of the information required by this item is included in Market for the Registrant's Common Equity and Related Stockholder Matters in Exhibit 13 to this Report and is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

The information required by this item is included in Selected Financial Data in Exhibit 13 to this Report and is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

The information required by this item is included in Management's Review in Exhibit 13 to this Report and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is included in Financial Statements and Supplementary Data in Exhibit 13 to this Report and is incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING

AND FINANCIAL DISCLOSURE

None.

PART III

ITEMS 10, 11, 12 and 13.

The information required by these items is included in registrant's definitive proxy statement for the 1998 Annual Meeting of Shareholders and is incorporated herein by reference, except that the sections under the headings (a) "Comparison of Five Year Cumulative Total Shareholder Return Among Hasbro, S&P 500 and Russell 1000 Consumer Discretionary Economic Sector" and accompanying material and (b) "Report of the Compensation and Stock Option Committee of the Board of Directors" in the definitive proxy statement shall not be deemed "filed" with the Securities and Exchange Commission or subject to Section 18 of the Securities Exchange Act of 1934.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Financial Statements, Financial Statement Schedules and Exhibits

(1) Financial Statements

Included in PART II of this report:
Independent Auditors' Report

Consolidated Balance Sheets at December 28, 1997 and
December 29, 1996

Consolidated Statements of Earnings for the Three Fiscal
Years Ended in December 1997, 1996 and 1995

Consolidated Statements of Shareholders' Equity for the
Three Fiscal Years Ended in December 1997, 1996 and 1995

Consolidated Statements of Cash Flows for the Three
Fiscal Years Ended in December 1997, 1996 and 1995

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules

Included in PART IV of this Report:
Report of Independent Certified Public Accountants
on Financial Statement Schedule

For the Three Fiscal Years Ended in December 1997, 1996
and 1995:

Schedule II - Valuation and Qualifying Accounts and
Reserves

Schedules other than those listed above are omitted for the reason that they are not required or are not applicable, or the required information is shown in the financial statements or notes thereto. Columns omitted from schedules filed have been omitted because the information is not applicable.

(3) Exhibits

The Company will furnish to any shareholder, upon written request, any exhibit listed below upon payment by such shareholder to the Company of the Company's reasonable expenses in furnishing such exhibit.

Exhibit

3. Articles of Incorporation and Bylaws
 - (a) Restated Articles of Incorporation of the Company. (Incorporated by reference to Exhibit (c)(2) to the Company's Current Report on Form 8-K, dated July 15, 1993, File No. 1-6682.)
 - (b) Amended and Restated Bylaws of the Company. (Incorporated by reference to Exhibit (3) to the Company's Current Report on Form 8-K, dated February 16, 1996, File No. 1-6682.)
4. Instruments defining the rights of security holders, including indentures.
 - (a) Revolving Credit Agreement, dated as of June 22, 1992, among the Company, certain banks (the "Banks"), and The First National Bank of Boston, as agent for the Banks (the "Agent"). (Incorporated by reference to Exhibit 4(a) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 27, 1992, File No. 1-6682.)
 - (b) Subordination Agreement, dated as of June 22, 1992, among the Company, certain subsidiaries of the Company, and the Agent. (Incorporated by reference to Exhibit 4(b) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 27, 1992, File No. 1-6682.)
 - (c) Amendment No. 1, dated as of April 1, 1994, to Revolving Credit Agreement among the Company, the Banks and the Agent. (Incorporated by reference to Exhibit 4 to the Company's Quarterly Report on Form 10-Q for the Period Ended March 27, 1994, File No. 1-6682.)
 - (d) Amendment No. 2, dated as of May 1, 1995, to the Revolving Credit Agreement among the Company, the Banks and the Agent. (Incorporated by reference to Exhibit 4 to the Company's Quarterly Report on Form 10-Q for the Period Ended April 2, 1995, File No. 1-6682.)
 - (e) Amendment No. 3, dated as of May 10, 1996, to the Revolving Credit Agreement among the Company, the Banks and the Agent. (Incorporated by reference to Exhibit 4 to the Company's Quarterly Report on Form 10-Q for the Period Ended March 31, 1996, File No. 1-6682.)

- (f) Amendment No. 4, dated as of May 14, 1997, to the Revolving Credit Agreement among the Company, the Banks and the agent. (Incorporated by reference to Exhibit 4 to the Company's Quarterly Report on Form 10-Q for the Period Ended June 29, 1997, File No. 1-6682.)

10. Material Contracts

- (a) Lease between Hasbro Canada Inc. (formerly named Hasbro Industries (Canada) Ltd.) and Central Toy Manufacturing Co. ("Central Toy"), dated December 23, 1976. (Incorporated by reference to Exhibit 10.15 to the Company's Registration Statement on Form S-14, File No. 2-92550.)
- (b) Lease between Hasbro Canada Inc. and Central Toy, together with an Addendum thereto, each dated as of May 1, 1987. (Incorporated by reference to Exhibit 10(f) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 27, 1987, File No. 1-6682.)
- (c) Addendum to lease, dated March 5, 1998, between Hasbro Canada and Central Toy.

Executive Compensation Plans and Arrangements

- (d) Employee Incentive Stock Option Plan. (Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8, File No. 2-78018.)
- (e) Amendment No. 1 to Employee Incentive Stock Option Plan. (Incorporated by reference to Exhibit 10(l) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 28, 1986, File No. 1-6682.)
- (f) Amendment No. 2 to Employee Incentive Stock Option Plan. (Incorporated by reference to Exhibit 10(n) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 27, 1987, File No. 1-6682.)
- (g) Amendment No. 3 to Employee Incentive Stock Option Plan. (Incorporated by reference to Exhibit 10(o) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 25, 1988, File No. 1-6682.)
- (h) Amendment No. 4 to Employee Incentive Stock Option Plan. (Incorporated by reference to Exhibit 10(s) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1989, File No. 1-6682.)
- (i) Form of Incentive Stock Option Agreement for incentive stock options. (Incorporated by reference to Exhibit 10(o) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 27, 1987, File No. 1-6682.)

- (j) Form of Non Qualified Stock Option Agreement under the Employee Incentive Stock Option Plan. (Incorporated by reference to Exhibit 10(q) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 25, 1988, File No. 1-6682.)
- (k) Non Qualified Stock Option Plan. (Incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-14, File No. 2-92550.)
- (l) Amendment No. 1 to Non Qualified Stock Option Plan. (Incorporated by reference to Exhibit 10(j) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 28, 1986, File No. 1-6682.)
- (m) Amendment No. 2 to Non Qualified Stock Option Plan. (Incorporated by reference to Appendix A to the Company's definitive proxy statement for its 1987 Annual Meeting of Shareholders, File No. 1-6682.)
- (n) Amendment No. 3 to Non Qualified Stock Option Plan. (Incorporated by reference to Exhibit 10(l) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1989, File No. 1-6682.)
- (o) Form of Stock Option Agreement (For Employees) under the Non Qualified Stock Option Plan. (Incorporated by reference to Exhibit 10(t) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 27, 1992, File No. 1-6682.)
- (p) 1992 Stock Incentive Plan (Incorporated by reference to Appendix A to the Company's definitive proxy statement for its 1992 Annual Meeting of Shareholders, File No. 1-6682.)
- (q) Form of Stock Option Agreement under the 1992 Stock Incentive Plan, the Stock Incentive Performance Plan and the Employee Non-Qualified Stock Plan. (Incorporated by reference to Exhibit 10(v) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 27, 1992, File No. 1-6682.)
- (r) Form of Stock Option Agreement (For Participants in the Long Term Incentive Program) under the 1992 Stock Incentive Plan and the Stock Incentive Performance Plan. (Incorporated by reference to Exhibit 10(w) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 27, 1992, File No. 1-6682.)
- (s) Form of Employment Agreement between the Company and nine executive officers of the Company. (Incorporated by reference to Exhibit 10(v) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1989, File No. 1-6682.)

- (t) Hasbro, Inc. Retirement Plan for Directors. (Incorporated by reference to Exhibit 10(x) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 30, 1990, File No. 1-6682.)
- (u) Form of Director's Indemnification Agreement. (Incorporated by reference to Appendix B to the Company's definitive proxy statement for its 1988 Annual Meeting of Shareholders, File No. 1-6682.)
- (v) Hasbro, Inc. Deferred Compensation Plan for Non-Employee Directors. (Incorporated by reference to Exhibit 10(cc) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 26, 1993, File No. 1-6682.)
- (w) Hasbro, Inc. Stock Option Plan for Non-Employee Directors. (Incorporated by reference to Appendix A to the Company's definitive proxy statement for its 1994 Annual Meeting of Shareholders, File No. 1-6682.)
- (x) Form of Stock Option Agreement for Non-Employee Directors under the Hasbro, Inc. Stock Option Plan for Non-Employee Directors. (Incorporated by reference to Exhibit 10(w) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 25, 1994, File No. 1-6682.)
- (y) Hasbro, Inc. Senior Management Annual Performance Plan. (Incorporated by reference to Appendix B to the Company's definitive proxy statement for its 1994 Annual Meeting of Shareholders, File No. 1-6682.)
- (z) Hasbro, Inc. Stock Incentive Performance Plan. (Incorporated by reference to Appendix A to the Company's definitive proxy statement for its 1995 Annual Meeting of Shareholders, File No. 1-6682.)
- (aa) Employee Non-Qualified Stock Plan. (Incorporated by reference to Exhibit 10(dd) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 29, 1996, File No. 1-6682.)
- (bb) Hasbro, Inc. Nonqualified Deferred Compensation Plan.
- (cc) Employment Agreement, dated as of January 1, 1996, between the Company and Harold P. Gordon. (Incorporated by reference to Exhibit 10(aa) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1995, File No. 1-6682.)
- (dd) Severance And Settlement Agreement And Release, dated as of December 20, 1995, and addendum thereto, between the Company and Dan D. Owen. (Incorporated by reference to Exhibit 10(bb) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1995, File No. 1-6682.)

- (ee) Amendment, effective as of January 1, 1997 to Severance and Settlement Agreement and Release between the Company and Dan D. Owen. (Incorporated by reference to Exhibit 10(cc) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 29, 1996, File No. 1-6682.)
- (ff) Amendment, dated February 20, 1998, to Severance And Settlement Agreement And Release between the Company and Dan D. Owen.
- (gg) Letter agreements, dated January 30, 1998, between the Company and George R. Ditomassi, Jr.
- (hh) Consulting Agreement, dated January 31, 1998, between the Company and George R. Ditomassi, Jr.
- (ii) Letter dated January 26, 1998 from the Company to George B. Volanakis.

- 11. Statement re computation of per share earnings
- 12. Statement re computation of ratios
- 13. Selected information contained in Annual Report to Shareholders
- 22. Subsidiaries of the registrant
- 24. Consents of experts and counsel
 - (a) Consent of KPMG Peat Marwick LLP
- 27. Financial data schedule

The Company agrees to furnish the Securities and Exchange Commission, upon request, a copy of each agreement with respect to long-term debt of the Company, the authorized principal amount of which does not exceed 10% of the total assets of the Company and its subsidiaries on a consolidated basis.

(b) Reports on Form 8-K

A Current Report on Form 8-K dated February 5, 1998 was filed to announce the Company's results for the quarter and year ended December 28, 1997. Consolidated statements of earnings (without notes) for the quarter and year ended December 28, 1997 and December 29, 1996 and consolidated condensed balance sheets (without notes) as of said dates were also filed.

A Current Report on Form 8-K dated February 9, 1998 was filed to announce the Company's definitive agreement with Tiger Electronics, Inc. (Tiger), under which it will acquire the operating assets of Tiger and its affiliates.

A Current Report on Form 8-K dated March 24, 1998 was filed to announce the Company's revenue and earnings expectations for the first quarter of 1998.

(c) Exhibits

See (a)(3) above

(d) Financial Statement Schedules

See (a)(2) above

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Hasbro, Inc.:

Under date of February 4, 1998, we reported on the consolidated balance sheets of Hasbro, Inc. and subsidiaries as of December 28, 1997 and December 29, 1996 and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the fiscal years in the three-year period ended December 28, 1997, as contained in the 1997 annual report to shareholders. These consolidated financial statements and our report thereon are incorporated by reference in the annual report on Form 10-K for the year 1997. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related financial statement schedule listed in Item 14 (a)(2). This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ KPMG Peat Marwick LLP

Providence, Rhode Island

February 4, 1998

HASBRO, INC. AND SUBSIDIARIES

Valuation and Qualifying Accounts and Reserves

Fiscal Years Ended in December

(Thousands of Dollars)

| | Balance at Beginning of Year | Provision Charged to Costs and Expenses | Other Additions | Write-Offs And Other (a) | Balance at End of Year |
|---|------------------------------------|--|--------------------|--------------------------------|------------------------------|
| | ----- | ----- | ----- | ----- | ----- |
| Valuation accounts deducted from assets to which they apply - for doubtful accounts receivable: | | | | | |
| 1997 | \$46,600 | 9,229 | - | (4,129) | \$51,700 |
| | ===== | ===== | ===== | ===== | ===== |
| 1996 | \$48,800 | 5,834 | - | (8,034) | \$46,600 |
| | ===== | ===== | ===== | ===== | ===== |
| 1995 | \$51,000 | 5,860 | - | (8,060) | \$48,800 |
| | ===== | ===== | ===== | ===== | ===== |

(a) Includes write-offs, recoveries of previous write-offs and translation adjustments.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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)

By: /s/ Alan G. Hassenfeld

Alan G. Hassenfeld
Chairman of the Board

Date: March 27, 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|----------------|
| ----- | ----- | ----- |
| /s/ Alan G. Hassenfeld ----- Alan G. Hassenfeld | Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer) | March 27, 1998 |
| /s/ John T. O'Neill ----- John T. O'Neill | Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer) | March 27, 1998 |
| /s/ Alan R. Batkin ----- Alan R. Batkin | Director | March 27, 1998 |
| /s/ Harold P. Gordon ----- Harold P. Gordon | Director | March 27, 1998 |

----- Director March , 1998
Alex Grass

----- Director March , 1998
Sylvia K. Hassenfeld

/s/ Marie-Josée Kravis
----- Director March 27, 1998
Marie-Josée Kravis

/s/ Claudine B. Malone
----- Director March 27, 1998
Claudine B. Malone

/s/ Morris W. Offit
----- Director March 27, 1998
Morris W. Offit

/s/ Norma T. Pace
----- Director March 27, 1998
Norma T. Pace

/s/ E. John Rosenwald, Jr.
----- Director March 27, 1998
E. John Rosenwald, Jr.

/s/ Carl Spielvogel
----- Director March 27, 1998
Carl Spielvogel

/s/ Henry Taub
----- Director March 27, 1998
Henry Taub

/s/ Preston Robert Tisch
----- Director March 27, 1998
Preston Robert Tisch

/s/ Paul Wolfowitz
- - - - - Director March 27, 1998
Paul Wolfowitz

/s/ Alfred J. Verrecchia
- - - - - Director March 27, 1998
Alfred J. Verrecchia

HASBRO, INC.

Annual Report on Form 10-K

for the Year Ended December 28, 1997

Exhibit Index

Exhibit

3. Articles of Incorporation and Bylaws

- (a) Restated Articles of Incorporation of the Company. (Incorporated by reference to Exhibit (c)(2) to the Company's Current Report on Form 8-K, dated July 15, 1993, File No. 1-6682.)
- (b) Amended and Restated Bylaws of the Company. (Incorporated by reference to Exhibit (3) to the Company's Current Report on Form 8-K, dated February 16, 1996, File No. 1-6682.)

4. Instruments defining the rights of security holders, including indentures

- (a) Revolving Credit Agreement, dated as of June 22, 1992, among the Company, certain banks (the "Banks"), and The First National Bank of Boston, as agent for the Banks (the "Agent"). (Incorporated by reference to Exhibit 4(a) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 27, 1992, File No. 1-6682.)
- (b) Subordination Agreement, dated as of June 22, 1992, among the Company, certain subsidiaries of the Company, and the Agent. (Incorporated by reference to Exhibit 4(b) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 27, 1992, File No. 1-6682.)
- (c) Amendment No. 1, dated as of April 1, 1994, to Revolving Credit Agreement among the Company, the Banks and the Agent. (Incorporated by reference to Exhibit 4 to the Company's Quarterly Report on Form 10-Q for the Period Ended March 27, 1994, File No. 1-6682.)
- (d) Amendment No. 2, dated as of May 1, 1995, to Revolving Credit Agreement among the Company, the Banks and the Agent. (Incorporated by reference to Exhibit 4 to the Company's Quarterly Report on Form 10-Q for the Period Ended April 2, 1995, File No. 1-6682.)
- (e) Amendment No. 3, dated as of May 10, 1996, to Revolving Credit Agreement among the Company, the Banks and the Agent. (Incorporated by reference to Exhibit 4 to the Company's Quarterly Report on Form 10-Q for the Period Ended March 31, 1996, File No. 1-6682.)

-1-

- (f) Amendment No. 4, dated as of May 14, 1997, to the Revolving Credit Agreement among the Company, the Banks and the agent. (Incorporated by reference to Exhibit 4 to the Company's Quarterly Report on Form 10-Q for the Period Ended June 29, 1997, File No. 1-6682.)

10. Material Contracts

- (a) Lease between Hasbro Canada Inc. (formerly named Hasbro Industries (Canada) Ltd.) and Central Toy Manufacturing Co. ("Central Toy"), dated December 23, 1976. (Incorporated by reference to Exhibit 10.15 to the Company's Registration Statement on Form S-14, File No. 2-92550.)
- (b) Lease between Hasbro Canada Inc. and Central Toy, together with an Addendum thereto, each dated as of May 1, 1987. (Incorporated by reference to Exhibit 10(f) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 27, 1987, File No. 1-6682.)
- (c) Addendum to lease, dated March 5, 1998, between Hasbro Canada

and Central Toy.

Executive Compensation Plans and Arrangements

- (d) Employee Incentive Stock Option Plan. (Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8, File No. 2-78018.)
- (e) Amendment No. 1 to Employee Incentive Stock Option Plan. (Incorporated by reference to Exhibit 10(l) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 28, 1986, File No. 1-6682.)
- (f) Amendment No. 2 to Employee Incentive Stock Option Plan. (Incorporated by reference to Exhibit 10(n) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 27, 1987, File No. 1-6682.)
- (g) Amendment No. 3 to Employee Incentive Stock Option Plan. (Incorporated by reference to Exhibit 10(o) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 25, 1988, File No. 1-6682.)
- (h) Amendment No. 4 to Employee Incentive Stock Option Plan. (Incorporated by reference to Exhibit 10(s) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1989, File No. 1-6682.)
- (i) Form of Incentive Stock Option Agreement for incentive stock options. (Incorporated by reference to Exhibit 10(o) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 27, 1987, File No. 1-6682.)

- (j) Form of Non Qualified Stock Option Agreement under the Employee Incentive Stock Option Plan. (Incorporated by reference to Exhibit 10(q) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 25, 1988, File No. 1-6682.)
- (k) Non Qualified Stock Option Plan. (Incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-14, File No. 2-92550.)
- (l) Amendment No. 1 to Non Qualified Stock Option Plan. (Incorporated by reference to Exhibit 10(j) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 28, 1986, File No. 1-6682.)
- (m) Amendment No. 2 to Non Qualified Stock Option Plan. (Incorporated by reference to Appendix A to the Company's definitive proxy statement for its 1987 Annual Meeting of Shareholders, File No. 1-6682.)
- (n) Amendment No. 3 to Non Qualified Stock Option Plan. (Incorporated by reference to Exhibit 10(l) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1989, File No. 1-6682.)
- (o) Form of Stock Option Agreement (For Employees) under the Non Qualified Stock Option Plan. (Incorporated by reference to Exhibit 10(t) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 27, 1992, File No. 1-6682.)
- (p) 1992 Stock Incentive Plan (Incorporated by reference to Appendix A to the Company's definitive proxy statement for its 1992 Annual Meeting of Shareholders, File No. 1-6682.)
- (q) Form of Stock Option Agreement under the 1992 Stock Incentive Plan, the Stock Incentive Performance Plan and the Employee Non-Qualified Stock Plan. (Incorporated by reference to Exhibit 10(v) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 27, 1992, File No. 1-6682.)
- (r) Form of Stock Option Agreement (For Participants in the Long Term Incentive Program) under the 1992 Stock Incentive Plan and the Stock Incentive Performance Plan. (Incorporated by reference to Exhibit 10(w) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 27, 1992, File No. 1-6682.)
- (s) Form of Employment Agreement between the Company and nine executive officers of the Company. (Incorporated by reference to Exhibit 10(v) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1989, File No. 1-6682.)

- (t) Hasbro, Inc. Retirement Plan for Directors. (Incorporated by reference to Exhibit 10(x) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 30, 1990, File No. 1-6682.)
- (u) Form of Director's Indemnification Agreement. (Incorporated by reference to Appendix B to the Company's definitive proxy statement for its 1988 Annual Meeting of Shareholders, File No. 1-6682.)
- (v) Hasbro, Inc. Deferred Compensation Plan for Non-Employee Directors. (Incorporated by reference to Exhibit 10(cc) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 26, 1993, File No. 1-6682.)
- (w) Hasbro, Inc. Stock Option Plan for Non-Employee Directors. (Incorporated by reference to Appendix A to the Company's definitive proxy statement for its 1994 Annual Meeting of Shareholders, File No. 1-6682.)
- (x) Form of Stock Option Agreement for Non-Employee Directors under the Hasbro, Inc. Stock Option Plan for Non-Employee Directors. (Incorporated by reference to Exhibit 10(w) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 25, 1994, File No. 1-6682.)
- (y) Hasbro, Inc. Senior Management Annual Performance Plan. (Incorporated by reference to Appendix B to the Company's definitive proxy statement for its 1994 Annual Meeting of Shareholders, File No. 1-6682.)
- (z) Hasbro, Inc. Stock Incentive Performance Plan. (Incorporated by reference to Appendix A to the Company's definitive proxy statement for its 1995 Annual Meeting of Shareholders, File No. 1-6682.)
- (aa) Employee Non-Qualified Stock Plan. (Incorporated by reference to Exhibit 10(dd) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 29, 1996, File No. 1-6682.)
- (bb) Hasbro, Inc. Nonqualified Deferred Compensation Plan.
- (cc) Employment Agreement, dated as of January 1, 1996, between the Company and Harold P. Gordon. (Incorporated by reference to Exhibit 10(aa) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1995, File No. 1-6682.)
- (dd) Severance And Settlement Agreement And Release, dated as of December 20, 1995, and addendum thereto, between the Company and Dan D. Owen. (Incorporated by reference to Exhibit 10(bb) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1995, File No. 1-6682.)

- (ee) Amendment, effective as of January 1, 1997 to Severance and Settlement Agreement and Release between the Company and Dan D. Owen. (Incorporated by reference to Exhibit 10(cc) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 29, 1996, File No. 1-6682.)
 - (ff) Amendment, dated February 20, 1998, to Severance And Settlement Agreement And Release between the Company and Dan D. Owen.
 - (gg) Letter agreements, dated January 30, 1998, between the Company and George R. Ditomassi, Jr.
 - (hh) Consulting Agreement, dated January 31, 1998, between the Company and George R. Ditomassi, Jr.
 - (ii) Letter dated January 26, 1998 from the Company to George B. Volanakis.
- 11. Statement re computation of per share earnings
 - 12. Statement re computation of ratios
 - 13. Selected information contained in Annual Report to Shareholders
 - 22. Subsidiaries of the registrant
 - 24. Consents of experts and counsel
 - (a) Consent of KPMG Peat Marwick LLP
 - 27. Financial data schedule

This ADDENDUM TO LEASE made and entered into this 5th day of March, 1998,

BY AND BETWEEN:

CENTRAL TOY MANUFACTURING INC., a body politic and corporate, duly incorporated under the laws of the Province of Quebec, having its head office and principal place of business at 2350 de la Province, in the City of Longueuil, Quebec, Canada, herein represented by David Litner, its Vice President, duly authorized as he so declares.

(hereinafter the "Lessor")

AND:

HASBRO CANADA INC., a body politic and corporate, duly incorporated under the laws of Canada, having its head office and principal place of business at 2350 de la Province, in the City of Longueuil, Quebec, Canada, herein represented by Harold P. Gordon, its Executive Vice President, duly authorized as he so declares.

(hereinafter the "Lessee")

WHEREAS the Lessee (then known as Hasbro Industries (Canada) Ltd.) and the Lessor have entered into an indenture and agreement of lease on December 23, 1976, as amended on October 30, 1977 and as renewed in accordance with the terms thereof (the "1976 Lease"), with respect to a certain building comprising an area of ONE HUNDRED AND TWENTY-FOUR THOUSAND EIGHT HUNDRED square feet (124,800 sq. ft.), consisting of an office area of THREE THOUSAND EIGHT HUNDRED AND FORTY square feet (3,840 sq. ft.) and a manufacturing area OF ONE HUNDRED AND TWENTY THOUSAND NINE HUNDRED AND SIXTY square feet (120,960 sq. ft.), and the parcel of land on which the said building is located, more specifically, that certain lot of land situated at 2350 rue de la Province, in the City of Longueuil, District of Montreal, Province of Quebec (the "124800 Building");

WHEREAS the Lessor and the Lessee have entered into an indenture and agreement of lease on May 1, 1987 (the "1987 Lease"), with respect to a certain building comprising an area of EIGHTY-EIGHT THOUSAND AND FIFTY-FOUR square feet (88,054 sq. ft.), located at 2350 de la Province, in the City of Longueuil, District of Montreal, Province of Quebec (the "88054 Building");

WHEREAS the Lessor and the Lessee have entered into an addendum to the 1987 lease on May 1, 1987 (the "1987 Addendum") with respect to the rental of certain undeveloped land adjacent and contiguous to the 88054 Building, said land being comprised of two sections, the first section totaling ONE HUNDRED AND EIGHTY-ONE THOUSAND ONE HUNDRED FORTY-THREE AND SEVENTY-FIVE ONE HUNDREDTHS square feet (181,143.75 sq. ft.), and the second section totaling THIRTY THOUSAND SEVEN HUNDRED THIRTY-SEVEN AND SIXTY-EIGHT ONE HUNDREDTHS square feet (30,737.68 sq. ft.), aggregating in the amount of TWO HUNDRED ELEVEN THOUSAND EIGHT HUNDRED EIGHTY-ONE AND FORTY-THREE ONE HUNDREDTHS square feet (211,881.43 sq.ft.) (the "Land") (the 124800 Building, the 88054 Building and the Land being hereinafter collectively referred to as the "Leased Premises");

WHEREAS as of February 1, 1998, the Lessor's indebtedness secured by hypothecs encumbering the Leased Premises was as follows:

| Creditor ----- | Loan Number ----- | Amount Outstanding ----- |
|----------------------------------|----------------------|-----------------------------|
| Manufacturers Life Insurance Co. | 733086 | \$1,710,111.45 |
| Standard Life Assurance Co. | 12543 | 10,761.13 |

WHEREAS on or before April 1, 1998, Lessor will completely repay Loan # 12543;

WHEREAS on or before April 1, 1998, the amount outstanding under Loan # 733086 as hereinabove mentioned shall be repaid in part with all then available cash of Lessor, which was estimated to be approximately \$115,000 as of February 1, 1998, net of i) all costs, fees and expenses incurred by the Lessor in relation to entering into a new loan with another third party creditor, the whole in accordance with Section 6 hereof and ii) the amount of the pay-out of Loan # 12543, and all associated costs, fees and expenses, including those incurred with respect of the discharge and release of all accessory hypothecs;

WHEREAS the Lessor and the Lessee wish to agree on financing of the Leased Premises, as defined hereunder, from the date hereof up and until January 31, 2003;

AND WHEREAS the Lessor and the Lessee wish to amend and extend the 1976 Lease and the 1987 Lease, as amended by the 1987 Addendum (collectively, the "Leases"), upon such terms and conditions as set forth below in this Addendum to Lease.

NOW, THEREFORE, THE ADDENDUM WITNESSETH AS FOLLOWS:

1. Preamble. The preamble hereinabove shall be deemed an integral part of this Addendum as if recited herein at length.
2. Term. The term of the 1976 Lease is hereby extended for a period of three (3) years and one (1) month commencing as of January 1, 1998 and ending on January 31, 2001, under the same terms and conditions as set forth therein, save and except as provided for in this Addendum. The term of the 1987 Lease is hereby extended for a period of three (3) years and nine months commencing as of May 1, 1997 and ending on January 31, 2001, under the same terms and conditions as set forth therein, save and except as provided for in this Addendum.
3. Rent. Rent payable under the 1976 Lease shall continue to be \$213,408 year. Rent payable under the 1987 Lease shall continue to be \$323,598.48 per year. Rent payable under the 1987 Addendum shall continue to be \$42,376.29 per year.
4. Option to Extend. The Lessee shall have the right to further extend the term hereinbefore stated of the Leases for the following three (3) consecutive three-year terms: (i) February 1, 2001 to January 31, 2004, (ii) February 1, 2004 to January 31, 2007, and (iii) February 1, 2007 to January 31, 2010, all of which, up and until January 31, 2010, upon the same terms and conditions as those found in the relevant Leases, mutatis mutandis, save for rent, which shall be at fair market rental, determined in accordance with this Section 4.
 - (a) In order to exercise any said extension option, the Lessee shall give written notice to the Lessor at least six (6) months prior to the expiry of the then current term, of its intention to extend the term for a further three (3) years. The date of the giving of such notice shall be hereinafter referred to as the "Exercise Date".
 - (b) Following the Exercise Date, Lessor and Lessee shall in good faith attempt to agree on the fair market rental. If Lessee and Lessor are unable to agree upon such fair market rental, then within fifteen (15) days of the Exercise Date, Lessee and Lessor shall jointly appoint a real estate appraisal firm based in Montreal with at least five (5) years experience in appraising commercial real estate (an "Appraiser") to determine such fair market rental. Lessee and the Lessor agree that the Appraiser in making its appraisal of the fair market rental shall take into account the terms of the Leases, including the triple net nature thereof, the condition of the Leased Premises, the rent payable for premises similar to the Leased Premises having regard to the nature, location and usage of the Leased Premises and all other appropriate factors. The fair market rental shall be determined by such Appraiser within ninety (90) days of the Exercise Date.
 - (c) If Lessor and Lessee cannot jointly agree on an Appraiser, then within twenty (20) days of the Exercise Date, each shall appoint an Appraiser. Both appraisals shall be completed and delivered simultaneously to Lessor and Lessee on the fiftieth (50th) day following the Exercise Date. If the higher appraisal is less than 5% greater than the lower appraisal, then the fair market rental shall be the average of both appraisals. If the higher appraisal is more than 5% greater than the lower appraisal, then within sixty-five (65) days following the Exercise Date, the Appraisers shall jointly select another Appraiser to make an additional appraisal of the fair market rental, which shall be completed and delivered to Lessor and Lessee within ninety (90) days following the Exercise Date. In this last case, fair market rental shall be the average of the two closest appraisals.
 - (d) Each party shall bear the cost of the Appraiser selected solely by such party. All costs of any Appraisers jointly selected by Lessor and Lessee shall be borne equally by Lessor and Lessee. The fair market rental determined by (i) the sole jointly elected Appraiser in accordance with Section 4(b) or (ii) by averaging

certain appraisals pursuant to Section 4(c) shall be final and binding on Lessor and Lessee with respect to the three year renewal term in question.

5. Sale of the Property. For the duration of the term or any extension thereof, the Lessor shall be entitled to sell the land and the buildings which together make up the Leased Premises only as a whole and not separately, subject to the following:

(a) Right of First Refusal.

If Lessor receives a genuine bona fide written offer (the "Third Party Offer") from an unrelated bona fide third party (the "Third Party") for the whole of the Leased Premises price, and the Third Party Offer is acceptable to the Lessor, then the Lessor shall first offer to sell (the "Offer") the Leased Premises to the Lessee on the same terms and conditions as those contained in the Third Party Offer. The Offer shall be sent to the Lessee and shall be open for acceptance for ten (10) business days (the "Offer Period") from the date of receipt of the Third Party Offer by the Lessee. If the Lessee fails to accept the Offer within the Offer Period, then the Lessor shall be free for a period of sixty (60) days from the end of the Offer Period to sell all (but not less than all) of the Leased Premises to the Third Party on the same terms and conditions provided in the Third Party Offer, it being understood, however, that, should the ultimately negotiated sale price be lower than the one submitted in the Offer (other than as a result of normal closing adjustments), the Lessee shall be notified of such occurrence by the Lessor at least five (5) business days before entering in the deed of sale, and should the Lessee so notify the Lessor within such period, the Lessor shall not sell the Leased Premises without again following and being subject to the provisions of this Section 5.

(b) Lapse of First Refusal Right.

Should the Lessee fail to give written notice to the Lessor of its intention to extend the term for a further three (3) years in accordance with the provisions of Section 4 hereof, the above-mentioned right of first refusal shall lapse concurrently with the said option to extend. Notwithstanding the foregoing, should the procedure under the first refusal right hereunder have been initiated prior to any such right lapsing or prior to the termination of the Leases, the terms of subsection 5 a) shall remain in full force and effect until said procedure has been completed.

(c) Breach of First Refusal Right by Lessee.

If the Lessee accepts the Offer during the Offer Period, but does not complete the purchase transaction within 60 days from the date when all of the conditions (other than conditions totally within the control of Lessee) to the Third Party Offer are satisfied as a result of a breach of Lessee's obligations under the Third Party Offer as accepted by Lessee, the Lessor shall be entitled to seek specific performance of the Lessee's obligations under the Offer as accepted by Lessee and the Lessee shall be liable to the Lessor for all losses, damages, and expenses (including broker and legal fees) suffered or incurred by the Lessor as a result of the Lessee's breach.

6. Financing of the Leased Premises. Lessee has obtained a binding financing commitment from a third party creditor for a new loan on commercially reasonable market terms, including market interest rate, secured by a first-ranking hypothec on the Leased Premises, for a term not exceeding five years and in an amount not greater than the then outstanding balance of Loan # 733086 after reduction of the balance of said loan by Lessor with all available cash as above provided. The Lessor shall consent to enter into such deeds of loan and hypothecs that shall be contemplated by said financing commitment in accordance with the above. The Lessor shall be solely responsible to pay all costs, fees and expenses customarily borne by a borrower in commercial mortgage transactions. Lessee represents that it has not incurred any costs, and Lessor shall not be responsible to pay Lessee for its efforts, in arranging such new loan on behalf of Lessor.

Upon request by Lessor's third party creditor, Lessee shall subordinate the Leases to such third party creditor's security; provided, that, upon request by Lessee, such third party creditor shall deliver to Lessee non-disturbance agreements such that if the third party creditor becomes the owner and/or administrator of the Leased Premises the Leases shall be respected so long as Lessee is not in default (with the benefit of any grace or cure periods) pursuant to the provisions of the Leases.

In the event that (a) the closing of the financing contemplated by the binding financing commitment received by the Lessor pursuant to this Section does not occur by April 1, 1998 because of a default by the third party creditor or by Lessee, then upon demand of payment issued to the Lessor by the creditor under the terms of Loan #733086 or (b) such new loan shall terminate prior to January 31, 2003 (and shall not have been renewed to at least January 31, 2003), Lessee shall be responsible to advance, on behalf of the shareholders of the Lessor other than the Estate of Merrill Hassenfeld, which is a 25% shareholder of Lessor, sufficient funds to the Lessor to provide for the repayment of 75% of the then outstanding loan and, if the Leases shall have terminated, the payment of 75% of all expenses incurred for the operation and maintenance of the Leased Premises, including taxes, but excluding any depreciation and/or amortization. It is understood that the funds for the repayment of the remaining 25% of said then outstanding loan and the payment of the remaining 25% of said expenses shall be advanced to the Lessor by the Estate of Merrill Hassenfeld.

Lessee's obligation to advance sufficient funds to Lessor in accordance with the above shall never extend further than five years from February 1, 1998, and any and all funds so advanced by Lessee shall be reimbursed to Lessee by Lessor on or before January 31, 2003, which reimbursement shall be secured by a first ranking hypothec on the Leased Premises in favour of Lessee, the whole on terms similar to those found in the hypothec that shall then encumber the property *mutatis mutandis*.

No shareholder on behalf of which the Lessee shall advance funds to the Lessor in accordance with the above shall be liable personally for reimbursements of funds so advanced by Lessee to the Lessor, Lessee's sole security in respect thereto being the above-mentioned hypothec granted to the Lessee.

Notwithstanding the fact that financing of the Leased Premises after expiry of the term of Loan # 733086 be effected through renewal of the existing loan, new third party loan or Lessee's advances, Lessor, in all cases, shall bind and oblige itself to commit all funds received as income from the Leased Premises, net of any expenses incurred by the Lessor for the purpose of operation and maintenance of the Leased Premises, including taxes but excluding any depreciation and/or amortization, to repay said loan or Lessee's advances in respect thereof, as the case may be.

If, by August 1, 2000, Lessee shall fail to give Lessor notice of exercise of its option to extend the Lease pursuant to Section 4 of this Addendum, Lessor shall promptly proceed to attempt to sell or lease the Leased Premises to a third party. If Lessor shall enter into a lease with a third party, Lessor shall promptly either renew or extend the then existing loan or obtain a new loan with a third party creditor. The proceeds of any sale or other alienation of, or any loan obtained with respect to, the Leased Premises shall be applied first to pay any and all outstanding advances made by Lessee to Lessor. In addition, upon the closing of such sale or other alienation or such new, renewed or extended loan, all of Lessee's obligations to make advances hereunder shall terminate.

7. Counterparts. This agreement may be executed in any number of counterparts, each of which once executed shall be deemed to be an original, but all of which together shall constitute one and the same agreement.
8. Notices. Any notice or communication required or permitted to be given hereunder shall be in writing and shall be delivered by hand or by registered mail to the offices of the other party at the address hereinbefore mentioned or at any other address within the Province of Quebec that either party may so notify to the other party hereto.
9. Governing Law. This agreement shall be governed by and interpreted and construed in accordance with the laws in force of the Province of Quebec and the laws of Canada applicable therein. All references to dollars in this agreement are references to Canadian dollars.

10. Language. The parties have specifically requested that the present agreement be written in the English language. Les parties aux presentes ont exige que la presente soit ecrite en langue anglaise.

IN WITNESS WHEREOF, the parties hereto have executed this Addendum on the date and at the place first hereinabove written.

CENTRAL TOY MANUFACTURING INC.

Per: /s/ David Litner

David Litner
Vice President

HASBRO CANADA INC.

Per: /s/ Harold P. Gordon

Harold P. Gordon
Executive Vice President

HASBRO, INC.

NONQUALIFIED DEFERRED COMPENSATION PLAN

Effective October 1, 1997

TABLE OF CONTENTS

Page

Purpose

ARTICLE 1 - Definitions

ARTICLE 2 - Selection, Enrollment, Eligibility

- 2.1 Selection by Committee
- 2.2 Enrollment Requirements
- 2.3 Eligibility; Commencement of Participation
- 2.4 Termination of Participation and/or Deferrals

ARTICLE 3 - Deferral Commitments/Company Matching/Crediting/Taxes

- 3.1 Minimum Deferrals
- 3.2 Maximum Deferral
- 3.3 Election to Defer; Effect of Election Form
- 3.4 Withholding of Annual Deferral Amounts
- 3.5 Annual Company Matching Amount
- 3.6 Investment of Trust Assets
- 3.7 Vesting
- 3.8 Crediting/Debiting of Account Balances
- 3.9 FICA and Other Taxes
- 3.10 Distributions
- 3.11 Employer Deferral

ARTICLE 4 - Short-Term Payout; Unforeseeable Financial
Emergencies; Withdrawal Election

ARTICLE 5 - Retirement Benefit

ARTICLE 6 - Pre-Retirement Survivor Benefit

ARTICLE 7 - Termination Benefit

ARTICLE 8 - Disability Waiver and Benefit

- 8.1 Disability Waiver
- 8.2 Continued Eligibility; Disability Benefit

ARTICLE 9 - Beneficiary Designation

- 9.1 Beneficiary
- 9.2 Beneficiary Designation; Change
- 9.3 Acknowledgment
- 9.4 No Beneficiary Designation
- 9.5 Doubt as to Beneficiary
- 9.6 Discharge of Obligations

ARTICLE 10 - Leave of Absence

ARTICLE 11 - Termination, Amendment or Modification

- 11.1 Termination
- 11.2 Amendment
- 11.3 Plan Agreement
- 11.4 Effect of Payment

ARTICLE 12 - Administration

- 12.1 Committee Duties
- 12.2 Agents
- 12.3 Binding Effect of Decisions
- 12.4 Indemnity of Committee
- 12.5 Employer Information

ARTICLE 13 - Other Benefits and Agreements

13.1 Coordination with Other Benefits

ARTICLE 14 - Claims Procedures

- 14.1 Presentation of Claim
- 14.2 Notification of Decision
- 14.3 Review of a Denied Claim
- 14.4 Decision on Review
- 14.5 Legal Action

ARTICLE 15 - Trust

- 15.1 Establishment of the Trust
- 15.2 Interrelationship of the Plan and the Trust
- 15.3 Distributions From the Trust

ARTICLE 16 - Miscellaneous

- 16.1 Status of Plan
- 16.2 Unsecured General Creditor
- 16.3 Employer's Liability
- 16.4 Nonassignability
- 16.5 Not a Contract of Employment
- 16.6 Furnishing Information
- 16.7 Terms
- 16.8 Captions
- 16.9 Governing Law
- 16.10 Notice
- 16.11 Successors
- 16.12 Validity
- 16.13 Incompetent
- 16.14 Distribution in the Event of Taxation
- 16.15 Insurance
- 16.16 Legal Fees To Enforce Rights After Change in Control

HASBRO, INC.

NONQUALIFIED DEFERRED COMPENSATION PLAN

Effective October 1, 1997

Purpose

The purpose of this Plan is to provide specified benefits to a select group of management and highly compensated Employees who contribute materially to the continued growth, development and future business success of Hasbro, Inc., a Rhode Island corporation, and its subsidiaries, if any, that sponsor this Plan. This Plan shall be unfunded for tax purposes and for purposes of Title I of ERISA.

ARTICLE 1

Definitions

For purposes of this Plan, unless otherwise clearly apparent from the context, the following phrases or terms shall have the following indicated meanings:

1.1 "Account Balance" shall mean, with respect to a Participant, a credit on the records of the Employer equal to the sum of (i) the Deferral Account balance and (ii) the Company Matching Account balance. The Account Balance, and each other specified account balance, shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant, or his or her designated Beneficiary, pursuant to this Plan.

1.2 "Annual Bonus" shall mean any compensation, in addition to Base Annual Salary relating to services performed during any calendar year, whether or not paid in such calendar year or included on the Federal Income Tax Form W-2 for such calendar year, payable to a Participant as an Employee under any Employer's annual bonus and cash incentive plans, excluding stock options, holiday bonuses, retention bonuses, or any other discretionary or special bonus or awards.

1.3 "Annual Company Matching Amount" for any one Plan Year shall be the amount determined in accordance with Section 3.5.

1.4 "Annual Deferral Amount" shall mean that portion of a Participant's Base Annual Salary and Annual Bonus that a Participant elects to have, and is deferred, in accordance with Article 3, for any one Plan Year. In the event of a Participant's Retirement, Disability (if deferrals cease in accordance with Section 8.1), death or a Termination of Employment prior to the end of a Plan Year, such year's Annual Deferral Amount shall be the actual amount withheld prior to such event.

1.5 "Base Annual Salary" shall mean the annual cash compensation relating to services performed during any calendar year, whether or not paid in such calendar year or included on the Federal Income Tax Form W-2 for such calendar year, excluding bonuses of every type, commissions, overtime, fringe benefits, stock options, relocation expenses, incentive payments, non-monetary awards, directors fees and other fees, automobile and other allowances paid to a Participant for employment services rendered (whether or not such allowances are included in the Employee's gross income). Base Annual Salary shall be calculated before reduction for compensation voluntarily deferred or contributed by the Participant pursuant to all qualified or non-qualified plans of any Employer and shall be calculated to include amounts not otherwise included in the Participant's gross income under Code Sections 125, 402(e)(3), 402(h), or 403(b) pursuant to plans established by any Employer; provided, however, that all such amounts will be included in compensation only to the extent that, had there been no such plan, the amount would have been payable in cash to the Employee.

1.6 "Annual Installment Method" shall be an annual installment payment over the number of years selected by the Participant in accordance with this Plan, calculated as follows: The Account Balance of the Participant shall be calculated as of the close of business three business days prior to the last business day of the year. The annual installment shall be calculated by multiplying this balance by a fraction, the numerator of which is one, and the denominator of which is the remaining number of annual payments due the Participant. By way of example, if the Participant elects a 10 year Annual Installment Method, the first payment shall be 1/10 of the Account Balance, calculated as described in this definition. The following year, the payment shall be 1/9 of the Account Balance, calculated as described in this definition. Each annual installment shall be paid on or as soon as practicable after the last business day of the applicable year.

1.7 "Beneficiary" shall mean one or more persons, trusts, estates or other entities, designated in accordance with Article 9, that are entitled to receive benefits under this Plan upon the death of a Participant.

1.8 "Beneficiary Designation Form" shall mean the form established from time to time by the Committee that a Participant completes, signs and returns to the Committee to designate one or more Beneficiaries.

1.9 "Board" shall mean the board of directors of the Company.

1.10 "Change in Control" shall mean the first to occur of any of the following events:

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934 (the "1934 Act") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 20% or more of either (i) the then outstanding shares of Common Stock of Hasbro, Inc. ("Hasbro") (the "Outstanding Common Stock") or (ii) the combined voting power of the then outstanding voting securities of Hasbro entitled to vote generally in the election of directors (the "Outstanding voting Securities"); provided, however, that the following acquisitions shall not constitute a Change in Control: (i) any acquisition directly from Hasbro or any of its subsidiaries, (ii) any acquisition by Hasbro or any of its subsidiaries, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by Hasbro or any of its subsidiaries, (iv) any acquisition by Alan or Sylvia Hassenfeld, members of their respective immediate families, or heirs of Alan or Sylvia Hassenfeld or of any member of their respective immediate families, the Sylvia Hassenfeld Trust, the Merrill Hassenfeld Trust, the Alan Hassenfeld Trust, the Hassenfeld Foundation, any trust or foundation established by or for the primary benefit of any of the foregoing or controlled by one or more of any of the foregoing, or any affiliates or associates (as such terms are defined in Rule 12b-2 promulgated under the 1934 Act) of any of the foregoing or (v) any acquisition by any corporation with respect to which, following such acquisition, more than 60% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then

outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Common Stock and the Outstanding Voting Securities immediately prior to such acquisition in substantially the same proportions as their ownership, immediately prior to such acquisition, of the Outstanding Common Stock and Outstanding Voting Securities, as the case may be; or

(b) Individuals who, as the effective date of the Plan constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the effective date of the Plan whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the 1934 Act) or other actual or threatened solicitation of proxies or consents; or

(c) Approval by the shareholders of Hasbro of a reorganization, merger or consolidation, in each case, with respect to which all or substantially all of the individuals and entities who were the beneficial owners, respectively of the Outstanding Common Stock and Outstanding Voting Securities immediately prior to such reorganization, merger or consolidation do not, following such reorganization, merger or consolidation, beneficially own, directly or indirectly, more than 60% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such reorganization, merger or consolidation in substantially the same proportions as their ownership, immediately prior to such reorganization, merger or consolidation, of the outstanding Common Stock and Outstanding Voting Securities, as the case may be; or

(d) Approval by the shareholders of Hasbro of (i) a complete liquidation or dissolution of Hasbro or (ii) the sale or other disposition of all or substantially all of the assets of Hasbro, other than to a corporation, with respect to which following such sale or other disposition, more than 60% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Common Stock and Outstanding Voting Securities immediately prior to such sale or other disposition in substantially the same proportion as their ownership, immediately prior to such sale or other disposition, of the Outstanding Common Stock and Outstanding Voting Securities, as the case may be.

1.11 "Claimant" shall have the meaning set forth in Section 14.1.

1.12 "Code" shall mean the Internal Revenue Code of 1986, as it may be amended from time to time.

1.13 "Committee" shall mean the committee described in Article 12.

1.14 "Company" shall mean Hasbro, Inc., a Rhode Island corporation, and any successor to all or substantially all of the Company's assets or business.

1.15 "Company Matching Account" shall mean (i) the sum of all of a Participant's Annual Company Matching Amounts, plus (ii) amounts credited in accordance with all the applicable crediting provisions of this Plan that relate to the Participant's Company Matching Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant's Company Matching Account.

1.16 "Deduction Limitation" shall mean the following described limitation on a benefit that may otherwise be distributable pursuant to the provisions of this Plan. Except as otherwise provided, this limitation shall be applied to all distributions that are "subject to the Deduction Limitation" under this Plan. If an Employer determines in good faith prior to a Change in Control that there is a reasonable likelihood that any compensation paid to a Participant for a taxable year of the Employer would not be deductible by the Employer solely by reason of the limitation under Code Section 162(m), then to the extent deemed necessary by the Employer to ensure that the entire amount of any distribution to the Participant pursuant to this Plan prior to the Change in Control is deductible, the Employer may defer

all or any portion of a distribution under this Plan. Any amounts deferred pursuant to this limitation shall continue to be credited/debited with additional amounts in accordance with Section 3.8 below. The amounts so deferred and amounts credited thereon shall be distributed to the Participant or his or her Beneficiary (in the event of the Participant's death) at the earliest possible date, as determined by the Employer in good faith, on which the deductibility of compensation paid or payable to the Participant for the taxable year of the Employer during which the distribution is made will not be limited by Section 162(m), or if earlier, the effective date of a Change in Control. Notwithstanding anything to the contrary in this Plan, the Deduction Limitation shall not apply to any distributions made after a Change in Control.

1.17 "Deferral Account" shall mean (i) the sum of all of a Participant's Annual Deferral Amounts, plus (ii) amounts credited in accordance with all the applicable crediting provisions of this Plan that relate to the Participant's Deferral Account, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to his or her Deferral Account.

1.18 "Disability" shall mean a period of disability during which a Participant qualifies for disability benefits under the Participant's Employer's long-term disability plan, or, if a Participant does not participate in such a plan, a period of disability during which the Participant would have qualified for permanent disability benefits under such a plan had the Participant been a participant in such a plan, as determined in the sole discretion of the Committee. If the Participant's Employer does not sponsor such a plan, or discontinues to sponsor such a plan, Disability shall be determined by the Committee in its sole discretion.

1.19 "Disability Benefit" shall mean the benefit set forth in Article 8.

1.20 "Election Form" shall mean the form established from time to time by the Committee that a Participant completes, signs and returns to the Committee to make an election under the Plan.

1.21 "Employee" shall mean a person who is an employee of any Employer.

1.22 "Employer(s)" shall mean the Company and/or any of its subsidiaries (now in existence or hereafter formed or acquired) that have been selected by the Board or any authorized committee thereof to participate in the Plan and have adopted the Plan as a sponsor.

1.23 "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as it may be amended from time to time.

1.24 "First Plan Year" shall mean the period beginning October 1, 1997 and ending December 31, 1997.

1.25 "401(k) Plan" shall mean that certain Hasbro, Inc. Retirement Savings Plan adopted by the Company.

1.26 "Maximum 401(k) Amount" with respect to a Participant, shall be the maximum amount of elective contributions that can be made by such Participant, consistent with Code Section 402(g) and the limitations of Code Section 401(k)(3), for a given plan year under the 401(k) Plan.

1.27 "Participant" shall mean any Employee (i) who is selected to participate in the Plan, (ii) who elects to participate in the Plan, (iii) who signs a Plan Agreement, an Election Form and a Beneficiary Designation Form, (iv) whose signed Plan Agreement, Election Form and Beneficiary Designation Form are accepted by the Committee, (v) who commences participation in the Plan, and (vi) whose Plan Agreement has not terminated. A spouse or former spouse of a Participant shall not be treated as a Participant in the Plan or have an account balance under the Plan, even if he or she has an interest in the Participant's benefits under the Plan as a result of applicable law or property settlements resulting from legal separation or divorce.

1.28 "Plan" shall mean the Company's Nonqualified Deferred Compensation Plan, which shall be evidenced by this instrument and by each Plan Agreement, as they may be amended from time to time.

1.29 "Plan Agreement" shall mean a written agreement, as may be amended from time to time, which is entered into by and between an Employer and a Participant. Each Plan Agreement executed by a Participant and the Participant's Employer shall provide for the entire benefit to which such Participant is entitled under the Plan; should there be more than one Plan Agreement, the Plan Agreement bearing the latest date of acceptance by the

Employer shall supersede all previous Plan Agreements in their entirety and shall govern such entitlement. The terms of any Plan Agreement may be different for any Participant, and any Plan Agreement may provide additional benefits not set forth in the Plan or limit the benefits otherwise provided under the Plan; provided, however, that any such additional benefits or benefit limitations must be agreed to by both the Employer and the Participant.

1.30 "Plan Year" shall, except for the First Plan Year, mean a period beginning on January 1 of each calendar year and continuing through December 31 of such calendar year.

1.31 "Pre-Retirement Survivor Benefit" shall mean the benefit set forth in Article 6 for purposes of this Plan only.

1.32 "Retirement", "Retire(s)" or "Retired" shall mean, with respect to an Employee, severance from employment from all Employers for any reason other than a leave of absence, death or Disability on or after the earlier of the attainment of (a) age sixty-five (65) or (b) age fifty-five (55) with ten (10) Years of Service. The definition in this Section 1.32 shall not have any effect on any other plan maintained by the Employer.

1.33 "Retirement Benefit" shall mean the benefit set forth in Article 5.

1.34 "Short-Term Payout" shall mean the payout set forth in Section 4.1.

1.35 "Termination Benefit" shall mean the benefit set forth in Article 7.

1.36 "Termination of Employment" shall mean the severing of employment with all Employers, voluntarily or involuntarily, for any reason other than Retirement, Disability, death or an authorized leave of absence.

1.37 "Trust" shall mean one or more trusts established pursuant to one or more trust agreements between the Company and the trustee named therein, as amended from time to time.

1.38 "Unforeseeable Financial Emergency" shall mean an unanticipated emergency that is caused by an event beyond the control of the Participant that would result in severe financial hardship to the Participant resulting from (i) a sudden and unexpected illness or accident of the Participant or a dependent of the Participant, (ii) a loss of the Participant's property due to casualty, or (iii) such other extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, all as determined in the sole discretion of the Committee.

1.39 "Years of Plan Participation" shall mean the total number of full Plan Years a Participant has been a Participant in the Plan prior to his or her Termination of Employment (determined without regard to whether deferral elections have been made by the Participant for any Plan Year). Any partial year shall not be counted. Notwithstanding the previous sentence, a Participant's first Plan Year of participation shall be treated as a full Plan Year for purposes of this definition, even if it is only a partial Plan Year of participation.

1.40 "Years of Service" shall mean the total number of full years in which a Participant has been employed by one or more Employers. For purposes of this definition, a year of employment shall be a 365 day period (or 366 day period in the case of a leap year) that, for the first year of employment, commences on the Employee's date of hiring and that, for any subsequent year, commences on an anniversary of that hiring date. Any partial year of employment shall not be counted.

ARTICLE 2

Selection, Enrollment, Eligibility

2.1 Selection by Committee. Participation in the Plan shall be limited to a select group of management and highly compensated Employees of the Employers, as determined by the Committee in its sole discretion. From that group, the Committee shall select, in its sole discretion, Employees to participate in the Plan.

2.2 Enrollment Requirements. As a condition to participation, each selected Employee shall complete, execute and return to the Committee a Plan Agreement, an Election Form and a Beneficiary Designation Form, all within 30 days after he or she is selected to participate in the Plan. In addition, the Committee shall establish from time to time such other enrollment requirements as it determines in its sole discretion are necessary.

2.3 Eligibility; Commencement of Participation. Provided an Employee

selected to participate in the Plan has met all enrollment requirements set forth in this Plan and required by the Committee, including returning all required documents to the Committee within the specified time period, that Employee shall commence participation in the Plan on the first day of the month following the month in which the Employee completes all enrollment requirements. If an Employee fails to meet all such requirements within the period required, in accordance with Section 2.2, that Employee shall not be eligible to participate in the Plan until the first day of the Plan Year following the delivery to and acceptance by the Committee of the required documents.

2.4 Termination of Participation and/or Deferrals. If the Committee determines in good faith that a Participant no longer qualifies as a member of a select group of management or highly compensated employees, as membership in such group is determined in accordance with Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, the Committee shall have the right, in its sole discretion, to (i) terminate any deferral election the Participant has made for the remainder of the Plan Year in which the Participant's membership status changes, (ii) prevent the Participant from making future deferral elections and/or (iii) immediately distribute the Participant's then Account Balance as a Termination Benefit and terminate the Participant's participation in the Plan.

ARTICLE 3

Deferral Commitments/Company Matching/Crediting/Taxes

3.1 Minimum Deferrals.

(a) Base Annual Salary and Annual Bonus. For each Plan Year, a Participant may elect to defer, as his or her Annual Deferral Amount, part or all of the Participant's Base Annual Salary, and/or Annual Bonus in the following minimum amounts for each deferral elected:

| Deferral | Minimum Amount |
|--------------------|----------------|
| Base Annual Salary | \$2,000 |
| Annual Bonus | \$2,000 |

If an election is made for less than stated minimum amounts, or if no election is made, the amount deferred shall be zero.

3.2 Maximum Deferral

(a) Base Annual Salary and Annual Bonus. For each Plan Year, a Participant may elect to defer, as his or her Annual Deferral Amount, part or all of the Participant's Base Annual Salary, and/or Annual Bonus up to the following maximum percentages for each deferral elected:

| Deferral | Maximum Amount |
|--------------------|----------------|
| Base Annual Salary | 100% |
| Annual Bonus | 100% |

Notwithstanding the foregoing, if a Participant first becomes a Participant after the first day of a Plan Year, or in the case of the first Plan Year of the Plan itself, the maximum Annual Deferral Amount, with respect to Base Annual Salary and/or Annual Bonus shall be limited to the amount of compensation not yet earned by the Participant as of the date the Participant submits a Plan Agreement and Election Form to the Committee for acceptance.

An election to defer Base Annual Salary and/or Annual Bonus may be expressed as an election to defer (i) a specific percentage, (ii) a specific dollar amount or (iii) the excess over a specified dollar amount.

3.3 Election to Defer; Effect of Election Form.

(a) First Plan Year. If a Participant's commencement of participation in the Plan is coincident with the Participant's commencement of employment, the Participant shall, within 30 days after commencement of participation, make an irrevocable deferral election for the Plan Year in which the Participant commences participation in the Plan, along with such other elections as the Committee deems necessary or desirable under the Plan. For these elections to be valid, the Election Form must be completed and signed by the Participant, timely delivered to the Committee (in accordance with Section 2.2 above) and accepted by the Committee. If a Participant's commencement of participation begins after commencement of employment, the Participant may not make a deferral election until the Plan Year beginning after commencement of employment.

(b) Subsequent Plan Years. For each succeeding Plan Year, an irrevocable deferral election for that Plan Year, and such other elections

as the Committee deems necessary or desirable under the Plan, shall be made by timely delivering to the Committee, in accordance with its rules and procedures, before the end of the Plan Year preceding the Plan Year for which the election is made, a new Election Form. If no such Election Form is timely delivered for a Plan Year, the Annual Deferral Amount shall be zero for that Plan Year.

3.4 Withholding of Annual Deferral Amounts. For each Plan Year, the Base Annual Salary portion of the Annual Deferral Amount shall be withheld from each regularly scheduled Base Annual Salary payroll in equal amounts, as adjusted from time to time for increases and decreases in Base Annual Salary. The Annual Bonus portion of the Annual Deferral Amount shall be withheld at the time the Annual Bonus is or otherwise would be paid to the Participant, whether or not this occurs during the Plan Year itself. No withholding shall be permitted within twelve months after the Participant has received a hardship distribution from the 401(k) Plan.

3.5 Annual Company Matching Amount. For each Plan Year, an Employer, in its sole discretion, may, but is not required to, credit an Annual Company Matching Amount to the Company Matching Contribution Account of any Participant who makes a contribution to the 401(k) Plan of the Maximum 401(k) Amount. A Participant's Annual Company Matching Amount for any Plan Year shall be equal to the matching contributions that would have been made to the 401(k) Plan on his behalf for the plan year of the 401(k) Plan that corresponds to the Plan Year if the Participant had made no deferral and had made a contribution to the 401(k) Plan of the Maximum 401(k) Amount for such plan year, reduced by the amount of any matching contributions that were actually made to the 401(k) Plan on his or her behalf for such plan year. If a Participant is not employed by an Employer as of the last day of a Plan Year other than by reason of his or her Retirement or death, the Annual Company Matching Amount for such Plan Year shall be zero. In the event of Retirement or death, a Participant shall be credited with the Annual Company Matching Amount for the Plan Year in which he or she Retires or dies.

3.6 Investment of Trust Assets. The Trustee of the Trust shall be authorized, upon written instructions received from the Committee or investment manager appointed by the Committee, to invest and reinvest the assets of the Trust in accordance with the applicable Trust Agreement, including the disposition of stock and reinvestment of the proceeds in one or more investment vehicles designated by the Committee.

3.7 Vesting.

(a) A Participant shall at all times be 100% vested in his or her Deferral Account.

(b) A Participant's Company Matching Account shall vest on the January 1 next following the Participant's completion of a Year of Service.

(c) notwithstanding anything to the contrary contained in this Section 3.7, in the event of a Change in Control, a Participant's Company Matching Account shall immediately become 100% vested (if it is not already vested in accordance with the above vesting schedule).

3.8 Crediting/Debiting of Account Balances. In accordance with, and subject to, the rules and procedures that are established from time to time by the Committee, in its sole discretion, amounts shall be credited or debited to a Participant's Account Balance in accordance with the following rules:

(a) Election of Measurement Funds. A Participant, in connection with his or her initial deferral election in accordance with Section 3.2(a) above, shall elect, on the Election Form, one or more Measurement Fund(s) (as described in Section 3.10(c) below) to be used to determine the additional amounts to be credited to his or her Account Balance for the first calendar quarter or portion thereof in which the Participant commences participation in the Plan and continuing thereafter for each subsequent calendar quarter in which the Participant participates in the Plan, unless changed in accordance with the next sentence. Commencing with the first calendar quarter that follows the Participant's commencement of participation in the Plan and continuing thereafter for each subsequent calendar quarter in which the Participant participates in the Plan, no later than the next to last business day of the calendar quarter, the Participant may (but is not required to) elect, by submitting an Election Form to the Committee that is accepted by the Committee, to add or delete one or more Measurement Fund(s) to be used to determine the additional amounts to be credited to his or her Account Balance, or to change the portion of his or her Account Balance allocated to each previously or newly elected Measurement Fund. If an election is made in accordance with the previous sentence, it shall apply to the next calendar quarter and continue

thereafter for each subsequent calendar quarter in which the Participant participates in the Plan, unless changed in accordance with the previous sentence.

(b) Proportionate Allocation. In making any election described in Section 3.8(a) above, the Participant shall specify on the Election Form, in increments of one percentage point (1%), the percentage of his or her Account Balance to be allocated to a Measurement Fund (as if the Participant was making an investment in that Measurement Fund with that portion of his or her Account Balance).

(c) Measurement Funds. The Participant may elect one or more of the following measurement funds set forth on Schedule A. As necessary, the Committee may, in its sole discretion, discontinue, substitute or add a Measurement Fund. Each such action will take effect as of the first day of the calendar quarter that follows by thirty (30) days the day on which the Committee gives Participants advance written notice of such change.

(d) Crediting or Debiting Method. Subject to charges for administrative expenses as provided in Section 3.8(f), the performance of each elected Measurement Fund (either positive or negative) will be determined by the Committee, in its sole discretion, based on the performance of the Measurement Funds themselves. A Participant's Account Balance shall be credited or debited on a daily basis based on the performance of each Measurement Fund selected by the Participant, as determined by the Committee in its sole discretion, as though (i) a Participant's Account Balance were invested in the Measurement Fund(s) selected by the Participant, in the percentages applicable to such calendar quarter, as of the close of business on the first business day of such calendar quarter, at the closing price on such date; (ii) the portion of the Annual Deferral Amount that was actually deferred during any calendar quarter were invested in the Measurement Fund(s) selected by the Participant, in the percentages applicable to such calendar quarter, no later than the close of business on the third business day after the day on which such amounts are actually deferred from the Participant's Base Annual Salary through reductions in his or her payroll, at the closing price on such date; and (iii) any distribution made to a Participant that decreases such Participant's Account Balance ceased being invested in the Measurement Fund(s), in the percentages applicable to such calendar quarter, no earlier than three business days prior to the distribution, at the closing price on such date. The Participant's Annual Company Matching Amount shall be credited to his or her Company Matching Account for purposes of this Section 3.8(d) as of the close of business on the first business day in March of the Plan Year following the Plan Year to which it relates.

(e) No Actual Investment. Notwithstanding any other provision of this Plan that may be interpreted to the contrary, the Measurement Funds are to be used for measurement purposes only, and a Participant's election of any such Measurement Fund, the allocation to his or her Account Balance thereto, the calculation of additional amounts and the crediting or debiting of such amounts to a Participant's Account Balance shall not be considered or construed in any manner as an actual investment of his or her Account Balance in any such Measurement Fund. In the event that the Company or the Trustee (as that term is defined in the Trust), in its own discretion, decides to invest funds in any or all of the Measurement Funds, no Participant shall have any rights in or to such investments themselves. Without limiting the foregoing, a Participant's Account Balance shall at all times be a bookkeeping entry only and shall not represent any investment made on his or her behalf by the Company or the Trust; the Participant shall at all times remain an unsecured creditor of the Company.

(f) Expenses. The Account Balance of each Participant shall be debited by the amount of the reasonable administrative expenses of the Plan in the same proportion that the Participant's Account Balance bears to the total Account Balances of all Participants.

3.9 FICA and Other Taxes.

(a) Annual Deferral Amounts. For each Plan Year in which an Annual Deferral Amount is being withheld from a Participant, the Participant's Employer(s) shall withhold from that portion of the Participant's Base Annual Salary and Bonus that is not being deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes on such Annual Deferral Amount. If necessary, the Committee may reduce the Annual Deferral Amount in order to comply with this Section 3.9.

(b) Company Matching Amounts. When a participant becomes vested in a portion of his or her Company Matching Account, the Participant's Employer(s) shall withhold from the Participant's Base Annual Salary and/or Bonus that is not deferred, in a manner determined by the Employer(s), the

Participant's share of FICA and other employment taxes. If necessary, the Committee may reduce the vested portion of the Participant's Company Matching Account in order to comply with this Section 3.9.

3.10 Distributions. The Participant's Employer(s), or the trustee of the Trust, shall withhold from any payments made to a Participant under this Plan all federal, state and local income, employment and other taxes required to be withheld by the Employer(s), or the trustee of the Trust, in connection with such payments, in amounts and in a manner to be determined in the sole discretion of the Employer(s) and the trustee of the Trust.

3.11 Employer Deferral. If an Employer determines in good faith prior to a Change in Control that there is a reasonable likelihood that any compensation paid to a Participant for a taxable year would not be deductible by the Employer solely by reason of the limitation under Code Section 162(m), then to the extent deemed necessary by the Employer to ensure that all of the compensation payable to the Participant prior to the Change in Control is deductible, the Employer may reduce the Participant's Base Annual Salary and/or Annual Bonus and treat the amount of such reduction as an amount deferred by the Participant. The amount so deferred and amounts credited thereon shall be distributed to the Participant (or his or her Beneficiary in the event of the Participant's death) at the earliest possible date, as determined by the Employer in good faith, on which the deductibility of compensation paid or payable to the Participant for the taxable year of the Employer during which the distribution is made will not be limited by Section 162(m), or if earlier, the effective date of a Change in Control. No deferrals may be made under this Section 3.11 after the effective date of a Change in Control. For purposes of this Section 3.11 only, the term "Participant" shall mean any Employee who has been selected to participate in the Plan.

ARTICLE 4

Short-Term Payout; Unforeseeable Financial Emergencies; Withdrawal Election

4.1 Short-Term Payout. In connection with each election to defer an Annual Deferral Amount, a Participant may irrevocably elect to receive a future "Short-Term Payout" from the Plan with respect to such Annual Deferral Amount. Subject to the Deduction Limitation, the Short-Term Payout shall be a lump sum payment in an amount that is equal to the Annual Deferral Amount plus amounts credited or debited in the manner provided in Section 3.8 above on that amount, determined at the time that the Short-Term Payout becomes payable (rather than the date of a Termination of Employment). Subject to the Deduction Limitation and the other terms and conditions of this Plan, each Short-Term Payout elected shall be paid out during a period beginning 1 day and ending 60 days after the last day of any Plan Year designated by the Participant that is at least three Plan Years after the Plan Year in which the Annual Deferral Amount is actually deferred. By way of example, if a three year Short-Term Payout is elected for Annual Deferral Amounts that are deferred in the Plan Year commencing January 1, 1998, the three year Short-Term Payout would become payable during a 60 day period commencing January 1, 2002.

4.2 Other Benefits Take Precedence Over Short-Term. Should an event occur that triggers a benefit under Article 5, 6, 7 or 8, any Annual Deferral Amount, plus amounts credited or debited thereon, that is subject to a Short-Term Payout election under Section 4.1 shall not be paid in accordance with Section 4.1 but shall be paid in accordance with the other applicable Article.

4.3 Withdrawal Payout/Suspensions for Unforeseeable Financial Emergencies. If the Participant experiences an Unforeseeable Financial Emergency, the Participant may petition the Committee to (i) suspend any deferrals required to be made by a Participant and/or (ii) receive a partial or full payout from the Plan. The payout shall not exceed the lesser of the Participant's Account Balance, calculated as if such Participant were receiving a Termination Benefit, or the amount reasonably needed to satisfy the Unforeseeable Financial Emergency as determined by the Committee. If, subject to the sole discretion of the Committee, the petition for a suspension and/or payout is approved, suspension shall take effect upon the date of approval and any payout shall be made within 60 days of the date of approval. The payment of any amount under this Section 4.3 shall not be subject to the Deduction Limitation or any withdrawal penalty.

4.4 Withdrawal Election. A Participant (or, after a Participant's death, his or her Beneficiary) may elect, at any time, to withdraw all of his or her Account Balance, calculated as if there had occurred a Termination of Employment as of the day of the election, less a withdrawal penalty equal to 10% of such amount (the net amount shall be referred to as

the "Withdrawal Amount"). This election can be made at any time, before or after Retirement, Disability, death or Termination of Employment, and whether or not the Participant (or Beneficiary) is in the process of being paid pursuant to an installment payment schedule. If made before Retirement, Disability or death, a Participant's Withdrawal Amount shall be his or her Account Balance calculated as if there had occurred a Termination of Employment as of the day of the election. No partial withdrawals of the Withdrawal Amount shall be allowed. The Participant (or his or her Beneficiary) shall make this election by giving the Committee advance written notice of the election in a form determined from time to time by the Committee. The Participant (or his or her Beneficiary) shall be paid the Withdrawal Amount within 60 days of his or her election. Once the Withdrawal Amount is paid, the Participant's participation in the Plan shall terminate and the Participant shall not be eligible to participate in the Plan until the next enrollment period which is at least 12 months after the date of withdrawal. The payment of this Withdrawal Amount shall not be subject to the Deduction Limitation.

ARTICLE 5

Retirement Benefit

5.1 Retirement Benefit. Subject to the Deduction Limitation, a Participant who Retires shall receive, as a Retirement Benefit, his or her Account Balance.

5.2 Payment of Retirement Benefit. A Participant, in connection with his or her commencement of participation in the Plan, shall elect on an Election Form to receive the Retirement Benefit in a lump sum or pursuant to an Annual Installment Method of 5, 10 or 15 years. The Participant may annually change his or her election to an allowable alternative payout period by submitting a new Election Form to the Committee, provided that any such Election Form is submitted at least one year prior to the Participant's Retirement and is accepted by the Committee in its sole discretion. The Election Form most recently accepted by the Committee shall govern the payout of the Retirement Benefit. If a Participant does not make any election with respect to the payment of the Retirement Benefit, then such benefit shall be payable in a lump sum. The lump sum payment shall be made, or installment payments shall commence, no later than 60 days after the date the Participant Retires. Any payment made shall be subject to the Deduction Limitation.

5.3 Death Prior to Completion of Retirement Benefit. If a Participant dies after Retirement but before the Retirement Benefit is paid in full, the Participant's unpaid Retirement Benefit payments shall continue and shall be paid to the Participant's Beneficiary (a) over the remaining number of months and in the same amounts as that benefit would have been paid to the Participant had the Participant survived, or (b) in a lump sum, if requested by the Beneficiary and allowed in the sole discretion of the Committee, that is equal to the Participant's unpaid remaining Account Balance.

ARTICLE 6

Pre-Retirement Survivor Benefit

6.1 Pre-Retirement Survivor Benefit. Subject to the Deduction Limitation, the Participant's Beneficiary shall receive a Pre-Retirement Survivor Benefit equal to the Participant's Account Balance if the Participant dies before he or she Retires, experiences a Termination of Employment or suffers a Disability.

6.2 Payment of Pre-Retirement Survivor Benefit. A Participant, in connection with his or her commencement of participation in the Plan, shall elect on an Election Form whether the Pre-Retirement Survivor Benefit shall be received by his or her Beneficiary in a lump sum or pursuant to an Annual Installment Method of 5, 10 or 15 years. The Participant may annually change this election to an allowable alternative payout period by submitting a new Election Form to the Committee, which form must be accepted by the Committee in its sole discretion. The Election Form most recently accepted by the Committee prior to the Participant's death shall govern the payout of the Participant's Pre-Retirement Survivor Benefit. If a Participant does not make any election with respect to the payment of the Pre-Retirement Survivor Benefit, then such benefit shall be paid in a lump sum. Despite the foregoing, if the Participant's Account Balance at the time of his or her death is less than \$25,000, payment of the Pre-Retirement Survivor Benefit may be made, in the sole discretion of the Committee, in a lump sum or pursuant to an Annual Installment Method of not more than 5 years. The lump sum payment shall be made, or installment payments shall commence, no later than 60 days after the date the Committee

is provided with proof that is satisfactory to the Committee of the Participant's death. Any payment made shall be subject to the Deduction Limitation.

ARTICLE 7

Termination Benefit

7.1 Termination Benefit. Subject to the Deduction Limitation, the Participant shall receive a Termination Benefit, which shall be equal to the Participant's vested Account Balance if a Participant experiences a Termination of Employment prior to his or her Retirement, death or Disability.

7.2 Payment of Termination Benefit. If the Participant's vested Account Balance at the time of his or her Termination of Employment is less than \$25,000, payment of his or her Termination Benefit shall be paid in a lump sum. If his or her vested Account Balance at such time is equal to or greater than that amount, the Committee, in its sole discretion, may cause the Termination Benefit to be paid in a lump sum or in substantially equal annual installment payments over a period of time that does not exceed five years in duration. The lump sum payment shall be made, or installment payments shall commence, no later than 60 days after the date of the Participant's Termination of Employment. Any payment made shall be subject to the Deduction Limitation.

ARTICLE 8

Disability Waiver and Benefit

8.1 Disability Waiver.

(a) Waiver of Deferral. A Participant who is determined by the Committee to be suffering from a Disability shall be excused from fulfilling that portion of the Annual Deferral Amount commitment that would otherwise have been withheld from a Participant's Base Annual Salary and Annual Bonus for the Plan Year during which the Participant first suffers a Disability. During the period of Disability, the Participant shall not be allowed to make any additional deferral elections, but will continue to be considered a Participant for all other purposes of this Plan.

(b) Return to Work. If a Participant returns to employment with an Employer after a Disability ceases, the Participant may elect to defer an Annual Deferral Amount for the Plan Year following his or her return to employment or service and for every Plan Year thereafter while a Participant in the Plan; provided such deferral elections are otherwise allowed and an Election Form is delivered to and accepted by the Committee for each such election in accordance with Section 3.3 above.

8.2 Continued Eligibility; Disability Benefit. A Participant suffering a Disability shall, for benefit purposes under this Plan, continue to be considered to be employed and shall be eligible for the benefits provided for in Articles 4, 5, 6 or 7 in accordance with the provisions of those Articles. Notwithstanding the above, the Committee shall have the right to, in its sole and absolute discretion and for purposes of this Plan only, and must in the case of a Participant who is otherwise eligible to Retire, deem the Participant to have experienced a Termination of Employment, or in the case of a Participant who is eligible to Retire, to have Retired, at any time (or in the case of a Participant who is eligible to Retire, as soon as practicable) after such Participant is determined to be suffering a Disability, in which case the Participant shall receive a Disability Benefit equal to his or her Account Balance at the time of the Committee's determination; provided, however, that should the Participant otherwise have been eligible to Retire, he or she shall be paid in accordance with Article 5. The Disability Benefit shall be paid in a lump sum within 60 days of the Committee's exercise of such right. Any payment made shall be subject to the Deduction Limitation.

ARTICLE 9

Beneficiary Designation

9.1 Beneficiary. Each Participant shall have the right, at any time, to designate his or her Beneficiary(ies) (both primary as well as contingent) to receive any benefits payable under the Plan to a beneficiary upon the death of a Participant. The Beneficiary designated under this Plan may be the same as or different from the Beneficiary designation under any other plan of an Employer in which the Participant participates.

9.2 Beneficiary Designation; Change. A Participant shall designate his or her Beneficiary by completing and signing the Beneficiary Designation Form, and returning it to the Committee or its designated agent. A Participant shall have the right to change a Beneficiary by completing, signing and otherwise complying with the terms of the Beneficiary Designation Form and the Committee's rules and procedures, as in effect from time to time. Upon the acceptance by the Committee of a new Beneficiary Designation Form, all Beneficiary designations previously filed shall be canceled. The Committee shall be entitled to rely on the last Beneficiary Designation Form filed by the Participant and accepted by the Committee prior to his or her death.

9.3 Acknowledgment. No designation or change in designation of a Beneficiary shall be effective until received in writing and acknowledged in writing by the Committee or its designated agent.

9.4 No Beneficiary Designation. If a Participant fails to designate a Beneficiary as provided in Sections 9.1, 9.2 and 9.3 above or, if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's benefits, then the Participant's designated Beneficiary shall be deemed to be his or her surviving spouse. If the Participant has no surviving spouse, the benefits remaining under the Plan to be paid to a Beneficiary shall be payable to the then living issue of the Participant per stirpes and, if there is no such issue, to the executor or personal representative of the Participant's estate.

9.5 Doubt as to Beneficiary. If the Committee has any doubt as to the proper Beneficiary to receive payments pursuant to this Plan, the Committee shall have the right, exercisable in its discretion, to cause the Participant's Employer to withhold such payments until this matter is resolved to the Committee's satisfaction.

9.6 Discharge of Obligations. The payment of benefits under the Plan to a Beneficiary shall fully and completely discharge all Employers and the Committee from all further obligations under this Plan with respect to the Participant, and that Participant's Plan Agreement shall terminate upon such full payment of benefits.

ARTICLE 10

Leave of Absence

10.1 Paid Leave of Absence. If a Participant is authorized by the Participant's Employer for any reason to take a paid leave of absence from the employment of the Employer, the Participant shall continue to be considered employed by the Employer and the Annual Deferral Amount shall continue to be withheld during such paid leave of absence in accordance with Section 3.4.

10.2 Unpaid Leave of Absence. If a Participant is authorized by the Participant's Employer for any reason to take an unpaid leave of absence from the employment of the Employer, the Participant shall continue to be considered employed by the Employer and the Participant shall be excused from making deferrals until the earlier of the date the leave of absence expires or the Participant returns to a paid employment status. Upon such expiration or return, deferrals shall resume for the remaining portion of the Plan Year in which the expiration or return occurs, based on the deferral election, if any, made for that Plan Year. If no election was made for that Plan Year, no deferral shall be withheld.

ARTICLE 11

Termination, Amendment or Modification

11.1 Termination. Although each Employer anticipates that it will continue the Plan for an indefinite period of time, there is no guarantee that any Employer will continue the Plan or will not terminate the Plan at any time in the future. Accordingly, each Employer reserves the right to discontinue its sponsorship of the Plan and/or to terminate the Plan at any time with respect to any or all of its participating Employees, by action of its board of directors or any duly authorized committee thereof. Upon the termination of the Plan with respect to any Employer, the Plan Agreements of the affected Participants who are employed by that Employer shall terminate and their Account Balances, determined as if they had experienced a Termination of Employment on the date of Plan termination or, if Plan termination occurs after the date upon which a Participant was eligible to Retire, then with respect to that Participant as if he or she had Retired on the date of Plan termination, shall be paid to the Participants as follows: Prior to a Change in Control, if the Plan is

terminated with respect to all of its Participants, an Employer shall have the right, in its sole discretion, and notwithstanding any elections made by the Participant, to pay such benefits in a lump sum or pursuant to an Annual Installment Method of up to 15 years, with amounts credited and debited during the installment period as provided herein. If the Plan is terminated with respect to less than all of its Participants, an Employer shall be required to pay such benefits in a lump sum. After a Change in Control, the Employer shall be required to pay such benefits in a lump sum. The termination of the Plan shall not adversely affect any Participant or Beneficiary who has become entitled to the payment of any benefits under the Plan as of the date of termination; provided however, that the Employer shall have the right to accelerate installment payments without a premium or prepayment penalty by paying the Account Balance in a lump sum or pursuant to an Annual Installment Method using fewer years (provided that the present value of all payments that will have been received by a Participant at any given point of time under the different payment schedule shall equal or exceed the present value of all payments that would have been received at that point in time under the original payment schedule).

11.2 Amendment. Any Employer may, at any time, amend or modify the Plan in whole or in part with respect to that Employer by the action of its board of directors or any duly authorized committee thereof; provided, however, that no amendment or modification shall be effective to decrease or restrict the value of a Participant's Account Balance in existence at the time the amendment or modification is made, calculated as if the Participant had experienced a Termination of Employment as of the effective date of the amendment or modification or, if the amendment or modification occurs after the date upon which the Participant was eligible to Retire, the Participant had Retired as of the effective date of the amendment or modification. The amendment or modification of the Plan shall not affect any Participant or Beneficiary who has become entitled to the payment of benefits under the Plan as of the date of the amendment or modification; provided, however, that the Employer shall have the right to accelerate installment payments by paying the Account Balance in a lump sum or pursuant to an Annual Installment Method using fewer years (provided that the present value of all payments that will have been received by a Participant at any given point of time under the different payment schedule shall equal or exceed the present value of all payments that would have been received at that point in time under the original payment schedule).

11.3 Plan Agreement. Despite the provisions of Sections 11.1 and 11.2 above, if a Participant's Plan Agreement contains benefits or limitations that are not in this Plan document, the Employer may only amend or terminate such provisions with the consent of the Participant.

11.4 Effect of Payment. The full payment of the applicable benefit under Articles 4, 5, 6, 7 or 8 of the Plan shall completely discharge all obligations to a Participant and his or her designated Beneficiaries under this Plan and the Participant's Plan Agreement shall terminate.

ARTICLE 12

Administration

12.1 Committee Duties. This Plan shall be administered by a Committee which shall consist of the Board, or such committee as the Board shall appoint. Members of the Committee may be Participants under this Plan. The Committee shall also have the complete discretion and authority to (i) make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan and (ii) decide or resolve any and all questions including interpretations of this Plan, as may arise in connection with the Plan. Any individual serving on the Committee who is a Participant shall not vote or act on any matter relating solely to himself or herself. When making a determination or calculation, the Committee shall be entitled to rely on information furnished by a Participant or the Company.

12.2 Agents. In the administration of this Plan, the Committee may, from time to time, employ agents and delegate to them such administrative duties as it sees fit (including acting through a duly appointed representative) and may from time to time consult with counsel who may be counsel to any Employer.

12.3 Binding Effect of Decisions. The decision or action of the Committee with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Plan.

12.4 Indemnity of Committee. All Employers shall indemnify and hold harmless the members of the Committee, and any Employee to whom the duties

of the Committee may be delegated, against any and all claims, losses, damages, expenses or liabilities arising from any action or failure to act with respect to this Plan, except in the case of willful misconduct by the Committee or any of its members or any such Employee.

12.5 Employer Information. To enable the Committee to perform its functions, each Employer shall supply full and timely information to the Committee on all matters relating to the compensation of its Participants, the date and circumstances of the Retirement, Disability, death or Termination of Employment of its Participants, and such other pertinent information as the Committee may reasonably require.

12.6 Multiple Committees. The Board may divide the duties of the Committee among more than one Committee. If more than one Committee is established, the Board shall designate the scope of authority of each such Committee. Each such Committee shall have all the powers and privileges set forth above subject only to any limitations on the scope of its authority imposed by the Board.

ARTICLE 13

Other Benefits and Agreements

13.1 Coordination with Other Benefits. The benefits provided for a Participant and Participant's Beneficiary under the Plan are in addition to any other benefits available to such Participant under any other plan or program for employees of the Participant's Employer. The Plan shall supplement and shall not supersede, modify or amend any other such plan or program except as may otherwise be expressly provided.

ARTICLE 14

Claims Procedures

14.1 Presentation of Claim. Any Participant or Beneficiary of a deceased Participant (such Participant or Beneficiary being referred to below as a "Claimant") may deliver to the Committee a written claim for a determination with respect to the amounts distributable to such Claimant from the Plan. If such a claim relates to the contents of a notice received by the Claimant, the claim must be made within 60 days after such notice was received by the Claimant. All other claims must be made within 180 days of the date on which the event that caused the claim to arise occurred. The claim must state with particularity the determination desired by the Claimant.

14.2 Notification of Decision. The Committee shall consider a Claimant's claim within a reasonable time, and shall notify the Claimant in writing:

(a) that the Claimant's requested determination has been made, and that the claim has been allowed in full; or

(b) that the Committee has reached a conclusion contrary, in whole or in part, to the Claimant's requested determination, and such notice must set forth in a manner calculated to be understood by the Claimant:

1. the specific reason(s) for the denial of the claim, or any part of it;

2. specific reference(s) to pertinent provisions of the Plan upon which such denial was based;

3. a description of any additional material or information necessary for the Claimant to perfect the claim, and an explanation of why such material or information is necessary; and

4. an explanation of the claim review procedure set forth in Section 14.3 below.

14.3 Review of a Denied Claim. Within 60 days after receiving a notice from the Committee that a claim has been denied, in whole or in part, a Claimant (or the Claimant's duly authorized representative) may file with the Committee a written request for a review of the denial of the claim. Thereafter, but not later than 30 days after the review procedure began, the Claimant (or the Claimant's duly authorized representative):

A. may review pertinent documents;

B. may submit written comments or other documents; and/or

C. may request a hearing, which the Committee, in its sole

discretion, may grant.

14.4 Decision on Review. The Committee shall render its decision on review promptly, and not later than 60 days after the filing of a written request for review of the denial, unless a hearing is held or other special circumstances require additional time, in which case the Committee's decision must be rendered within 120 days after such date. Such decision must be written in a manner calculated to be understood by the Claimant, and it must contain:

A. specific reasons for the decision;

B. specific reference(s) to the pertinent Plan provisions upon which the decision was based; and

C. such other matters as the Committee deems relevant.

14.5 Legal Action. A Claimant's compliance with the foregoing provisions of this Article 14 is a mandatory prerequisite to a Claimant's right to commence any legal action with respect to any claim for benefits under this Plan.

ARTICLE 15

Trust

15.1 Establishment of the Trust. The Company shall establish the Trust, and each Employer shall at least annually transfer over to the Trust such assets as the Employer determines, in its sole discretion, are necessary to provide, on a present value basis, for its respective future liabilities created with respect to the Annual Deferral Amounts and Company Matching Amounts for such Employer's Participants for all periods prior to the transfer, as well as any debits and credits to the Participants' Account Balances for all periods prior to the transfer, taking into consideration the value of the assets in the trust at the time of the transfer.

15.2 Interrelationship of the Plan and the Trust. The provisions of the Plan and the Plan Agreement shall govern the rights of a Participant to receive distributions pursuant to the Plan. The provisions of the Trust shall govern the rights of the Employers, Participants and the creditors of the Employers to the assets transferred to the Trust. Each Employer shall at all times remain liable to carry out its obligations under the Plan.

15.3 Distributions From the Trust. Each Employer's obligations under the Plan may be satisfied with Trust assets distributed pursuant to the terms of the Trust, and any such distribution shall reduce the Employer's obligations under this Plan.

ARTICLE 16

Miscellaneous

16.1 Status of Plan. The Plan is intended to be a plan that is not qualified within the meaning of Code Section 401(a) and that "is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employee" within the meaning of ERISA Sections 201(2), 301(a)(3) and 401(a)(1). The Plan shall be administered and interpreted to the extent possible in a manner consistent with that intent.

16.2 Unsecured General Creditor. Participants and their Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interests or claims in any property or assets of an Employer. For purposes of the payment of benefits under this Plan, any and all of an Employer's assets shall be, and remain, the general, unpledged unrestricted assets of the Employer. An Employer's obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.

16.3 Employer's Liability. An Employer's liability for the payment of benefits shall be defined only by the Plan and the Plan Agreement, as entered into between the Employer and a Participant. An Employer shall have no obligation to a Participant under the Plan except as expressly provided in the Plan and his or her Plan Agreement.

16.4 Nonassignability. Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate, alienate or convey in advance of actual receipt, the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are expressly declared to be, unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure, attachment,

garnishment or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency or be transferable to a spouse as a result of a property settlement or otherwise.

16.5 Not a Contract of Employment. The terms and conditions of this Plan shall not be deemed to constitute a contract of employment between any Employer and the Participant. Such employment is hereby acknowledged to be an "at will" employment relationship that can be terminated at any time for any reason, or no reason, with or without cause, and with or without notice, unless otherwise expressly provided in a written employment agreement. Nothing in this Plan shall be deemed to give a Participant the right to be retained in the service of any Employer or to interfere with the right of any Employer to discipline or discharge the Participant at any time.

16.6 Furnishing Information. A Participant or his or her Beneficiary will cooperate with the Committee by furnishing any and all information requested by the Committee and take such other actions as may be requested in order to facilitate the administration of the Plan and the payments of benefits hereunder, including but not limited to taking such physical examinations as the Committee may deem necessary.

16.7 Terms. Whenever any words are used herein in the masculine, they shall be construed as though they were in the feminine in all cases where they would so apply; and whenever any words are used herein in the singular or in the plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply.

16.8 Captions. The captions of the articles, sections and paragraphs of this Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.

16.9 Governing Law. Subject to ERISA, the provisions of this Plan shall be construed and interpreted according to the internal laws of the State of Rhode Island without regard to its conflicts of laws principles.

16.10 Notice. Any notice or filing required or permitted to be given to the Committee under this Plan shall be sufficient if in writing and hand-delivered, or sent by registered or certified mail, to the address below:

Deferred Compensation Committee
c/o Benefits Dept., A-951
Hasbro, Inc.
1027 Newport Avenue
P.O. Box 1059
Pawtucket, RI 02862-1059

Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

Any notice or filing required or permitted to be given to a Participant under this Plan shall be sufficient if in writing and hand-delivered, or sent by mail, to the last known address of the Participant.

16.11 Successors. The provisions of this Plan shall bind and inure to the benefit of the Participant's Employer and its successors and assigns and the Participant and the Participant's designated Beneficiaries.

16.12 Validity. In case any provision of this Plan shall be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal or invalid provision had never been inserted herein.

16.13 Incompetent. If the Committee determines in its discretion that a benefit under this Plan is to be paid to a minor, a person declared incompetent or to a person incapable of handling the disposition of that person's property, the Committee may direct payment of such benefit to the guardian, legal representative or person having the care and custody of such minor, incompetent or incapable person. The Committee may require proof of minority, incompetence, incapacity or guardianship, as it may deem appropriate prior to distribution of the benefit. Any payment of a benefit shall be a payment for the account of the Participant and the Participant's Beneficiary, as the case may be, and shall be a complete discharge of any liability under the Plan for such payment amount.

16.14 Distribution in the Event of Taxation.

(a) In General. If, for any reason, all or any portion of a Participant's benefits under this Plan becomes taxable to the Participant prior to receipt, a Participant may petition the Committee before a Change in Control, or the trustee of the Trust after a Change in Control, for a distribution of that portion of his or her benefit that has become taxable. Upon the grant of such a petition, which grant shall not be unreasonably withheld (and, after a Change in Control, shall be granted), a Participant's Employer shall distribute to the Participant immediately available funds in an amount equal to the taxable portion of his or her benefit (which amount shall not exceed a Participant's unpaid Account Balance under the Plan). If the petition is granted, the tax liability distribution shall be made within 90 days of the date when the Participant's petition is granted. Such a distribution shall affect and reduce the benefits to be paid under this Plan.

(b) Trust. If the Trust terminates in accordance with Section 3.6(e) of the Trust and benefits are distributed from the Trust to a Participant in accordance with that Section, the Participant's benefits under this Plan shall be reduced to the extent of such distributions.

16.15 Insurance. The Employers, on their own behalf or on behalf of the trustee of the Trust, and, in their sole discretion, may apply for and procure insurance on the life of the Participant, in such amounts and in such forms as the Trust may choose. The Employers or the trustee of the Trust, as the case may be, shall be the sole owner and beneficiary of any such insurance. The Participant shall have no interest whatsoever in any such policy or policies, and at the request of the Employers shall submit to medical examinations and supply such information and execute such documents as may be required by the insurance company or companies to whom the Employers have applied for insurance.

16.16 Legal Fees To Enforce Rights After Change in Control. The Company and each Employer is aware that upon the occurrence of a Change in Control, the Board or the board of directors of a Participant's Employer (which might then be composed of new members) or a shareholder of the Company or the Participant's Employer, or of any successor corporation might then cause or attempt to cause the Company, the Participant's Employer or such successor to refuse to comply with its obligations under the Plan and might cause or attempt to cause the Company or the Participant's Employer to institute, or may institute, litigation seeking to deny Participants the benefits intended under the Plan. In these circumstances, the purpose of the Plan could be frustrated. Accordingly, if, following a Change in Control, it should appear to any Participant that the Company, the Participant's Employer or any successor corporation has failed to comply with any of its obligations under the Plan or any agreement thereunder or, if the Company, such Employer or any other person takes any action to declare the Plan void or unenforceable or institutes any litigation or other legal action designed to deny, diminish or to recover from any Participant the benefits intended to be provided, then the Company and the Participant's Employer irrevocably authorize such Participant to retain counsel of his or her choice at the expense of the Company and the Participant's Employer (who shall be jointly and severally liable) to represent such Participant in connection with the initiation or defense of any litigation or other legal action, whether by or against the Company, the Participant's Employer or any director, officer, shareholder or other person affiliated with the Company, the Participant's Employer or any successor thereto in any jurisdiction. The Company may recover any legal fees paid if a court of competent jurisdiction finds that the retention of counsel by the Participant was frivolous. If the Participant prevails to any extent, the retention of counsel shall be conclusively determined not to be frivolous.

IN WITNESS WHEREOF, the Company has signed this Plan document as of this 14th day of November, 1997.

"Company"

Hasbro, Inc., a Rhode Island corporation

By: /s/ Alfred J. Verrecchia

Title: Executive Vice President and President, Global Operations

Amendment No. 2, dated as of February 20, 1998, to
Severance and Settlement Agreement and Release,
dated December 20, 1995

Amendment No. 2, dated as of the 20th day of February, 1998 ("Amendment No. 2"), to Severance and Settlement Agreement and Release, dated December 20, 1995, as clarified by letter agreement dated March 28, 1996 and amended by Amendment, effective January 1, 1997 (collectively, the "Agreement") between Hasbro, Inc. (the "Company") and Dan D. Owen (the "Employee").

WHEREAS, the Company and the Employee wish to further amend the terms of the Employee's severance arrangements as set forth in the Agreement;

NOW, THEREFORE, in consideration of the promises and conditions set forth herein, the sufficiency of which is hereby acknowledged, the Company and the Employee agree to amend the Agreement as follows:

1. The eighth sentence of paragraph 1 of the Agreement, after reflecting the additional sentence added by the Amendment, effective January 1, 1997, is amended to read in its entirety as follows:

"For purposes of this Agreement, constructive termination of the Employee's employment shall occur if the Employee voluntarily terminates employment on or prior to June 30, 1999."

2. Paragraph 15 of the Agreement is amended to read in its entirety as follows:

"15. Termination.

This Agreement and the obligations of the Company and the Employee under this Agreement (other than the obligations of the Employee under paragraph 4 of this Agreement, which shall survive the termination of this Agreement) shall terminate if an involuntary termination by the Company without cause of the Employee's employment or a constructive termination of the Employee's employment shall not have occurred by June 30, 1999."

3. The Employee acknowledges that he has been given twenty-one (21) days to consider this Amendment No. 2 and that the Company advised him to consult with an attorney of his own choosing prior to signing this Amendment No. 2. The Employee may revoke this Amendment for a period of seven (7) days after the execution of this Amendment No. 2, and this Amendment No. 2 shall not be effective or enforceable until the expiration of this seven (7) day revocation period.

4. The Employee affirms that no other promises or agreements of any kind have been made to or with him by any person or entity whatsoever to cause him to sign this Amendment No. 2, and that he fully understands the meaning and intent of this Amendment No. 2. The Employee states and represents that he has had an opportunity to fully discuss and review the terms of this Amendment No. 2 with an attorney. The Employee further states and represents that he has carefully read this Amendment No. 2; understands the contents herein, freely and voluntarily assents to all of the terms and conditions hereof, and signs his name of his own free act.

5. Except for the changes made herein, the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Amendment No. 2 on the dates written below.

HASBRO, INC.

By: /s/ Harold P. Gordon

Harold P. Gordon
Vice Chairman

Date: March 11, 1998

By: /s/ Dan D. Owen

Date: March 9, 1998

Dan D. Owen
Employee

January 30, 1998

Mr. George R. Ditomassi, Jr.
152 Tennyson Drive
Longmeadow, MA 01106

Dear George:

In connection with the termination of your employment with Hasbro, Inc. (the "Company") and your resignation as an officer of the Company and as an officer and director of various divisions and subsidiaries of the Company, on January 31, 1998 the "Company" will pay you the basic severance benefits described in Section 2 of the attached "Description of Severance Benefits" if you do not sign and return this letter by February 20, 1998.

If you timely sign and return this letter, the Company will pay and provide you the enhanced severance benefits subject to the terms and conditions outlined in Section 1 of the attached "Description of Severance Benefits". By signing and returning this letter you will be agreeing to the terms and conditions set forth in the numbered paragraphs below, including the release of claims set forth in paragraph 2. You should consult with your own attorney before signing this letter and may take up to twenty-one (21) days to do so.

If after reviewing this letter with your attorney, you find the terms and conditions are satisfactory to you, you should sign and return this letter to Bob Carniaux, Vice President, Human Resources in the enclosed envelope by February 20, 1998. If you sign this letter, you may change your mind and revoke your agreement during the seven (7) day period after you have signed it. If you do not so revoke, this letter will become a binding agreement between you and the Company upon the expiration of the seven (7) day revocation period.

The following numbered paragraphs set forth the terms and conditions which will apply if you timely sign and return this letter and do not revoke it within the seven (7) day revocation period:

1. Description of Severance Benefits.

The severance benefits to be paid to you if you timely sign and return this letter are as described in Section 1 of the attached "Description of Severance Benefits". The payment of these benefits is subject to the terms of this letter and the terms of the Company's Severance Benefits Plan for Salaried Employees (the "Severance Plan").

2. Releases.

(a). You hereby fully, forever, irrevocably and unconditionally release, remise and discharge the Company, and any subsidiary or affiliated organization of the Company or their current or former officers, directors, stockholders, corporate affiliates, attorneys, agents and employees (the "Released Parties") from any and all claims, charges, complaints, demands, actions, causes of action, suits, rights, debts, sums of money, costs, accounts, reckonings, covenants, contracts, agreements, promises, doings, omissions, damages, executions, obligations, liabilities, and expenses (including attorneys' fees and costs), of every kind and nature, known or unknown, which you ever had or now have against the Released Parties, including, but not limited to, all claims arising out of your employment, all claims arising out of the termination of your employment, all claims arising from any failure to re-employ you, all claims of race, sex, national origin, handicap, religious, sexual preference, benefit and age discrimination, all employment discrimination claims under Title VII of the Civil Rights Act of 1964, 42 U.S.C. Section 2000 et seq., the Age Discrimination in Employment Act, 29 U.S.C. Section 621 et seq., the Americans with Disabilities Act of 1990, 29 U.S.C. Section 12101 et seq., the Employee Retirement Income Security Act of 1974, 29 U.S.C. Section 1001 et seq., and similar state or local statutes, wrongful discharge claims, common law tort, defamation, breach of contract and other common law claims, and any claims under any other federal, state or local statutes or ordinances not expressly referenced above.

(b). The Company hereby fully, forever, irrevocably and unconditionally releases, remises and discharges you from any and all claims, charges, complaints, demands, actions, causes of actions, suits, rights, debts, sums

of money, costs, accounts, reckonings, covenants, contracts, agreements, promises, doings, omissions, damages, executions, obligations, liabilities and expenses (including attorneys' fees and costs), of every kind and nature, known or unknown, which the Company ever had or now has against you, provided that this release will not extend to any intentional or criminal wrongs, any contractual obligation you have to the Company, and any matter relating to any violation of any statute, regulation or other public law except to the extent you would otherwise be indemnified by the Company. This release shall not extend to any shareholder derivative suits.

3. Covenant Not To Sue.

(a). You represent and warrant that you have not filed any complaints, charges, or claims for relief against the Released Parties. You further agree not to bring any complaints, charges or claims against the Released Parties with respect to any matters arising out of your employment with or termination from employment with the Company.

(b). The Company represents and warrants that it has not filed any complaints, charges, or claims against you. The Company further agrees not to bring any complaints, claims or charges against you with respect to any matters arising out of your employment or termination from employment with the Company provided that this covenant by the Company will not extend to any intentional or criminal wrongs, any contractual obligation you have to the Company, and any matter relating to any violation of any statute, regulation or other public law. This covenant shall not extend to any shareholder derivative suits.

4. Proprietary Information.

You acknowledge and reaffirm your representations and obligations as set forth in the Invention Assignment and Proprietary Information Agreement which you previously signed in connection with your employment with the Company.

5. Nature of Agreement.

You and the Company understand and agree that this letter agreement is a severance and settlement agreement and does not constitute an admission of liability or wrongdoing on the part of you, the Company, or any other person.

6. Amendment.

This letter agreement shall be binding upon the parties and may not be modified in any manner, except by an instrument in writing of concurrent or subsequent date signed by a duly authorized representative of the parties hereto. This agreement is binding upon and shall inure to the benefit of the parties and their respective agents, assigns, heirs, executors, successors and administrators. No delay or omission by the Company in exercising any right under this agreement shall operate as a waiver of that or any other right. A waiver or consent given by the Company on any one occasion shall be effective only in that instance and shall not be construed as a bar or waiver of any right on any other occasion.

7. Validity.

Should any provision of this letter agreement be declared or be determined by any court of competent jurisdiction to be illegal or invalid, the validity of the remaining parts, terms, or provisions shall not be affected thereby and said illegal and invalid part, term or provision shall be deemed not to be a part of this agreement.

8. Confidentiality.

You and the Company acknowledge, understand and agree that the terms and contents of this letter agreement, and the contents of the negotiations and discussions resulting in this agreement, shall be maintained as confidential by you and your agents and representatives and the Company, and any dispute resolved by this agreement shall also remain confidential, and none of the above shall be disclosed except to the extent required by federal or state law or as otherwise agreed to in writing by you and an officer of the Company.

9. Entire Agreement and Applicable Law.

This letter agreement contains and constitutes the entire understanding and agreement between the parties hereto with respect to your severance benefits and settlement of claims against the Company and cancels all previous oral and written negotiations, agreements, commitments, and writings in connection therewith. This agreement shall be governed by the

laws of the State of Rhode Island to the extent not preempted by federal law.

10. Acknowledgments.

You acknowledge that you have been given at least twenty-one (21) days to consider this letter agreement and that the Company advised you to consult with any attorney of your own choosing prior to signing this letter. You may revoke this agreement for a period of seven (7) days after signing this letter, and the agreement shall not be effective or enforceable until the expiration of this seven (7) day revocation period.

11. Voluntary Assent.

You affirm that no other promises or agreements of any kind have been made to or with you by any person or entity whatsoever to cause you to sign this letter agreement, and that you fully understand the meaning and intent of this agreement. You state and represent that you have had an opportunity to fully discuss and review the terms of this agreement with an attorney. You further state and represent that you have carefully read this letter, understand the contents herein, freely and voluntarily assent to all of the terms and conditions hereof, and sign your name of your own free act.

12. Covenant Not to Compete.

(a). You agree that you will not, without written consent of the Company, at any time during which Severance Benefits are payable under this letter agreement and for a period of one year from the date Severance Benefits cease under this letter agreement, directly or indirectly, own, manage, operate, join, control or participate in the ownership, management, operation or control of, render services or advice to, or be connected with, as partner, stockholder, director, officer, agent, employee, consultant or otherwise, any business, firm or corporation which competes with the Company in any country or line of business in which the Company is engaged.

(b). You agree that during the period in which Severance Benefits are paid and thereafter for a period of one year, you will not interfere with any relationship, contractual or otherwise, between the Company and any other party, including; without limitation, any employee, customer, supplier, distributor, lessor or lessee, licensor or licensee, commercial or investment banker.

(c). You understand, acknowledge and agree that the provisions of this Section 12 shall survive the termination of this letter agreement.

13. Legal Expenses.

The Company agrees to pay reasonable and documented legal expenses incurred by you in connection with drafting this letter agreement and related documents.

If you have any questions about the matters covered in this letter, please call Bob Carniaux, Vice President, Human Resources at (401) 727-5654.

Very truly yours,

/s/ Harold Gordon

Harold Gordon
Vice Chairman
Hasbro, Inc.

I hereby agree to the terms and conditions set forth above and in the attached Description of Severance Benefits. I intend that this letter will become a binding agreement between me and the Company if I do not revoke my acceptance within seven (7) days.

Signature /s/ George R. Ditomassi, Jr.

(Employee's Name)

Date: January 31, 1998

To be returned in the enclosed envelope by February 20, 1998

HASBRO, INC.

DESCRIPTION OF SEVERANCE BENEFITS

Name of Employee: GEORGE R. DITOMASSI

Date of Offer: January 30, 1998

Termination Date: January 31, 1998

If you timely sign and return the attached letter and it becomes a binding contract between you and the Company, the Company will pay you the enhanced severance subject to the terms and conditions outlined in Section 1 below, the terms and conditions contained in the attached letter, this description, and the Company's Severance Benefits Plan for Salaried Employees.

If you do not timely sign and return the attached letter, the Company will pay you the basic severance benefits described in Section 2 below, subject to the terms and conditions contained in this description and the Company's Severance Benefits Plan for Salaried Employees.

Section 1. Enhanced Severance Benefits.

If you timely sign and return the attached letter and it becomes a binding contract between you and the Company, you will be entitled to an enhanced program of severance benefits consisting of:

(a) severance pay at the base rate of \$41,979.17 per month for 23 months commencing with February 1998 and payable monthly thereafter. Severance pay will be prorated for partial months eligible;

(b) continuance of your current level of basic life insurance with the Company and you sharing the cost for this coverage on the same basis as the cost is shared between the Company and similarly situated active employees during the period of severance pay;

(c) payment by the Company of premiums associated with maintaining up to \$800,000 in supplemental term life insurance coverage for the period of severance pay and subject to your filing the appropriate application including a statement of health or other required documentation for such coverage with the Company's group life insurance carrier and subject to the carrier's approval of such coverage.

(d) continuance of your current medical and dental coverage during the period of severance pay, with the Company and you sharing the cost for this coverage on the same basis as the cost is shared between the Company and similarly situated active employees during the same period, and with your right to continued coverage (or conversion to an individual policy) at your own expense where available beginning when the extended coverage under this item(d) ends;

(e) continuance of your leased company executive automobile or allowance benefit during the period of severance pay;

(f) continuance of reimbursement for reasonable expenses for executive income tax filing preparation and advising services during the severance pay period;

(g) subject to the approval of the Compensation and Stock Option Committee of the Board of Directors of the Company, any previously granted stock options will continue to vest during the severance pay period as if you continued to be an employee of the Company. Subject to the approval of the Compensation and Stock Option Committee of the Board of Directors of the Company, at the conclusion of the severance pay period all previously granted options will vest and be exercisable for a period of one year thereafter except that premium priced options granted on February 12, 1993, February 17, 1995 and September 17, 1997 will vest and be exercisable for three years thereafter;

(h) if you begin full time regular non-temporary employment with an employer other than the Company during the period of severance pay your right to severance pay will end but the following benefits will be continued for the remainder severance period but only to the extent that they are not provided by your new employer: reimbursement for income tax service expenses, executive automobile, continuance of basic and supplemental life insurance coverage at Company expense, continuance of medical and dental coverage partially at Company expense and continued vesting of stock options.

Section 2. Basic Benefits.

If you do not timely sign and return the attached letter , you will be entitled to a program of severance benefits consisting of:

(a) severance pay at your base rate of pay (as in effect immediately before termination and exclusive of any bonuses, commissions, overtime pay, or other extra forms of compensation) for three (3) weeks;

(b) a lump sum payment to be made at the end of the period of severance pay for your unused vacation that has been granted for use in the current year;

(c) continuance of your current level of basic, supplemental and dependent life insurance with the company and you sharing the cost for this coverage on the same basis as the cost is shared between the company and similarly situated active employees during the period of severance pay;

(d) continuance of your current medical and dental coverage during the period of severance pay, with the Company and you sharing the cost for this coverage on the same basis as the cost is shared between the Company and similarly situated active employees during the same period, and with your right to continued coverage (or conversion to an individual policy) at your own expense where available beginning when the extended coverage under this item (d) ends;

If you begin new employment during the period of severance pay, your right to severance pay and continuance of basic, supplemental and dependent life insurance coverage and of medical and dental coverage partially at Company expense shall end when the new employment begins and you shall be obligated to repay to the Company any severance pay paid to you and any premiums paid by the Company for basic life insurance coverage and the Company's share of the cost for medical and dental coverage paid after you begin the new employment.

Section 3. Other Provisions.

(a) You will be entitled to any benefits payable after or on account of termination of employment under any employee pension or welfare benefit plans, stock option plans, or other plans or programs or policies of the Company in accordance with their terms and conditions, unless otherwise stated above in Section 1.

(b) The Company may withhold from any payment described herein:

(1) any federal, state, or local income or payroll taxes required by law to be withheld with respect to such payment;

(2) such sum as the Company may reasonably estimate is necessary to cover any taxes for which the Company may be liable and which may be assessed with regard to such payment; and

(3) such other amounts as appropriately may be withheld under the Company's payroll policies and procedures from time to time in effect.

(c) The severance benefits described herein are the maximum benefits that the Company will pay. To the extent that the Company owes you any amounts in the nature of severance benefits under any other program, policy or plan of the Company, or to the extent that any federal, state or local law, including, without limitation, so-called "plant closing" laws, requires the Company to give advance notice or make a payment of any kind to you because of your involuntary termination due to a layoff, reduction in force, plant or facility closing, sale of business, or similar event, the benefits provided hereunder or under the other arrangement shall either be reduced or eliminated to avoid any duplication of payment;

(d) In the event of your death during the period of severance pay, the severance pay shall cease at death.

SUMMARY OF SEVERANCE BENEFITS
APPENDIX A

GEORGE R. DITOMASSI

ENHANCED BENEFITS

Severance Pay: You will receive 23 months of severance pay

Medical Coverage: * You have Blue Choice POS - family coverage

Dental Coverage: * You have Delta Dental Basic Plan - family coverage

Basic Life Insurance: * You have \$769,000 at no cost to you

Supplemental Life Insurance: * \$800,000 in coverage at no cost to you, subject to your submission to the insurance carrier of the insurance application, statement of health and other required documentation and subject to the approval of such coverage by the insurance carrier.

Dependent Life Insurance: * You have waived coverage

* These benefit programs will remain in effect during the "Severance Pay" period and are based upon your current elections for 1998.

BASIC BENEFITS

Severance Pay: You will receive 3 weeks of severance pay

Medical Coverage: * You have Blue Choice POS - family coverage

Dental Coverage: * You have Delta Dental Basic Plan - family coverage

Basic Life Insurance: * You have \$769,000 at no cost to you

Supplemental Life Insurance: * You have waived additional life insurance coverage

Dependent Life Insurance: * You have waived coverage

* These benefit programs will remain in effect during the "Severance Pay" period and are based upon your current elections for 1998.

The above description of severance benefits is intended to assist you as a summary. The actual description of severance benefits and the terms and conditions which affect these benefits is contained in the Severance Description and Agreement letter which you received along with this summary. To the extent there may be any inconsistencies or difference between the summary and the terms of the letter, the terms of the letter are controlling.

January 30, 1998

Mr. George Ditomassi
152 Tennyson Drive
Longmeadow, MA 01106

Dear George:

In connection with the termination of your employment with Hasbro (the "Company") and your resignation as an officer of the Company, and as an officer and director of various divisions and subsidiaries of the Company as of January 31, 1998 and in consideration of the covenants contained in a

Severance Agreement dated January 30, 1998 between you and the Company, the Company agrees to indemnify and hold you harmless as more particularly set forth in this letter agreement.

Subsequent to the termination of your employment, you shall be entitled to the same rights of indemnity for actions taken while an officer, director or employee of the Company as you currently have as an officer, director, former director or consultant of Hasbro or any of its various divisions or subsidiaries. In the event that the rights of indemnity of officers or directors of the Company are enhanced hereafter, you shall also be entitled to such enhanced rights of indemnity as they relate to action taken while you were an officer, director or employee of the Company.

The foregoing rights shall not be exclusive of any other rights to which you may be entitled under any agreement, vote, statute, by-law or otherwise. The provisions of this Agreement are separable and if any provisions or portion hereof shall for any reason be held inapplicable, illegal or ineffective, such result shall not affect any other right of indemnification or reimbursement whether provided herein or in any other document or form.

This Agreement shall be binding upon each of the parties and their successors and assigns and shall inure to the benefit of their heirs and legal representatives.

If the foregoing is acceptable to you, please sign the enclosed copy of this letter agreement and return it to me as soon as possible.

Very truly yours,
Hasbro, Inc.

/s/ Harold Gordon

Harold Gordon
Vice Chairman, Duly Authorized

Accepted and agreed to:

/s/ George Ditomassi

George Ditomassi

CONSULTING AGREEMENT

Consulting Agreement, entered into as of this 31st day of January, 1998, by and between Hasbro, Inc., a Rhode Island corporation (the "Corporation"), and George R. Ditomassi, Jr., an individual residing at 152 Tennyson Drive, Longmeadow, MA 01106 (the "Consultant")

WITNESSETH:

WHEREAS, the Corporation is primarily engaged in the manufacturing, merchandising, marketing, distribution, developing and licensing of toys, games, puzzles and related products (the "Business"); and

WHEREAS, the Consultant is a skilled and experienced businessman who served from 1960 through the date hereof as an employee and senior executive officer of the Corporation; and

WHEREAS, the Corporation desires to retain the Consultant to render the consulting services set forth herein to the Corporation for a period commencing on the date hereof, and continuing through October 31, 1999, subject to extension by mutual agreement; and

WHEREAS, the Consultant and the Corporation are willing to enter into this consulting agreement (the "Agreement") on the terms and conditions as provided herein;

NOW, THEREFORE, in consideration of the promises and mutual covenants contained herein and for other good and valuable consideration, the parties agree as follows:

1. Term.

The term of the Agreement shall commence as of February 1, 1998 and, unless otherwise terminated as hereinafter provided, shall continue through October 31, 1999 (the period from the date hereof through termination or expiration, whichever occurs first, to be hereinafter referred to as the "Term"), provided that the Term may be extended for such additional periods as may be agreeable to the Consultant and the Corporation.

2. Services.

2.1 The Consultant shall provide the following services:

(a) to provide business advice and project coordination for the Corporation's implementation of SAP integrated enterprise system;

(b) to provide counsel on corporate charitable contributions by the Corporation in the Springfield, MA community consistent with the Corporation's established practice and procedure for granting such contributions;

(c) to provide such services as determined and reasonably requested by the Chairman and Chief Executive Officer of the Corporation; and

(d) to provide such other business advice and counsel as the Corporation may reasonably request of the Consultant from time to time.

2.2 The Consultant shall provide his services hereunder at such places and at such times as he shall determine, provided that the Consultant shall reasonably make himself available for meetings with senior management of the Corporation as may be scheduled from time to time. The Corporation shall have no right to direct or control the manner in which the services by Consultant are performed hereunder.

2.3 The Corporation acknowledges that Consultant may provide consulting services to non-competitors of the Corporation, sits on a number of boards of directors of publicly and privately held companies who are non-competitors of the Corporation and devote considerable time to charitable and community work.

3. Remuneration.

3.1 As basic compensation for the Consultant's services, the Corporation hereby agrees to pay the Consultant a monthly fee of \$5,000.00 subject to the terms hereof, less such deductions or amounts to be withheld as shall be required by applicable law and regulations.

3.2 A lump sum payment in March 1999 and March 2000 comparable to a management incentive award for the previous fiscal year had the Consultant been employed as an executive officer of the company will be paid to the Consultant. The determination of this payment will be made by the Chairman and Chief Executive Officer of the Company. The minimum amount of the lump sum payment made in March 1999 shall be \$150,000 and in March 2000 shall be \$125,000. The lump sum payment for any year shall be prorated based upon the number of months fees for consulting or other services were paid in the previous calendar year. This provision shall survive the termination of this agreement.

3.3 The Corporation agrees to reimburse the Consultant for reasonable travel expenses actually incurred by the Consultant in the performance of the Consultant's duties hereunder upon the submission of appropriate receipts, expense statement or vouchers.

3.4 Nothing in this Agreement shall reduce the benefits or amounts to which the Consultant is entitled by virtue of his prior employment with the Corporation, including without limitation, pension, profit-sharing and savings plan distributions and life, health care and dental benefits.

4. Confidentiality and Other Terms and Conditions.

4.1 The Consultant agrees that all ideas, suggestions, discoveries, inventions, copyrights, copyrightable materials, secret processes, formulae, trademarks, trade secrets, and the like (the "Intellectual Property") created, discovered or developed by the Consultant during the performance of activities pursuant to this Agreement shall be the exclusive property of and are hereby assigned to the Corporation, and the Consultant agrees to execute such instruments of transfer, assignment, conveyance and confirmation and such other documents as may reasonably be requested by the Corporation to transfer, assign, convey, confirm and perfect in the Corporation all legally protectable rights in such Intellectual Property.

4.2 The Consultant will regard and preserve as confidential all information pertaining to the Corporation that may be obtained by the Consultant as a result of the Consultant's services hereunder and will not disclose such information to any person, or use it for the Consultant's own benefit, during the term hereof or thereafter, except as may be necessary in connection with the performance of the Consultant's services hereunder. References to the "Corporation" in this Agreement, and particularly in this Section 4.2 and in Section 6.1, shall include all divisions of the Corporation, all corporations that are affiliates or subsidiaries of the Corporation, and any divisions of such subsidiaries and affiliates. Information covered hereby shall include, without limitation, information relating to the Corporation's products, processes, services, inventions, research, development, manufacturing or subcontracting methods, financial matters, future plans or other materials conceived, designed, created or heretofore or hereafter used or developed by the Corporation, any customer lists, pricing and pricing methods, marketing, merchandising or distribution methods, sourcing or other supplier or purchaser related information or other information that is the property of the Corporation or otherwise marked "Confidential". Moreover, during the Term and thereafter for a period of one year, the consultant will not solicit or in any manner encourage employees of the Corporation to leave the employ of the Corporation. Any and all documentation containing such information in the possession or under the control of the Consultant at the end of the Term shall be returned to the Corporation. This Section 4.2 shall not apply to any information which is or becomes part of the public domain other than as a result of a breach of this Agreement by the Consultant or that may be required to be disclosed by a duly authorized order requiring such disclosure by any judicial or administrative proceeding.

4.3 This Section 4 shall survive the termination of this Agreement.

5. Termination of Consulting Arrangement.

5.1 Death.

In the event of the death of the Consultant, this Agreement shall thereupon be terminated and the Term shall end and the Corporation shall only be obligated to pay the fee set forth in Section 3.1 above to the Consultant for the month in which death occurs.

5.2 Consultant Initiation.

The Consultant has the right to terminate this Agreement with effect at any time after June 30, 1998 upon 30 days advance written notice.

5.3 Inability to Perform.

In the event that, during the Term, the Consultant is unable to furnish the services described in Section 2.1, the Corporation shall have the option to terminate the Consultant's services and thereby terminate this Agreement, as follows: A termination as a result of the inability of the Consultant to provide the services described in Section 2.1 shall occur upon delivery by the Corporation of a termination notice in writing to the Consultant following a period of (a) 45 consecutive days, or (b) 90 days (irrespective of whether such days are consecutive) occurring during any period of 365 consecutive days during which the Consultant has been requested to but has been unable to provide such services. The Consultant's vacation periods shall not be included within the foregoing computation. The Consultant shall continue to receive the remuneration provided for in Section 3.1 only for the period ending with the date of such termination as provided in this paragraph 5.3.

5.4 Termination by the Corporation for Due Cause.

Nothing herein shall prevent the Corporation from terminating the Consultant's services and this Agreement for Due Cause. The Consultant shall continue to receive remuneration provided for in Section 3.1 only for the period ending with the date of such termination as provided in this Section 5.3. "Due Cause" , as used herein, shall be deemed to exist in the event (a) the Consultant is convicted of a felony or of fraud or, (b) in connection with the Business, commits acts of gross negligence, willful misconduct or dishonesty or (c) the Consultant neglects to perform the services required to be performed hereunder for a period of 30 days after written notice by the Corporation to the Consultant of such neglect.

6. Covenant Not to Compete and Other Covenants.

6.1 The Consultant agrees that, except as otherwise provided in this Section 6, the Consultant will not, without the prior written consent of the Corporation, at any time during the Term and thereafter for a period of one year, in any country in which the Corporation (as defined in Section 4.2 hereof) is engaged in business, directly or indirectly, own, manage, operate, join, control or participate in the ownership, management, operation or control of, render services or advice to, or be connected with, as partner, stockholder, director, officer, agent, employee, consultant or otherwise, any business, firm or corporation which competes with the Business as conducted during the Term or on the date of such termination, as the case may be. The Consultant shall not be deemed under this Section 6 to be competing with the Business solely by reason of ownership of less than one percent of the outstanding amount of any securities of any corporation regularly traded on a national stock exchange or over-the-counter.

6.2 The Consultant agrees that during the Term and thereafter for a period of one year, he will not interfere with any relationship, contractual or otherwise, between the Corporation and any other party, including, without limitation, any employee, customer, supplier, distributor, lessor or lessee, licensor or licensee, commercial or investment banker.

6.3 The provisions of this Section 6 shall survive the termination of this Agreement.

7. Remedies.

The Consultant acknowledges that the services to be rendered hereunder are of a special and unique character and recognizes that, in the event of any breach or threatened breach by the Consultant of the provisions of Sections 4 or 6 hereof, damages would be difficult, if not impossible, to ascertain; and it is therefore agreed that the Corporation, in addition to and without limiting any other remedy or right it may have under this Agreement or at law or in equity, shall be entitled to injunctive relief against the Consultant issued by any court of competent jurisdiction enjoining any such breach or threatened breach. This Section 7 shall survive the termination of this Agreement.

8. Indemnification.

The Corporation shall indemnify and hold the Consultant harmless from and against all liabilities, losses, costs, judgments and expenses (including reasonable attorney's fees and reasonable disbursements) to which the Consultant may become subject as a result of the performance of his obligations under this Agreement or as a result of the performance of his obligations under this Agreement or as a result of his connection with the business and affairs of the Corporation, except for acts or omissions constituting negligence, willful misconduct or acts beyond the scope of the consulting arrangement,. This indemnification provision shall bind the

Corporation only if the Consultant gives the Corporation prompt notice of any claims with respect to which it may seek indemnification and permits the Corporation to defend such claim with counsel of its own selection, reasonably satisfactory to the Consultant. The Consultant agrees to cooperate with the Corporation in connection with the defense of any such action.

9. Relationship of the Parties.

9.1 In all activities hereunder the Consultant shall be an independent contractor and the Corporation shall, unless otherwise required by law, have no liability whatsoever for withholding, collection or payment of income taxes or for taxes of any other nature on behalf of the Consultant.

9.2 Nothing contained herein shall be deemed to (i) make either party the agent, employee, joint venturer or partner of the other party or (ii) provide either party or any employee of such party with the power or authority to act on behalf of the other party or to bind the other party to any contract, agreement or arrangement with any other person.

9.3 All personnel employed or otherwise engaged by either party shall be the agents, servants and employees of such party only, and their other party shall incur no obligations or liabilities, express or implied, by reason of, or with respect to, the conduct of such personnel.

10. Representation and Warranty of Consultant.

Consultant represents and warrants that he has full legal right and authority to enter into this Agreement and to fully perform the Consultant's obligation hereunder without breach by the Consultant of any legal obligations to any other persons, firm or entity, and there is no agreement to which the Consultant is a party or to which the Consultant is otherwise bound, or any order, arbitration award or injunction of any court, arbitrator or governmental agency to which the Consultant is subject, which would prevent or limit Consultant from fully performing the Consultant's obligations under this Agreement. Consultant hereby agrees to indemnify and hold the Corporation harmless from and against all liabilities, losses, costs, claims, judgments and expenses (including reasonable attorney's fees and reasonable disbursements) to which the Corporation may become subject as a result of a breach of this representation and warranty.

11. Notices.

Any notice to be given hereunder shall be given in writing and delivered personally or sent by certified mail, postage prepaid, return receipt requested, addressed to the party concerned at the address indicated below or to such other address as such party may subsequently give written notice pursuant hereto:

If to the Corporation:

To: Hasbro, Inc.
1027 Newport Avenue
Pawtucket, RI 02862
Attn: Harold P. Gordon
Vice Chairman

With a copy to:

Hasbro, Inc.
32 West 23rd Street
New York, NY 10010
Attn: Phillip Waldoks
Senior Vice President,
Corporate Legal Affairs
and Secretary

If to the Consultant:

To: George R. Ditomassi, Jr.
152 Tennyson Drive
Longmeadow, MA 01106

With a copy to:

Paul S. Doherty
Doherty, Wallace, Pillsbury and Murphy, P.C.
One Monarch Place
1414 Main Street, 19th Floor
Springfield, MA 01144-1002

12. Miscellaneous.

12.1 If any section, subsection or other provision of this Agreement is determined by a court of competent jurisdiction to be unenforceable for

any reason, such section, subsection or provision shall be deemed to be severable and this Agreement shall otherwise continue in full force and effect.

12.2 This Agreement shall be binding upon the Consultant, the Corporation, its successors and any corporation which acquires, by merger or otherwise, all or substantially all of the assets of the Corporation, and shall inure to the benefit of (a) the Consultant and the Consultant's legal representatives and (b) the Corporation and its successors and permitted assigns. Except as set forth in the preceding sentence, neither this Agreement nor any rights or obligations thereunder shall be assignable by either party without the prior written consent of the other party.

12.3 No modification, amendment or waiver of any of the provisions of this Agreement shall be effective unless in writing and signed by both parties hereto.

12.4 The failure to enforce at any time any of the provisions of this Agreement or the failure to require at any time performance of any of the provisions of this Agreement shall in no way be construed to be a waiver of such provisions or to affect either the validity of this Agreement or any part hereof, or the right thereafter to enforce each and every such provision in accordance with the terms of this Agreement.

12.5 This Agreement constitutes the entire understanding of the parties hereto with respect to the Consultant's consulting services and the Consultant's remuneration therefor.

12.6 Whenever a provision of this Agreement governs periods following the termination or conclusion of this Agreement, such provisions shall survive such termination or conclusion whether or not such survival is otherwise specifically provided for herein.

12.7 This Agreement may be executed in one or more counterparts, each of which shall be considered an original, but all of which together shall constitute one and the same document.\

12.8 The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

12.9 This Agreement shall be governed by and construed in accordance with the laws of the State of Rhode Island applicable to agreements made and to be performed entirely within such state.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

HASBRO, INC.

By: /s/ Harold P. Gordon

Harold P. Gordon
Vice Chairma

/s/ George R. Ditomassi, Jr.

George R. Ditomassi, Jr.

January 26, 1998

Mr. George Volanakis
2604 Hacienda Drive
Dubuque, IA 52002

Re: Pension Benefits

Dear George:

I am writing to confirm the issue of minimum pension benefits under the Hasbro, Inc. retirement benefit programs as they would apply to you should you be re-employed by Hasbro, Inc. after termination of your current employment.

In the event your employment with Hasbro would involuntarily be terminated for a reason other than for Cause (as defined below), then Hasbro would provide an aggregate life annuity benefit under Company-sponsored retirement programs of no less than \$100,000 per annum commencing no earlier than the first day of the calendar month after your attainment of age 55 years. You would be able to elect receiving this benefit in an actuarial equivalent amount in accordance with the provisions of the plans.

For purposes of the preceding paragraph, the term "Cause" means your (1) conviction of or confession to a felony or fraud or a criminal act of misappropriation, embezzlement, or the like, or (2) committing any acts of gross negligence, willful misconduct or dishonesty, or (3) divulging trade secrets or confidential information of Hasbro, directly or indirectly, to a competitor of Hasbro, or (4) breach of any material fiduciary duty owed by you to Hasbro, or (5) refusal to perform reasonable duties required in performance of your employment with Hasbro.

I hope this information will be useful.

Sincerely,

/s/ Harold Gordon

- - - - -

Harold Gordon
Vice Chairman
Hasbro, Inc.

HASBRO, INC. AND SUBSIDIARIES

Computation of Earnings Per Share

(Thousands of Dollars and Shares Except Per Share Data)

| | 1997 | | 1996 | | 1995 | |
|--|-----------|---------|---------|---------|---------|---------|
| | Basic | Diluted | Basic | Diluted | Basic | Diluted |
| Net earnings | \$134,986 | 134,986 | 199,912 | 199,912 | 155,571 | 155,571 |
| Interest and amortization on convertible notes, net of taxes | - | 4,782 | - | 5,757 | - | 5,763 |
| Net earnings applicable to common shares | \$134,986 | 139,768 | 199,912 | 205,669 | 155,571 | 161,334 |
| Weighted average number of shares outstanding: | | | | | | |
| Outstanding at beginning of period | 128,863 | 128,863 | 131,017 | 131,017 | 131,293 | 131,293 |
| Exercise of stock options and warrants: | | | | | | |
| Actual | 912 | 912 | 502 | 502 | 306 | 306 |
| Assumed | - | 2,557 | - | 1,815 | - | 864 |
| Conversion of convertible notes: | | | | | | |
| Actual | 1,355 | 1,355 | 6 | 6 | - | - |
| Assumed | - | 6,286 | - | 7,666 | - | 7,671 |
| Purchase of common stock | (2,404) | (2,404) | (1,484) | (1,484) | (84) | (84) |
| Equivalent Shares | 128,726 | 137,569 | 130,041 | 139,522 | 131,515 | 140,050 |
| Earnings per share | \$ 1.05 | 1.02 | 1.54 | 1.47 | 1.18 | 1.15 |

HASBRO, INC. AND SUBSIDIARIES

Computation of Ratio of Earnings to Fixed Charges
Fiscal Years Ended in December

(Thousands of Dollars)

| | 1997 | 1996 | 1995 | 1994 | 1993 |
|--|-----------|---------|---------|---------|---------|
| | ---- | ---- | ---- | ---- | ---- |
| Earnings available for fixed charges: | | | | | |
| Net earnings | \$134,986 | 199,912 | 155,571 | 175,033 | 200,004 |
| Add: | | | | | |
| Cumulative effect of change in accounting principles | - | - | - | 4,282 | - |
| Fixed charges | 43,893 | 47,174 | 52,422 | 44,280 | 42,839 |
| Taxes on income | 69,539 | 106,981 | 96,979 | 112,254 | 125,206 |
| | ----- | ----- | ----- | ----- | ----- |
| Total | \$248,418 | 354,067 | 304,972 | 335,849 | 368,049 |
| | ===== | ===== | ===== | ===== | ===== |
| Fixed charges: | | | | | |
| Interest on long-term debt | \$ 7,348 | 9,258 | 9,267 | 11,179 | 10,178 |
| Other interest charges | 20,138 | 22,207 | 28,321 | 19,610 | 19,636 |
| Amortization of debt expense | 377 | 339 | 339 | 429 | 386 |
| Rental expense representative of interest factor | 16,030 | 15,370 | 14,495 | 13,062 | 12,639 |
| | ----- | ----- | ----- | ----- | ----- |
| Total | \$ 43,893 | 47,174 | 52,422 | 44,280 | 42,839 |
| | ===== | ===== | ===== | ===== | ===== |
| Ratio of earnings to fixed charges | 5.66 | 7.51 | 5.82 | 7.58 | 8.59 |
| | ===== | ===== | ===== | ===== | ===== |

HASBRO, INC. AND SUBSIDIARIES

Selected Information Contained in
Annual Report to Shareholders

for the Year Ended December 28, 1997

MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock, Par Value \$.50 per share (the "Common Stock"), is traded on the American and London Stock Exchanges. The following table sets forth the high and low sales prices as reported on the Composite Tape of the American Stock Exchange and the cash dividends declared per share of Common Stock, each as adjusted to reflect the three-for-two stock split declared on February 19, 1997 and paid on March 21, 1997, for the periods listed.

| Period | Sales Prices | | Cash Dividends Declared |
|-------------|--------------|---------|----------------------------|
| | High | Low | |
| 1996 | | | |
| 1st Quarter | \$31 1/4 | 19 1/4 | \$.07 |
| 2nd Quarter | 25 3/4 | 23 1/2 | .07 |
| 3rd Quarter | 25 1/2 | 21 1/4 | .07 |
| 4th Quarter | 29 3/8 | 24 5/8 | .07 |
| 1997 | | | |
| 1st Quarter | \$29 5/8 | 24 1/8 | \$.08 |
| 2nd Quarter | 29 1/2 | 22 7/8 | .08 |
| 3rd Quarter | 31 1/8 | 26 7/16 | .08 |
| 4th Quarter | 36 1/2 | 25 3/4 | .08 |

The approximate number of holders of record of the Company's Common Stock as of February 27, 1998 was 4,600.

Dividends

Declaration of dividends is at the discretion of the Company's Board of Directors and will depend upon the earnings, financial condition of the Company and such other factors as the Board of Directors deems appropriate. Payment of dividends is further subject to restrictions contained in agreements relating to the Company's outstanding long-term debt. At December 28, 1997, under the most restrictive agreement the full amount of retained earnings is free of restrictions.

SELECTED FINANCIAL DATA

(Thousands of Dollars and Shares Except per share Data and Ratios)

| | Fiscal Year | | | | |
|--|-------------|-----------|-----------|-----------|-----------|
| | 1997 | 1996 | 1995 | 1994 | 1993 |
| Statement of Earnings Data: | | | | | |
| Net revenues | \$3,188,559 | 3,002,370 | 2,858,210 | 2,670,262 | 2,747,176 |
| Net earnings(1) | \$ 134,986 | 199,912 | 155,571 | 175,033 | 200,004 |
| Per Common Share Data: | | | | | |
| Earnings(1) | | | | | |
| Basic | \$ 1.05 | 1.54 | 1.18 | 1.33 | 1.52 |
| Diluted | \$ 1.02 | 1.47 | 1.15 | 1.28 | 1.44 |
| Cash dividends declared | \$.32 | .27 | .21 | .19 | .16 |
| Balance Sheet Data: | | | | | |
| Total assets | \$2 899 717 | 2,701,509 | 2,616,388 | 2,378,375 | 2,293,018 |
| Long-term debt | \$ - | 149,382 | 149,991 | 150,000 | 200,510 |
| Ratio of Earnings to Fixed Charges(1)(2) | | | | | |
| | 5.66 | 7.51 | 5.82 | 7.58 | 8.59 |

Weighted Average
Number of Common
Shares

| | | | | | |
|---------|---------|---------|---------|---------|---------|
| Basic | 128,726 | 130,041 | 131,515 | 131,703 | 131,219 |
| Diluted | 137,569 | 139,522 | 140,050 | 141,667 | 142,717 |

- (1) In 1997, net earnings, basic and diluted earnings per share and ratio of earnings to fixed charges, each excluding \$140,000 of pretax charges relating to the global integration and profit enhancement program, were \$227,386, \$1.77, \$1.69 and 8.85, respectively.
- (2) For purposes of calculating the ratio of earnings to fixed charges, fixed charges include interest, amortization of debt expense and one-third of rentals, and earnings available for fixed charges represent earnings before fixed charges and income taxes.

MANAGEMENT'S REVIEW

Summary

A percentage analysis of results of operations follows:

| | 1997 | 1996 | 1995 |
|---|--------|--------|--------|
| | ---- | ---- | ---- |
| Net revenues | 100.0% | 100.0% | 100.0% |
| Cost of sales | 42.6 | 44.3 | 43.3 |
| | ----- | ----- | ----- |
| Gross profit | 57.4 | 55.7 | 56.7 |
| Amortization | 1.7 | 1.3 | 1.4 |
| Royalties, research and development | 12.1 | 10.6 | 10.7 |
| Advertising | 12.9 | 13.9 | 14.6 |
| Selling, distribution and administration | 19.4 | 18.8 | 19.4 |
| Restructuring charge and discontinued development project | 3.9 | - | 1.1 |
| Interest expense | .9 | 1.1 | 1.3 |
| Other income, net | .1 | (.2) | (.6) |
| | ----- | ----- | ----- |
| Earnings before income taxes | 6.4 | 10.2 | 8.8 |
| Income taxes | 2.2 | 3.5 | 3.4 |
| | ----- | ----- | ----- |
| Net earnings | 4.2% | 6.7% | 5.4% |
| | ===== | ===== | ===== |

(Thousands of Dollars Except Share Data)

Results of Operations

Net revenues for 1997 were \$3,188,559 compared to \$3,002,370 and \$2,858,210 for 1996 and 1995, respectively. Within the United States market, boys' toys and the CD-ROM interactive games enjoyed substantial growth while traditional games and puzzles remained essentially flat and creative play, girls' and preschool lines decreased. The theatrical re-release of the Star Wars(R) trilogy coupled with new Batman(R) and Jurassic Park(R) movies provided the Company with a strong base from which to build its boys' toys product offerings. In the interactive family entertainment arena, during December, the Company's line included the top four and for the year, six of the ten best selling items, allowing it to more than double its 1996 volume. Games and puzzles, while remaining flat, had an excellent fourth quarter with the classic brands, such as Monopoly(R) and Scrabble(R), continuing to appeal to consumers. Bop It(R), a 1997 introduction from Parker Brothers, ended the year as one of the best selling new products in the industry. Both the creative play range, in spite of a strong showing by such favorites as Play Doh(R) and Easy Bake(R) Oven, and the girls' area experienced decreased volume, reflecting both the refocusing of their product offerings and the strength of large dolls in 1996. Preschool also experienced a decrease in revenues, primarily due to a significant planned reduction in the number of SKUs offered, as part of the Company's strategy to restore the profitability of this line. Licensed products, however, including Barney(R) and the newly introduced Arthur(TM), performed well during 1997.

In the international markets, absent the impact of the strengthened U.S. dollar, revenues increased in all geographic areas, although only marginally in Europe. Significant growth took place in the Americas with both Canada and Mexico experiencing double digit growth which was then further augmented by the Company's new operations in Chile, Peru and Argentina. The strengthened U.S. dollar, primarily in Europe, eroded much of these gains, enabling Hasbro to report international growth of less than 2%. In the aggregate, changed foreign currency rates had a negative impact of approximately \$91,000 in 1997

and \$29,000 in 1996.

The Company's gross profit margin increased to 57.4% from 55.7% in 1996 which had decreased from 56.7% in 1995. The increase in 1997 results primarily from the mix of products sold with a larger proportion of sales arising from promotional items which generally return higher gross margins. Had the U.S. dollar not strengthened to the extent that it did, the growth in margins would have been even greater. Also negatively impacting margins by \$15,000, or .5%, in 1997 was the impact of the Company's global integration and profit enhancement program. The change between 1995 and 1996 results from a combination of factors including a greater volume of products sold at less than normal margins, higher tooling costs, unfavorable foreign exchange rates and increased unabsorbed overheads in the Company's manufacturing facilities resulting from reduced production levels, all partially offset by reduced raw material commodity costs, specifically paper board and plastic resin.

Amortization expense, which includes amortization of both property rights and cost in excess of net assets acquired, of \$53,767 compares with \$40,064 in 1996 and \$38,471 in 1995. These increases were attributable to the acquisitions during the respective years.

Expenditures for royalties, research and development increased to \$386,912 from \$319,494 in 1996 and \$304,704 in 1995. Included in these amounts are expenditures for research and development of \$154,710 in 1997, \$152,487 in 1996 and \$148,057 in 1995. As percentages of net revenues, research and development was 4.9% in 1997, down from 5.1% in 1996 and 5.2% in 1995. The increased royalties in 1997 and 1996, both in amount and as a percentage of net revenues, when compared with 1995, were attributable to the higher proportion of the Company's revenues arising from licensed products as well as the higher rates generally paid on these items.

Advertising expenses, at 12.9% of net revenues, declined a full point from the 1996 level which had decreased to 13.9% from 14.6% in 1995. The decreases in both years reflect the reduced proportion of the Company's revenues attributable to sales made into the international marketplace, which traditionally have higher advertising to sales ratios than do the United States units, as well as the reduced overall level of advertising expenditures stemming in part from the mix of products sold.

During 1997, selling, distribution and administration costs increased by approximately 9% to \$617,140 or 19.4% of revenues after decreasing in 1996 to 18.8% of revenues from 19.4% in 1995. In addition to normal inflationary trends, the 1997 growth reflects the impact of the Company's 1997 acquisitions, new operations begun in Latin America and costs associated with business consolidations which took place early in 1997. The decrease in the 1996 percentage reflected a year without any significant investment spending in newly organized or acquired units.

On December 9, 1997, Hasbro announced a global integration and profit enhancement program. This program, which will be substantially completed by the end of 1998 and which anticipates the redundancy of approximately 2,500 employees, principally in manufacturing, provides for actions in three principal areas: a continued consolidation of the Company's manufacturing operations; the streamlining of marketing and sales, while exiting from certain underperforming markets and product lines; and the further leveraging of overheads. Of the \$140,000 estimated costs related to these actions, \$125,000 is reported as a nonrecurring charge and \$15,000 is reflected in cost of sales. Of the nonrecurring amount, approximately \$54,000 relates to severance and people costs, \$52,000 to property, plant and equipment and leases and \$19,000 to product line related costs.

During the second quarter of 1995, Hasbro discontinued its efforts, begun in 1992, related to the development of a mass-market virtual reality game system. The impact of this decision was a charge of \$31,100 for the costs associated with such action.

Interest expense was \$27,486 in 1997 compared to \$31,465 during 1996 and \$37,588 during 1995. The decrease during the current year reflected the impact of lower interest rates and the availability of funds generated from operations during 1996. The same reasons are primarily responsible for the decrease in 1996 from 1995.

Other expense of \$3,097 in 1997 compares with income of \$6,091 and \$16,566 in 1996 and 1995, respectively. The change between 1997 and 1996 primarily reflects an increase in foreign currency transactional losses and larger amounts attributable to Hasbro's minority partners in various units. The decrease of approximately \$10,000 in 1996 is largely the result of decreased earnings from available funds, principally in the international units, which are invested on a short-term basis locally.

Income tax expense as a percentage of pretax earnings in 1997 decreased to

34.0% from 34.9% and 38.4% in 1996 and 1995, respectively. The decrease in both 1997 and 1996 resulted primarily from the continued reorganization of the Company's global business, which reduced the tax on international earnings and helped to reduce state income taxes.

Liquidity and Capital Resources

The Company continued to have a strong and highly liquid balance sheet with cash and cash equivalents of \$361,785 at December 28, 1997. Cash and cash equivalents were \$218,971 and \$161,030 at December 29, 1996 and December 31, 1995, respectively.

Hasbro generated almost \$550,000 of net cash from its operating activities in 1997, and more than \$225,000 in each of 1996 and 1995. Included in the 1997 amount was \$273,344 provided by changes in operating assets and liabilities. Contributing to this were reductions in accounts receivable, which were approximately 3% less than in 1996, in spite of an approximate \$25,000 increase in 1997 fourth quarter sales and the non-recourse sale of certain receivables totaling \$65,000 in 1996. Inventories decreased by 11% in the current year, following a 13% decrease in 1996. Also providing funds were prepaid expenses and other current assets, which decreased, and accounts payable and accrued liabilities, which increased significantly, reflecting the unpaid portion of the costs associated with the Company's global integration and profit enhancement program as well as timing differences on certain payments. In 1996, changes in operating assets and liabilities utilized \$52,347 with receivables, prepaid expenses and other current assets and trade payables and accrued liabilities all contributing. Receivable growth reflected the \$83,000 increase in fourth quarter sales, much of which, under Hasbro's normal trading terms, became due after the end of the Company's fiscal year, partially offset by the aforementioned non-recourse sale of certain receivables. The utilization of funds through prepaid expenses and other current assets and accounts payable and accrued liabilities was largely attributable to timing differences on certain payments. Partially offsetting these utilizations was approximately \$43,000 provided through the reduction of inventory levels. During 1995, operating assets and liabilities utilized \$67,117, primarily in accounts receivable and inventories. Receivables were approximately 10% greater in 1995 than in 1994, reflecting both the increased level of fourth quarter sales and the impact of new operations. Inventories, up more than 25%, also reflected the impact of new operations and expanded product lines as well as a planned increase to allow faster and more complete shipment of customer orders. Partially offsetting these utilizations was the increase in trade payables and other accrued liabilities which reflected the increased and expanded levels of operations.

Cash flows from investing activities were a net utilization of funds during all three reported years; \$269,277, \$127,286 and \$209,331 in 1997, 1996 and 1995, respectively. During each of the three years, the Company expended an average of approximately \$100,000 in additions to its property, plant and equipment. Of these amounts, 51% in 1997, 57% in 1996 and 56% in 1995 were for purchases of tools, dies and molds related to the Company's products. During those three years, depreciation and amortization expenses were \$112,817, \$98,201 and \$91,437, respectively. During 1997, Hasbro acquired certain assets of OddzOn Products, Inc. and Cap Toys, Inc., wholly owned subsidiaries of Russ Berrie and Company, Inc., for \$167,379. In 1996, the Company made several small acquisitions and investments, none of which were significant. In 1995, Hasbro purchased certain products, primarily the Super Soaker(TM) line, and other assets from the Larami group of companies for \$88,135 and made several other smaller investments.

As part of the traditional marketing strategies of the toy industry, many sales made early in the year are not due for payment until the fourth quarter or early in the first quarter of the subsequent year, thus making it necessary for the Company to borrow significant amounts pending these collections. During the year, the Company borrowed through the issuance of commercial paper and short-term lines of credit to fund its seasonal working capital requirements in excess of funds available from operations. During 1998, the Company expects to fund these needs in a similar manner and believes that the funds available to it are adequate to meet its needs. At March 1, 1998, the Company's unused committed and uncommitted lines of credit, including a \$440,000 revolving credit agreement, were in excess of \$1,000,000. Additionally, Hasbro has an unused public debt shelf registration in the amount of an additional \$550,000.

During 1997 and 1996, net financing activities utilized approximately \$125,000 and \$95,000, respectively, of Hasbro's funds while in 1995 it provided a small amount. Throughout 1997, the Company met its seasonal working capital requirements through short-term borrowings, as in prior years. During the year, the Company also invested approximately \$135,000 to purchase its common stock in the open market, which compares with approximately \$84,000 and \$15,000 repurchased in 1996 and 1995, respectively.

During October 1997, the Company called its 6% Convertible Subordinated Notes Due 1998. Substantially all of these notes were converted into approximately 7.6 million shares of Hasbro common stock.

Under prior authorizations of the Board of Directors (the Board) and the Executive Committee of the Board, the Company repurchased 4,460,800 shares of its common stock during 1997. On December 9, 1997, the Board canceled all prior authorizations and authorized the repurchase of up to \$500,000 of the Company's shares. At December 28, 1997, \$488,457 remains available under this authorization. The Company anticipates that it will continue such purchases in the future when it deems conditions to be favorable. The shares acquired under these programs are being used for corporate purposes including issuance upon the exercise of stock options.

Foreign Currency Risk Management

The Company is exposed to market risks attributable to fluctuations in foreign currency exchange rates as a result of sourcing products in five currencies while marketing those products in more than thirty currencies. Results of operations will be affected primarily by changes in the value of the U.S. dollar, Hong Kong dollar, British pound, French franc, Mexican peso, Irish punt and Spanish peseta versus other currencies, principally in Europe and the United States.

To manage this exposure, as of December 28, 1997, Hasbro has hedged a considerable portion of its estimated 1998 foreign currency transactions using a combination of forward foreign exchange contracts and purchased foreign currency options. The Company estimates that a hypothetical immediate 10% unfavorable movement in the currencies involved could result in an approximate \$10 million adverse impact to operating profit. The Company is also exposed to risk with respect to its foreign currency net cash and cash equivalents or short-term borrowing positions. Hasbro believes, however, that the risk on this net exposure would 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. Other than set forth above, the Company does not hedge, nor does it speculate, in foreign currencies.

Gains and losses related to qualified hedges of firm commitments and anticipated transactions are deferred and are recognized in income or as carrying amounts when the hedged transaction occurs.

The Economy and Inflation

The Company continued to experience difficult economic environments throughout much of the world during 1997. The principal market for the Company's products is the retail sector where certain customers have experienced economic difficulty. The Company closely monitors the creditworthiness of its customers and adjusts credit policies and limits as it deems appropriate.

The effect of inflation on the Company's operations during 1997 was not significant and the Company will continue its policy of monitoring costs and adjusting prices accordingly.

Year 2000

After several years of planning and design, Hasbro is currently in the installation phase of a new global 'enterprise' management information system which will replace a number of older systems used in different parts of the world and which will enable the Company to operate more effectively on a global basis. An additional benefit of this planned improvement is that through this enterprise system, significant portions of the Company's world-wide systems and applications will become year 2000 compliant. Hasbro also has a program which will result in all other systems becoming compliant prior to the point that non-compliance would have any material impact on the Company's operations. The Company believes that the costs of the new 'enterprise' system together with the costs associated with becoming year 2000 compliant will not have a material impact on either its results of operations or financial condition.

The Company is also communicating with suppliers, customers and service providers to determine the extent to which Hasbro may be vulnerable to those third parties' failure to resolve their own year 2000 issue. While there can be no assurance that the systems of other companies on which Hasbro's systems rely will all be timely remediated, the Company has no current knowledge of any such third party year 2000 issues that would result in a material negative impact to its operations. Should the Company become aware of any such situation, contingency plans will be developed.

Other Information

The Company's revenue pattern continues to show the second half of the year more significant to its overall business and within that half, the fourth quarter most prominent. The Company believes that this will continue in 1998.

The Company is not aware of any material amounts of potential exposure relating to environmental matters and does not believe its compliance costs or liabilities to be material to its operating results or financial position.

Hasbro will adopt Statements of Financial Accounting Standards No. 130, Reporting Comprehensive Income (SFAS 130), and No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS 131), in 1998. As both of these relate to disclosure, the adoption of SFAS 130 and SFAS 131 is not expected to have any material impact on Hasbro's results of operations, financial condition or cash flows.

On February 9, 1998, Hasbro and Tiger Electronics, Inc. (Tiger) announced a definitive agreement for Hasbro to acquire the operating assets of Tiger and its affiliates for \$335,000, subject to certain closing adjustments plus the closing value of inventory, tooling, equipment and certain prepaid assets. It is anticipated that the transaction will be completed early in the second quarter of 1998.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See attached pages.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Hasbro, Inc.:

We have audited the accompanying consolidated balance sheets of Hasbro, Inc. and subsidiaries as of December 28, 1997 and December 29, 1996 and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the fiscal years in the three-year period ended December 28, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hasbro, Inc. and subsidiaries as of December 28, 1997 and December 29, 1996 and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended December 28, 1997 in conformity with generally accepted accounting principles.

/s/ KPMG Peat Marwick LLP

Providence, Rhode Island

February 4, 1998

Consolidated Balance Sheets
December 28, 1997 and December 29, 1996

(Thousands of Dollars Except Share Data)

| Assets | 1997 | 1996 |
|---|-------------|-----------|
| ----- | ---- | ---- |
| Current assets | | |
| Cash and cash equivalents | \$ 361,785 | 218,971 |
| Accounts receivable, less allowance for doubtful accounts of \$51,700 in 1997 and \$46,600 in 1996 | 783,008 | 807,149 |
| Inventories | 242,702 | 273,247 |
| Prepaid expenses and other current assets | 186,379 | 187,222 |
| | ----- | ----- |
| Total current assets | 1,573,874 | 1,486,589 |
| Property, plant and equipment, net | 280,603 | 313,545 |
| | ----- | ----- |
| Other assets | | |
| Cost in excess of acquired net assets, less accumulated amortization of \$128,237 in 1997 and \$115,312 in 1996 | 486,502 | 460,467 |
| Other intangibles, less accumulated amortization of \$135,467 in 1997 and \$102,387 in 1996 | 478,798 | 364,987 |
| Other | 79,940 | 75,921 |
| | ----- | ----- |
| Total other assets | 1,045,240 | 901,375 |
| | ----- | ----- |
| Total assets | \$2,899,717 | 2,701,509 |
| | ===== | ===== |

HASBRO, INC. AND SUBSIDIARIES

Consolidated Balance Sheets, Continued
December 28, 1997 and December 29, 1996

(Thousands of Dollars Except Share Data)

| Liabilities and Shareholders' Equity | 1997 | 1996 |
|--|-------------|-----------|
| ----- | ---- | ---- |
| Current liabilities | | |
| Short-term borrowings | \$ 122,024 | 120,736 |
| Trade payables | 179,156 | 174,337 |
| Accrued liabilities | 596,033 | 399,896 |
| Income taxes | 106,333 | 135,849 |
| | ----- | ----- |
| Total current liabilities | 1,003,546 | 830,818 |
| Long-term debt | - | 149,382 |
| Deferred liabilities | 58,054 | 69,263 |
| | ----- | ----- |
| Total liabilities | 1,061,600 | 1,049,463 |
| | ----- | ----- |
| Shareholders' equity | | |
| Preference stock of \$2.50 par value. | | |
| Authorized 5,000,000 shares; none issued | - | - |
| Common stock of \$.50 par value. Authorized 300,000,000 shares; issued 139,799,011 shares in 1997 and 132,160,293 shares in 1996 | 69,900 | 66,080 |
| Additional paid-in capital | 489,447 | 282,922 |
| Retained earnings | 1,458,309 | 1,362,791 |
| Foreign currency translation | (4,717) | 21,487 |
| Treasury stock, at cost, 6,357,948 shares in 1997 and 3,297,628 shares in 1996 | (174,822) | (81,234) |
| | ----- | ----- |
| Total shareholders' equity | 1,838,117 | 1,652,046 |
| | ----- | ----- |
| Total liabilities and shareholders' equity | \$2,899,717 | 2,701,509 |
| | ===== | ===== |

See accompanying notes to consolidated financial statements.

HASBRO, INC. AND SUBSIDIARIES

Consolidated Statements of Earnings
Fiscal Years Ended in December

(Thousands of Dollars Except Share Data)

| | 1997 | 1996 | 1995 |
|---|-------------|-----------|-----------|
| | ---- | ---- | ---- |
| Net revenues | \$3,188,559 | 3,002,370 | 2,858,210 |
| Cost of sales | 1,359,058 | 1,328,897 | 1,237,197 |
| | ----- | ----- | ----- |
| Gross profit | 1,829,501 | 1,673,473 | 1,621,013 |
| | ----- | ----- | ----- |
| Expenses | | | |
| Amortization | 53,767 | 40,064 | 38,471 |
| Royalties, research and development | 386,912 | 319,494 | 304,704 |
| Advertising | 411,574 | 418,003 | 417,886 |
| Selling, distribution and administration | 617,140 | 563,645 | 555,280 |
| Restructuring charge and discontinued development project | 125,000 | - | 31,100 |
| | ----- | ----- | ----- |
| Total expenses | 1,594,393 | 1,341,206 | 1,347,441 |
| | ----- | ----- | ----- |
| Operating profit | 235,108 | 332,267 | 273,572 |
| | ----- | ----- | ----- |
| Nonoperating (income) expense | | | |
| Interest expense | 27,486 | 31,465 | 37,588 |
| Other (income) expense, net | 3,097 | (6,091) | (16,566) |
| | ----- | ----- | ----- |
| Total nonoperating expense | 30,583 | 25,374 | 21,022 |
| | ----- | ----- | ----- |
| Earnings before income taxes | 204,525 | 306,893 | 252,550 |
| Income taxes | 69,539 | 106,981 | 96,979 |
| | ----- | ----- | ----- |
| Net earnings | \$ 134,986 | 199,912 | 155,571 |
| | ===== | ===== | ===== |
| Per common share | | | |
| Net earnings | | | |
| Basic | \$ 1.05 | 1.54 | 1.18 |
| | ===== | ===== | ===== |
| Diluted | \$ 1.02 | 1.47 | 1.15 |
| | ===== | ===== | ===== |
| Cash dividends declared | \$.32 | .27 | .21 |
| | ===== | ===== | ===== |

See accompanying notes to consolidated financial statements.

HASBRO, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Fiscal Years Ended in December

(Thousands of Dollars)

| | 1997 | 1996 | 1995 |
|---|-----------|---------|---------|
| | ---- | ---- | ---- |
| Cash flows from operating activities | | | |
| Net earnings | \$134,986 | 199,912 | 155,571 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Depreciation and amortization of plant and equipment | 112,817 | 98,201 | 91,437 |
| Other amortization | 53,767 | 40,064 | 38,471 |
| Deferred income taxes | (40,555) | (8,120) | (9,149) |
| Discontinued development project | - | - | 13,256 |
| Change in operating assets and liabilities (other than cash and cash equivalents): | | | |

| | | | |
|---|-----------|-----------|-----------|
| Decrease (increase) in accounts receivable | 11,920 | (22,418) | (66,658) |
| Decrease (increase) in inventories | 40,739 | 42,959 | (64,686) |
| Decrease (increase) in prepaid expenses and other current assets | 20,326 | (37,036) | (1,633) |
| Increase (decrease) in trade payables and other current liabilities | 200,359 | (35,852) | 65,860 |
| Other | 9,482 | 2,283 | 4,931 |
| | ----- | ----- | ----- |
| Net cash provided by operating activities | 543,841 | 279,993 | 227,400 |
| | ----- | ----- | ----- |
| Cash flows from investing activities | | | |
| Additions to property, plant and equipment | (99,356) | (101,946) | (100,639) |
| Investments and acquisitions, net of cash acquired | (172,116) | (33,027) | (117,406) |
| Other | 2,195 | 7,687 | 8,714 |
| | ----- | ----- | ----- |
| Net cash utilized by investing activities | (269,277) | (127,286) | (209,331) |
| | ----- | ----- | ----- |

HASBRO, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows, Continued
Fiscal Years Ended in December

(Thousands of Dollars)

| | 1997 | 1996 | 1995 |
|---|-----------|-----------|-----------|
| | ---- | ---- | ---- |
| Cash flows from financing activities | | | |
| Proceeds from borrowings with original maturities of more than three months | 295,132 | 265,017 | 433,646 |
| Repayments of borrowings with original maturities of more than three months | (304,927) | (255,636) | (416,515) |
| Net proceeds (payments) of other short-term borrowings | 21,599 | (6,116) | 20,997 |
| Purchase of common stock | (134,880) | (83,657) | (15,228) |
| Stock option and warrant transactions | 37,258 | 17,745 | 6,664 |
| Dividends paid | (39,694) | (32,959) | (27,190) |
| | ----- | ----- | ----- |
| Net cash (utilized) provided by financing activities | (125,512) | (95,606) | 2,374 |
| | ----- | ----- | ----- |
| Effect of exchange rate changes on cash | (6,238) | 840 | 3,559 |
| | ----- | ----- | ----- |
| Increase in cash and cash equivalents | 142,814 | 57,941 | 24,002 |
| Cash and cash equivalents at beginning of year | 218,971 | 161,030 | 137,028 |
| | ----- | ----- | ----- |
| Cash and cash equivalents at end of year | \$361,785 | 218,971 | 161,030 |
| | ===== | ===== | ===== |
| Supplemental information | | | |
| Cash paid during the year for | | | |
| Interest | \$ 23,480 | 29,430 | 39,050 |
| | ===== | ===== | ===== |
| Income taxes | \$135,446 | 92,670 | 81,179 |
| | ===== | ===== | ===== |
| Non-cash financing activities | | | |
| 6% Convertible Subordinated Notes Due 1998, converted into common stock | \$149,354 | 609 | 9 |
| | ===== | ===== | ===== |

See accompanying notes to consolidated financial statements.

HASBRO, INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity

(Thousands of Dollars)

| | Common Stock | Additional Paid-in Capital | Retained Earnings | Foreign Currency Translation | Treasury Stock | Total Shareholders' Equity |
|---------------------------------------|-----------------|----------------------------------|----------------------|------------------------------------|-------------------|----------------------------------|
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance, December 25, 1994 | \$ 44,043 | 282,151 | 1,071,416 | 14,526 | (16,719) | 1,395,417 |
| Net earnings | - | - | 155,571 | - | - | 155,571 |
| Purchase of treasury stock | - | - | - | - | (15,228) | (15,228) |
| Stock option and warrant transactions | - | (2,872) | - | - | 9,536 | 6,664 |
| Dividends declared | - | - | (28,050) | - | - | (28,050) |
| Currency translation and other | - | 9 | 2,305 | 8,924 | - | 11,238 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance, December 31, 1995 | 44,043 | 279,288 | 1,201,242 | 23,450 | (22,411) | 1,525,612 |
| Net earnings | - | - | 199,912 | - | - | 199,912 |
| Three-for-two stock split | 22,027 | (22,027) | - | - | - | - |
| Purchase of treasury stock | - | - | - | - | (83,657) | (83,657) |
| Stock option and warrant transactions | - | 25,063 | - | - | 24,834 | 49,897 |
| Dividends declared | - | - | (34,559) | - | - | (34,559) |
| Currency translation and other | 10 | 598 | (3,804) | (1,963) | - | (5,159) |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance, December 29, 1996 | 66,080 | 282,922 | 1,362,791 | 21,487 | (81,234) | 1,652,046 |
| Net earnings | - | - | 134,986 | - | - | 134,986 |
| Purchase of treasury stock | - | - | - | - | (134,880) | (134,880) |
| Stock option and warrant transactions | - | 57,378 | - | - | 41,287 | 98,665 |
| Dividends declared | - | - | (41,783) | - | - | (41,783) |
| Conversion of 6% debt | 3,820 | 149,264 | - | - | - | 153,084 |
| Currency translation and other | - | (117) | 2,315 | (26,204) | 5 | (24,001) |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Balance, December 28, 1997 | \$ 69,900 | 489,447 | 1,458,309 | (4,717) | (174,822) | 1,838,117 |
| | ===== | ===== | ===== | ===== | ===== | ===== |

See accompanying notes to consolidated financial statements

HASBRO, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Thousands of Dollars Except Share Data)

(1) Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Hasbro, Inc. and all significant majority-owned subsidiaries (Hasbro or the Company). Investments in affiliates representing 20% to 50% ownership interest are accounted for using the equity method. All significant intercompany balances and transactions have been eliminated.

Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Fiscal Year

Hasbro's fiscal year ends on the last Sunday in December. The fiscal years ended December 28, 1997 and December 29, 1996 were fifty-two week periods while the fiscal year ended December 31, 1995 was a fifty-three week period.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments purchased with a maturity to the Company of three months or less.

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market.

Long-Lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset.

Cost in Excess of Net Assets Acquired and Other Intangibles

More than 80% of Hasbro's goodwill results from the 1984 acquisition of Milton Bradley Company (Milton Bradley), including its Playskool and international units, and the 1991 acquisition of Tonka Corporation (Tonka), including its Kenner, Parker Brothers and international units, and is being amortized on the straight-line method over forty years.

Substantially all of the other intangibles consist of the cost of acquired product rights. These rights, which were valued at their acquisition date based on the anticipated future cash flows from the underlying product lines, are being amortized over five to twenty-five years using the straight-line method. In establishing the value of such rights, the Company considers, but does not individually value, existing copyrights, trademarks, patents, license agreements and other product-related rights. Approximately half of these other intangibles relate to the acquisition of Milton Bradley, Tonka and other acquisitions during 1997 and 1995. (note 2)

Depreciation and Amortization

Depreciation and amortization are computed using accelerated and straight-line methods to amortize the cost of property, plant and equipment over their estimated useful lives. The principal lives, in years, used in determining depreciation rates of various assets are: land improvements 15 to 19, buildings and improvements 15 to 25 and machinery and equipment 3 to 12.

Tools, dies and molds are amortized over a three year period or their useful lives, whichever is less, using an accelerated method.

Income Taxes

Hasbro uses the asset and liability approach for financial accounting and reporting for income taxes. Deferred income taxes have not been provided on undistributed earnings of international subsidiaries as substantially all of such earnings are indefinitely reinvested by the Company.

Foreign Currency Translation

Foreign currency assets and liabilities are translated into dollars at current rates, and revenues, costs and expenses are translated at average rates during each reporting period. Current earnings include gains or losses resulting from foreign currency transactions, other than those relating to intercompany transactions of a long-term investment nature. Those gains and losses, as well as those resulting from translation of financial statements, are shown as a separate component of shareholders' equity.

Pension Plans, Postretirement and Postemployment Benefits

Hasbro, 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. The Company's policy is to fund amounts which are required by applicable regulations and which are tax deductible. The estimated amounts of future payments to be made under other retirement programs are being accrued currently over the period of active employment and are also included in pension expense.

Hasbro has a contributory postretirement health and life insurance plan covering substantially all employees who retire under any of its United States defined benefit pension plans and meet certain age and length of service requirements. It also has several plans covering certain groups of employees which may provide benefits to such employees following their period of employment but prior to their retirement.

Research and Development

Research and product development costs for 1997, 1996 and 1995 were \$154,710, \$152,487 and \$148,057, respectively.

Advertising

Production costs of commercials and programming are charged to operations in the fiscal year during which the production is first aired. The costs of other advertising, promotion and marketing programs are charged to operations in the fiscal year incurred.

Risk Management Contracts

Hasbro does not enter into derivative financial instruments for speculative purposes. The Company may, however, enter into foreign currency hedging contracts, including forwards and options, to manage its exposure to foreign currency exchange rates. This exposure relates to future purchases of inventory not denominated in the functional currency of the unit purchasing the inventory as well as other cross-border currency requirements. Forwards are generally used by the Company to hedge firm commitments while options are used to hedge anticipated and probable transactions, each thus meeting the criteria for hedge accounting treatment. Premiums on such option contracts are amortized over their term and if such contract is terminated before its maturity, the unamortized premium is expensed and included in other expense, net. The carrying value of options is included in prepaid expenses and other current assets. Were hedge accounting criteria not met, gains and losses on such instruments would be included currently in the statements of earnings.

Earnings Per Common Share

During 1997, Hasbro adopted Statement of Financial Accounting Standards No. 128, Earnings Per Share (SFAS 128), and, accordingly, has restated all prior period data. SFAS 128 requires that earnings per share be presented as two calculations: Basic and Diluted. Earnings per common share are based on the weighted average number of shares of common stock and dilutive securities outstanding during each period. Dilutive securities include stock options and warrants for the period prior to their exercise. Under the treasury stock method, the unexercised options and warrants are assumed to be exercised at the beginning of the period or at issuance, if later. The assumed proceeds are then used to purchase common stock at the average market price during the period.

A reconciliation of earnings per share for the three fiscal years ended December 28, 1997 is as follows:

| | 1997 | | 1996 | | 1995 | |
|---|-----------|---------|---------|---------|---------|---------|
| | Basic | Diluted | Basic | Diluted | Basic | Diluted |
| Net earnings | \$134,986 | 134,986 | 199,912 | 199,912 | 155,571 | 155,571 |
| Effect of dilutive securities: | | | | | | |
| 6% Convertible Notes due 1998 | - | 4,782 | - | 5,757 | - | 5,763 |
| Adjusted net earnings | \$134,986 | 139,768 | 199,912 | 205,669 | 155,571 | 161,334 |
| Average shares outstanding (in thousands) | 128,726 | 128,726 | 130,041 | 130,041 | 131,515 | 131,515 |
| Effect of dilutive securities: | | | | | | |
| 6% Convertible Notes due 1998 | - | 6,286 | - | 7,666 | - | 7,671 |
| Options and warrants | - | 2,557 | - | 1,815 | - | 864 |
| Equivalent shares | 128,726 | 137,569 | 130,041 | 139,522 | 131,515 | 140,050 |
| Earnings per share \$ | 1.05 | 1.02 | 1.54 | 1.47 | 1.18 | 1.15 |

(2) Acquisitions

On May 2, 1997, Hasbro purchased certain assets of OddzOn Products, Inc., and Cap Toys, Inc., wholly owned subsidiaries of Russ Berrie and Company, Inc. The consideration for this purchase was \$167,379. This acquisition was accounted for using the purchase accounting method and, based on estimates of fair market value, \$43,582 has been allocated to net tangible assets, \$76,700 to product rights and \$47,097 to goodwill.

(3) Inventories

| | 1997 | 1996 |
|-------------------|-----------|---------|
| Finished products | \$198,215 | 209,903 |
| Work in process | 12,208 | 16,810 |
| Raw materials | 32,279 | 46,534 |
| | \$242,702 | 273,247 |
| | ===== | ===== |

(4) Property, Plant and Equipment

| | 1997 | 1996 |
|--|-----------|---------|
| Land and improvements | \$ 13,297 | 14,543 |
| Buildings and improvements | 181,362 | 205,408 |
| Machinery and equipment | 265,313 | 257,499 |
| | 459,972 | 477,450 |
| Less accumulated depreciation | 219,106 | 215,172 |
| | 240,866 | 262,278 |
| Tools, dies and molds, net of amortization | 39,737 | 51,267 |
| | \$280,603 | 313,545 |
| | ===== | ===== |

Expenditures for maintenance and repairs which do not materially extend the life of the assets are charged to operations.

(5) Short-Term Borrowings

Hasbro has available unsecured committed and uncommitted lines of credit from various banks approximating \$550,000 and \$750,000, respectively. Substantially all of the short-term borrowings outstanding at the end of 1997 and 1996 represent bank borrowings related to international units made under these lines of credit. The weighted average interest rates of the outstanding borrowings were 6.3% and 5.0%, respectively. Hasbro's working capital needs were fulfilled by borrowing under these lines of credit and through the issuance of commercial paper, both of which were on terms and at interest rates generally extended to companies of comparable creditworthiness. Included as part of the committed line is \$440,000 available from a revolving credit agreement. This agreement contains certain restrictive covenants with which the Company is in compliance. Compensating balances and facility fees were not material.

(6) Accrued Liabilities

| | 1997 | 1996 |
|---------------------------------------|-----------|---------|
| Royalties | \$ 95,418 | 81,053 |
| Advertising | 112,299 | 83,694 |
| Payroll and management incentives | 44,014 | 32,879 |
| 1997 restructuring accruals (note 13) | 120,099 | - |
| Other | 224,203 | 202,270 |
| | \$596,033 | 399,896 |
| | ===== | ===== |

(7) Long-Term Debt

Long-term debt of \$149,382 at December 29, 1996 consisted of Hasbro's 6% Convertible Subordinated Notes Due 1998. Substantially all of these notes were converted into 7,636,562 shares of common stock during 1997.

(8) Income Taxes

Income taxes attributable to earnings before income taxes are:

| | 1997 | 1996 | 1995 |
|---------|-------|-------|-------|
| Current | ----- | ----- | ----- |

| | | | |
|-----------------|-----------|----------|---------|
| United States | \$ 62,042 | 58,580 | 54,979 |
| State and local | 8,296 | 9,033 | 9,309 |
| International | 39,756 | 47,488 | 41,840 |
| | ----- | ----- | ----- |
| | 110,094 | 115,101 | 106,128 |
| | ----- | ----- | ----- |
| Deferred | | | |
| United States | (31,533) | 4,309 | (5,122) |
| State and local | (2,793) | 406 | (483) |
| International | (6,229) | (12,835) | (3,544) |
| | ----- | ----- | ----- |
| | (40,555) | (8,120) | (9,149) |
| | ----- | ----- | ----- |
| | \$ 69,539 | 106,981 | 96,979 |
| | ===== | ===== | ===== |

Certain tax benefits are not reflected in income taxes in the statements of earnings. Such benefits of \$4,036 in 1997, \$6,793 in 1996 and \$6,532 in 1995, relate primarily to stock options.

A reconciliation of the statutory United States federal income tax rate to Hasbro's effective income tax rate is as follows:

| | 1997 | 1996 | 1995 |
|-----------------------------------|-------|-------|-------|
| | ---- | ---- | ---- |
| Statutory income tax rate | 35.0% | 35.0% | 35.0% |
| State and local income taxes, net | 1.7 | 2.0 | 2.3 |
| Goodwill amortization | 2.4 | 1.6 | 1.9 |
| Tax on international earnings | (4.9) | (2.2) | (.8) |
| Reduction of valuation allowance | - | (1.1) | - |
| Other, net | (.2) | (.4) | - |
| | ----- | ----- | ----- |
| | 34.0% | 34.9% | 38.4% |
| | ==== | ==== | ==== |

The components of earnings before income taxes are as follows:

| | 1997 | 1996 | 1995 |
|---------------|-----------|---------|---------|
| | ---- | ---- | ---- |
| United States | \$157,987 | 208,864 | 151,094 |
| International | 46,538 | 98,029 | 101,456 |
| | ----- | ----- | ----- |
| | \$204,525 | 306,893 | 252,550 |
| | ===== | ===== | ===== |

Absent the impact of Hasbro's \$140,000 global integration and profit enhancement program (note 13), 1997 United States and International earnings before income taxes were \$224,576 and \$119,949, respectively.

The components of deferred income tax expense arise from various temporary differences and relate to items included in the statements of earnings.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 28, 1997 and December 29, 1996 are:

| | 1997 | 1996 |
|---|-----------|---------|
| | ---- | ---- |
| Deferred tax assets: | | |
| Accounts receivable | \$ 24,497 | 25,643 |
| Inventories | 12,576 | 10,650 |
| Net operating loss carryovers | 22,821 | 24,266 |
| Operating expenses | 45,503 | 34,039 |
| Postretirement benefits | 12,343 | 12,136 |
| Other | 53,689 | 39,971 |
| | ----- | ----- |
| Gross deferred tax assets | 171,429 | 146,705 |
| Valuation allowance | (8,649) | (7,724) |
| | ----- | ----- |
| Net deferred tax assets | 162,780 | 138,981 |
| | ----- | ----- |
| Deferred tax liabilities: | | |
| Property rights and property, plant and equipment | 40,773 | 52,229 |
| Other | 8,287 | 9,563 |
| | ----- | ----- |
| Gross deferred tax liabilities | 49,060 | 61,792 |
| | ----- | ----- |

Hasbro has a valuation allowance for deferred tax assets at December 28, 1997 of \$8,649, which is an increase of \$925 from the \$7,724 at December 29, 1996. The allowance pertains to international operating loss carryforwards, some of which have no expiration and others that will expire beginning in 1998. If fully realized, future income tax expense will be reduced by \$8,649.

Based on Hasbro's history of taxable income and the anticipation of sufficient taxable income in years when the temporary differences are expected to become tax deductions, it believes that it will realize the benefit of the deferred tax assets, net of the existing valuation allowance. Of the deferred tax assets, approximately 69% are expected to be realized during the next two fiscal years.

Deferred income taxes of \$96,489 and \$78,031 at the end of 1997 and 1996, respectively, are included as a component of prepaid expenses and other current assets, and \$21,541 and \$16,123, respectively, are included as a component of other assets. At the same dates, deferred income taxes of \$1,553 and \$16,017, respectively, are included as a component of deferred liabilities.

The cumulative amounts of undistributed earnings of Hasbro's international subsidiaries held for reinvestment amounted to approximately \$332,000 at December 28, 1997 and \$307,000 at December 29, 1996.

(9) Capital Stock

----- Preference Share Purchase Rights -----

Hasbro maintains a Preference Share Purchase Rights plan (the Rights Plan). Under the terms of the Rights Plan, each share of common stock is accompanied by a Preference Share Purchase Right. Each Right is only exercisable under certain circumstances and, until exercisable, the Rights are not transferable apart from Hasbro's common stock. When exercisable, each Right will entitle its holder to purchase until June 30, 1999, in certain merger or other business combination or recapitalization transactions, at the Right's then current exercise price, a number of the acquiring company's or Hasbro's, as the case may be, common shares having a market value at that time of twice the Right's exercise price. Under certain circumstances, the rightholder may, at the option of the Board of Directors of Hasbro (the Board), receive shares of Hasbro's stock in exchange for Rights.

Prior to the acquisition by the person or group of beneficial ownership of a certain percentage of Hasbro's common stock, the Rights are redeemable for \$.00444 per Right. The Rights Plan contains certain exceptions with respect to the Hassenfeld family and related entities.

----- Common Stock -----

In August 1990, the Board authorized the purchase of up to 6,750,000 shares of the Company's common stock and in June 1994, the Executive Committee of the Board authorized the purchase of up to an additional 7,500,000 shares. At December 9, 1997, a balance of 1,224,950 shares remained under these authorizations.

On December 9, 1997, the Board canceled all prior share repurchase authorizations and authorized the purchase of up to an additional \$500,000 of the Company's common stock. At December 28, 1997, \$488,457 remained under this authorization.

(10) Stock Options and Warrants

Hasbro has various stock option plans for employees as well as a plan for non-employee members of the Board (collectively, the plans) and has reserved 19,213,322 shares of its common stock for issuance upon exercise of options 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 market value on the date the option is granted and options are adjusted for such changes as stock splits and stock dividends. No options are exercisable for periods of more than ten years after date of grant. Although certain of the plans permit the granting of awards in the form of stock options, stock appreciation rights, stock awards and cash awards, to date, only stock options have been granted.

(SFAS 123), Hasbro continues to apply Accounting Principles Board Opinion No. 25 (APB 25) in accounting for the plans under which no compensation cost is recognized. Had compensation expense been recorded under the provisions of SFAS 123, the impact on the Company's net earnings and earnings per share would have been:

| | 1997 | 1996 | 1995 |
|---|-----------|---------|---------|
| | ---- | ---- | ---- |
| Reported net earnings | \$134,986 | 199,912 | 155,571 |
| Pro forma compensation expense, net of tax | (5,880) | (3,001) | (769) |
| | ----- | ----- | ----- |
| Pro forma net earnings | \$129,106 | 196,911 | 154,802 |
| | ===== | ===== | ===== |
| Pro forma earnings per share | | | |
| Basic | \$ 1.00 | 1.51 | 1.18 |
| Diluted | \$.97 | 1.45 | 1.15 |
| | ===== | ===== | ===== |

As pro forma compensation expense considers only options granted subsequent to 1994, such expense will likely increase in the future as additional options are granted and amortized over the vesting period.

The weighted average fair value of options granted in 1997, 1996 and 1995 were \$8.64, \$6.93 and \$6.44, 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 1997, 1996 and 1995, respectively: risk-free interest rates of 6.20%, 5.51% and 7.19%; expected dividend yields of 1.12%, 1.13% and 1.18% and for all years expected volatility of approximately 21% and lives of approximately 6 years.

Additionally, the Company has reserved 11,000,000 shares of its common stock for issuance upon exercise of outstanding warrants. During 1997, warrants to purchase 6,500,000 shares at an exercise price of \$28 per share were issued in connection with the acquisition of certain rights. The fair value of these warrants was estimated on the date of grant to be \$9.43 each.

Information with respect to options and warrants, in thousands of shares, for the three years ended December 28, 1997 is as follows:

| | 1997 | 1996 | 1995 |
|----------------------------------|----------|---------|-------|
| | ---- | ---- | ---- |
| Number of shares: | | | |
| Outstanding at beginning of year | 13,635 | 8,877 | 8,805 |
| Granted | 9,460 | 6,339 | 1,108 |
| Exercised | (1,767) | (1,236) | (475) |
| Expired or canceled | (379) | (345) | (561) |
| | ----- | ----- | ----- |
| Outstanding at end of year | 20,949 | 13,635 | 8,877 |
| | ===== | ===== | ===== |
| Exercisable at end of year | 7,393 | 6,585 | 4,727 |
| | ===== | ===== | ===== |
| Weighted average exercise price: | | | |
| Granted | \$ 28.16 | 21.75 | 22.71 |
| Exercised | \$ 18.45 | 14.47 | 11.34 |
| Expired or canceled | \$ 23.69 | 22.17 | 20.91 |
| Outstanding at end of year | \$ 24.11 | 20.56 | 18.93 |
| Exercisable at end of year | \$ 20.19 | 19.32 | 16.89 |
| | ===== | ===== | ===== |

Information, in thousands of shares, with respect to the 20,949 options and warrants outstanding and the 7,393 exercisable at December 28, 1997, is as follows:

| Range of Exercise Prices | Shares | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price |
|--------------------------|--------|---|---------------------------------|
| ----- | ----- | ----- | ----- |
| Outstanding | | | |
| \$ 6.83-\$ 9.83 | 636 | 2.1 years | \$ 7.66 |
| \$16.67-\$19.75 | 1,646 | 5.8 years | \$18.48 |
| \$20.21-\$24.96 | 9,378 | 5.7 years | \$22.17 |
| \$25.52-\$29.97 | 9,289 | 10.6 years | \$28.19 |
| | ===== | | ===== |
| Exercisable | | | |

| | | |
|-----------------|-------|---------|
| \$ 6.83-\$ 9.83 | 636 | \$ 7.66 |
| \$16.67-\$19.75 | 1,645 | \$18.48 |
| \$20.21-\$24.96 | 5,106 | \$22.29 |
| \$25.52-\$29.97 | 6 | \$26.31 |
| | ===== | ===== |

(11) Pension, Postretirement and Postemployment Benefits

Pension Benefits

Hasbro's net pension and profit sharing cost for 1997, 1996 and 1995 was approximately \$13,400, \$15,700 and \$12,200, respectively.

United States Plans

Substantially all United States employees are covered under at least one of several non-contributory defined benefit plans maintained by the Company. Benefits under the major plans, covering non-union employees, are based primarily on salary and years of service. Benefits under other plans are based primarily on fixed amounts for specified years of service.

The net periodic pension cost of these plans included the following components:

| | 1997 | 1996 | 1995 |
|-------------------------------------|----------|----------|----------|
| | ---- | ---- | ---- |
| Benefits earned during the year | \$ 8,022 | 8,583 | 6,304 |
| Interest cost on projected benefits | 11,452 | 9,868 | 9,492 |
| Actual return on plan assets | (37,987) | (23,227) | (31,154) |
| Net amortization and deferral | 23,004 | 11,763 | 21,153 |
| | ----- | ----- | ----- |
| | \$ 4,491 | 6,987 | 5,795 |
| | ===== | ===== | ===== |

The funded status and the amounts recognized in Hasbro's balance sheets relating to these plans are:

| | 1997 | | 1996 | |
|---|--|--|--|--|
| | ----- | ----- | ----- | ----- |
| | Plans With Assets Exceeding Accumulated Benefits | Plans With Accumulated Benefits Exceeding Assets | Plans With Assets Exceeding Accumulated Benefits | Plans With Accumulated Benefits Exceeding Assets |
| | ----- | ----- | ----- | ----- |
| Actuarial present value of: | | | | |
| Vested benefits | \$131,218 | 10,154 | 103,870 | 6,591 |
| Nonvested benefits | 5,416 | 1,026 | 3,205 | 673 |
| | ----- | ----- | ----- | ----- |
| Accumulated benefit obligation | 136,634 | 11,180 | 107,075 | 7,264 |
| Effect of assumed increase in compensation level | 31,519 | 5,255 | 29,542 | 3,469 |
| | ----- | ----- | ----- | ----- |
| Projected benefit obligation | 168,153 | 16,435 | 136,617 | 10,733 |
| Net assets available for benefits | 196,633 | - | 162,641 | - |
| | ----- | ----- | ----- | ----- |
| Plan assets in excess of (less than) projected benefits | \$ 28,480 | (16,435) | 26,024 | (10,733) |
| | ===== | ===== | ===== | ===== |
| Consisting of: | | | | |
| Unrecognized net asset | \$ 1,029 | - | 1,372 | - |
| Unrecognized prior service cost | (6,566) | (3,877) | (6,085) | (4,474) |
| Unrecognized net gain (loss) | 36,740 | (1,333) | 32,406 | 2,818 |
| Accrued pension recognized in the balance sheet | (2,723) | (11,225) | (1,669) | (9,077) |
| | ----- | ----- | ----- | ----- |
| | \$ 28,480 | (16,435) | 26,024 | (10,733) |
| | ===== | ===== | ===== | ===== |

The assets of the funded plans are managed by investment advisors and consist primarily of pooled indexed and actively managed bond and stock

funds. The projected benefits have been determined using assumed discount rates of 7.00% for 1997, 7.75% for 1996 and 7.25% for 1995 and, for all years, an assumed long-term rate of compensation increase of 5% and an assumed long-term rate of return on plan assets of 9%.

Hasbro also has a profit sharing plan covering substantially all of its United States non-union employees. The plan provides for an annual discretionary contribution by the Company which for 1997, 1996 and 1995 was approximately \$5,100, \$5,000 and \$4,800, respectively.

International Plans

Pension coverage for employees of Hasbro's international subsidiaries is provided, to the extent deemed appropriate, through separate defined benefit and defined contribution plans. These plans were neither significant individually nor in the aggregate.

Postretirement Benefits

Hasbro provides certain postretirement health care and life insurance benefits to eligible United States employees who retire and have either attained age 65 with 5 years of service or age 55 with 10 years of service. The cost of providing these benefits on behalf of employees who retired prior to 1993 is and will continue to be substantially borne by the Company. The cost of providing benefits on behalf of employees who retire after 1992 is shared, with the employee contributing an increasing percentage of the cost, resulting in an employee-paid plan after the year 2002. The plan is not funded.

The accumulated benefit obligation relating to this plan at December 28, 1997 and December 29, 1996 consists of:

| | 1997 | 1996 |
|---------------------------------|----------|--------|
| | ---- | ---- |
| Retired employees | \$23,381 | 17,632 |
| Fully eligible active employees | 811 | 1,021 |
| Other active employees | 4,693 | 5,909 |
| | ----- | ----- |
| | \$28,885 | 24,562 |
| | ===== | ===== |

The net periodic postretirement benefit cost included the following components:

| | 1997 | 1996 | 1995 |
|-------------------------------------|----------|-------|-------|
| | ---- | ---- | ---- |
| Benefits earned during the period | \$ 204 | 289 | 267 |
| Interest cost on projected benefits | 2,039 | 1,727 | 1,822 |
| Net amortization | 22 | - | - |
| | ----- | ----- | ----- |
| | \$ 2,265 | 2,016 | 2,089 |
| | ===== | ===== | ===== |

For measuring the expected postretirement benefit obligation, an 8% annual rate of increase in the per capita cost of covered health care benefits was assumed for 1997 and a rate of 8.6% and 9.2% for 1996 and 1995, respectively. The 1997 rate was further assumed to decrease gradually to 5% in 2012. The 1996 and 1995 rates were assumed to decrease to 5% and 6%, respectively, over this same period. All were assumed to remain constant after 2012. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.00% in 1997, 7.75% in 1996 and 7.25% in 1995.

If the health care cost trend rate were increased one percentage point in each year, the accumulated postretirement benefit obligation at December 29, 1997 and the aggregate of the benefits earned during the period and the interest cost would have each increased by approximately 10%.

Postemployment Benefits

Hasbro has several plans covering certain groups of employees which may provide benefits to such employees following their period of active employment but prior to their retirement. These plans include certain severance plans which provide benefits to employees involuntarily terminated and certain plans which continue the Company's health and life insurance contributions for employees who have left Hasbro's employ under terms of its long-term disability plan.

(12) Leases

Hasbro occupies certain manufacturing facilities and sales offices and uses certain equipment under various operating lease arrangements. The rent expense under such arrangements, net of sublease income which is not material, for 1997, 1996 and 1995 amounted to \$48,090, \$46,092 and \$43,486, respectively.

Minimum rentals, net of minimum sublease income which is not material, under long-term operating leases for the five years subsequent to 1997 and in the aggregate are as follows:

| | |
|-------------|-----------|
| 1998 | \$ 30,622 |
| 1999 | 24,644 |
| 2000 | 16,760 |
| 2001 | 13,994 |
| 2002 | 12,847 |
| Later years | 84,425 |
| | ----- |
| | \$183,292 |
| | ===== |

All leases expire prior to 2014. Real estate taxes, insurance and maintenance expenses are generally obligations of the Company. It is expected that in the normal course of business, leases that expire will be renewed or replaced by leases on other properties; thus, it is anticipated that future minimum lease commitments will not be less than the amounts shown for 1997.

In addition, Hasbro leases certain facilities which, as a result of restructurings, either are or soon will be no longer in use. Future costs relating to such facilities were included as a component of the restructuring charge and are not included in the table above.

(13) Restructuring Charge and Discontinued Development Project

On December 9, 1997, Hasbro announced a global integration and profit enhancement program. This program, which will be substantially completed by the end of 1998 and which anticipates the redundancy of approximately 2,500 employees, principally in manufacturing, provides for actions in three principal areas: a continued consolidation of the Company's manufacturing operations; the streamlining of marketing and sales, while exiting from certain underperforming markets and product lines, and the further leveraging of overheads. Of the \$140,000 estimated costs related to these actions, \$125,000 is reported as a nonrecurring charge and \$15,000 is reflected in cost of sales. Of the nonrecurring amount, approximately \$54,000 relates to severance and people costs, \$52,000 to property, plant and equipment and leases and \$19,000 to product line related costs. Approximately \$20,000 of the total charge, principally product line and property, plant and equipment related assets, has been credited to the respective items on the balance sheet and the remaining \$120,000 is included in accrued liabilities.

During the second quarter of 1995, Hasbro discontinued its efforts, begun in 1992, to develop a mass-market virtual reality game system. The impact of this decision was a charge of \$31,100 for the costs associated with such action. All of the liabilities established for this action have been paid.

(14) Financial Instruments

Hasbro's financial instruments include cash and cash equivalents, accounts receivable, short-term borrowings, accounts payable and accrued liabilities, the carrying cost of which approximates fair value because of the short maturity of these instruments. Its financial instruments also include foreign currency forwards and options. At December 28, 1997, the carrying value of these instruments approximated their fair value based on quoted or publicly available market information.

Hasbro uses foreign currency forwards and options, generally purchased for terms of not more than twelve months, to protect itself from adverse currency rate fluctuations on firmly committed and anticipated foreign currency transactions. These over-the-counter contracts, which hedge future purchases of inventory and other cross-border currency requirements, are denominated in United States and Hong Kong dollars and Irish punts and entered into with counterparties who are major financial institutions with which Hasbro also has other financial relationships. The Company believes any risk related to default by a counterparty to be remote.

The Company had the equivalent of approximately \$35,000 of foreign currency forwards outstanding at each of December 28, 1997 and December

29, 1996, and approximately \$135,000 of foreign currency options outstanding at December 28, 1997. Gains and losses deferred under hedge accounting provisions are subsequently included in the measurement of the related foreign currency transaction. The aggregate amount of such gains and losses resulting from foreign currency transactions was not material.

(15) Commitments and Contingencies

 Hasbro had unused open letters of credit of approximately \$15,000 and \$20,000 at December 28, 1997 and December 29, 1996, respectively.

The Company routinely enters into license agreements with inventors, designers and others for the use of intellectual properties in its products. Certain of these agreements contain provisions for the payment of guaranteed or minimum royalty amounts. Under terms of currently existing agreements, in certain circumstances the Company may be required to pay guaranteed or minimum royalties of up to \$500,000 between 1998 and 2005.

Hasbro is party to certain legal proceedings, substantially involving routine litigation incidental to the Company's business, none of which, individually or in the aggregate, is deemed to be material to the financial condition of the Company.

(16) Segment Reporting

 Industry and Geographic Information

Hasbro operates primarily in one industry segment which includes the development, manufacture and marketing of toy products and related items and the licensing of certain related properties.

As Hasbro operates internationally, it is exposed to the risk of changes in social, political and economic conditions inherent in such operations.

Information about Hasbro's operations in different geographic areas, determined by the location of the subsidiary or unit, for each of the fiscal years in the three-year period ended December 1997 follows. Hasbro's primary operations in areas outside of the United States include Western Europe, Canada, Mexico, Australia and New Zealand and Hong Kong. As the international areas have similar business environments and the Company's operations in those areas are similar, they are presented as one category.

| | 1997 | 1996 | 1995 |
|----------------------|-------------|-----------|-----------|
| | ---- | ---- | ---- |
| Net revenues: | | | |
| United States | \$1,732,519 | 1,642,569 | 1,550,454 |
| International | 1,456,040 | 1,359,801 | 1,307,756 |
| | ----- | ----- | ----- |
| | \$3,188,559 | 3,002,370 | 2,858,210 |
| | ===== | ===== | ===== |
| Operating profit: | | | |
| United States | \$ 154,381 | 201,312 | 146,841 |
| International | 80,727 | 130,955 | 126,731 |
| | ----- | ----- | ----- |
| | \$ 235,108 | 332,267 | 273,572 |
| | ===== | ===== | ===== |
| Identifiable assets: | | | |
| United States | \$2,054,026 | 1,793,915 | 1,782,276 |
| International | 845,691 | 907,594 | 834,112 |
| | ----- | ----- | ----- |
| | \$2,899,717 | 2,701,509 | 2,616,388 |
| | ===== | ===== | ===== |

Absent the impact of the Company's \$140,000 global integration and profit enhancement program (note 13), 1997 United States and International operating profit were \$220,970 and \$154,138, respectively.

Certain of Hasbro's international units sell products, primarily on a letter of credit basis, directly to United States customers, and certain United States units sell products to international customers, primarily in Latin America. Were such transactions reported by the geographic destination of the sale rather than the geographic location of the unit making the sale, United States revenues would be increased and international revenues decreased by \$215,305, \$135,010 and \$71,998 in 1997, 1996 and 1995, respectively.

Other Information

 Hasbro markets its products primarily to customers in the retail sector. Although the Company closely monitors the creditworthiness of its customers, adjusting credit policies and limits as deemed appropriate, a substantial portion of its customers' ability to discharge amounts owed is dependent upon the retail economic environment.

Sales to the Company's two largest customers, Toys R Us, Inc. and Wal-Mart Stores, Inc., amounted to 22% and 15%, respectively, of consolidated net revenues during 1997, 22% and 13%, respectively, during 1996 and 21% and 12%, respectively, during 1995.

Hasbro purchases certain components and accessories used in its manufacturing process and certain finished products from manufacturers in the Far East. The Company's reliance on external sources of manufacturing can be shifted, over a period of time, to alternative sources of supply for products it sells, should such changes be necessary. However, if Hasbro were prevented from obtaining products from a substantial number of its current Far East suppliers due to political, labor or other factors beyond its control, the Company's operations would be disrupted while alternative sources of product were secured. The imposition of trade sanctions by the United States or the European Union against a class of products imported by Hasbro from, or the loss of "most favored nation" trading status by, the Peoples Republic of China could significantly increase the cost of the Company's products imported into the United States or Europe from China.

(17) Quarterly Financial Data (Unaudited)

 1997

 Quarter

| | First | Second | Third | Fourth | Full Year |
|------------------------------|-----------|---------|---------|-----------|-----------|
| Net revenues | \$555,784 | 583,886 | 915,533 | 1,133,356 | 3,188,559 |
| Gross profit | \$320,413 | 330,969 | 512,506 | 665,613 | 1,829,501 |
| Earnings before income taxes | \$ 40,147 | 20,283 | 115,441 | 28,654(a) | 204,525 |
| Net earnings | \$ 25,694 | 12,981 | 77,400 | 18,911 | 134,986 |
| | ===== | ===== | ===== | ===== | ===== |
| Per common share Earnings | | | | | |
| Basic | \$.20 | .10 | .61 | .14 | 1.05 |
| Diluted | \$.20 | .10 | .57 | .14 | 1.02 |
| Market price | | | | | |
| High | \$ 29 5/8 | 29 1/2 | 31 1/8 | 36 1/2 | 36 1/2 |
| Low | \$ 24 1/8 | 22 7/8 | 26 7/16 | 25 3/4 | 22 7/8 |
| Cash dividends declared | \$.08 | .08 | .08 | .08 | .32 |
| | ===== | ===== | ===== | ===== | ===== |

 1996

 Quarter

| | First | Second | Third | Fourth | Full Year |
|------------------------------|-----------|---------|---------|-----------|-----------|
| Net revenues | \$538,685 | 511,609 | 845,148 | 1,106,928 | 3,002,370 |
| Gross profit | \$300,914 | 277,425 | 472,875 | 622,259 | 1,673,473 |
| Earnings before income taxes | \$ 39,109 | 9,143 | 104,934 | 153,707 | 306,893 |
| Net earnings | \$ 24,365 | 5,986 | 70,469 | 99,092 | 199,912 |
| | ===== | ===== | ===== | ===== | ===== |
| Per common share Earnings | | | | | |
| Basic | \$.19 | .05 | .54 | .77 | 1.54 |
| Diluted | \$.18 | .05 | .52 | .72 | 1.47 |
| Market price | | | | | |
| High | \$ 31 1/4 | 25 3/4 | 25 1/2 | 29 3/8 | 31 1/4 |
| Low | \$ 19 1/4 | 23 1/2 | 21 1/4 | 24 5/8 | 19 1/4 |
| Cash dividends declared | \$.07 | .07 | .07 | .07 | .27 |
| | ===== | ===== | ===== | ===== | ===== |

1995

| | Quarter | | | | Full Year |
|---|-----------|-------------|---------|-----------|-----------|
| | First | Second | Third | Fourth | |
| Net revenues | \$526,503 | 481,854 | 826,165 | 1,023,688 | 2,858,210 |
| Gross profit | \$293,931 | 267,769 | 465,313 | 594,000 | 1,621,013 |
| Earnings (loss) before income taxes | \$ 35,257 | (24,217)(a) | 103,370 | 138,140 | 252,550 |
| Net earnings (loss) | \$ 21,683 | (14,893) | 63,572 | 85,209 | 155,571 |
| | ===== | ===== | ===== | ===== | ===== |
| Per common share | | | | | |
| Earnings (loss) | | | | | |
| Basic | \$.17 | (.11) | .48 | .65 | 1.18 |
| Diluted | \$.16 | (.11) | .46 | .62 | 1.15 |
| Market price | | | | | |
| High | \$ 22 1/2 | 23 1/2 | 22 1/4 | 21 3/4 | 23 1/2 |
| Low | \$ 18 7/8 | 20 7/8 | 19 3/4 | 19 | 18 7/8 |
| Cash dividends declared | \$.05 | .05 | .05 | .05 | .21 |
| | ===== | ===== | ===== | ===== | ===== |

(a) Includes the effect of nonrecurring charges in 1997 of \$125,000 relating to restructuring of operations and in 1995, \$31,100 relating to a discontinued development project. (note 13)

HASBRO, INC. AND SUBSIDIARIES

Subsidiaries of the Registrant (a)

| Name Under Which Subsidiary Does Business | State or Other Jurisdiction of Incorporation or Organization |
|---|---|
| ----- | ----- |
| Hasbro Interactive, Inc. | Delaware |
| Hasbro International, Inc. | Delaware |
| Groupe Hasbro France S.A. | France |
| Hasbro Deutschland GmbH | Germany |
| Hasbro Asia-Pacific Marketing Ltd. | Hong Kong |
| Hasbro Australia Limited | Australia |
| Hasbro Canada, Inc. | Canada |
| Hasbro de Mexico S.A. de C.V. | Mexico |
| Hasbro Far East LTD | Hong Kong |
| Hasbro Ireland Limited | Ireland |
| Hasbro Italy S.r.l. | Italy |
| Hasbro Japan K.K. | Japan |
| Hasbro Latin America Inc. | Delaware |
| Hasbro Argentina S.A. | Argentina |
| Hasbro Chile LTDA | Chile |
| Hasbro Peru S.A. | Peru |
| Hasbro New Zealand Limited | New Zealand |
| Hasbro Osterreich Ges.m.b.H | Austria |
| Hasbro (Schweiz) AG | Switzerland |
| Hasbro U.K. Limited | United Kingdom |
| Hasbro Interactive Limited | United Kingdom |
| HMS Juquetes S.A. de C.V. | Mexico |
| Juguetreneas S.A. de C.V. | Mexico |
| K'NEX France S.N.C. | France |
| K'NEX International U.K. | United Kingdom |
| MB International B.V. | The Netherlands |
| Hasbro B.V. | The Netherlands |
| Hasbro Hellas S.A. | Greece |
| Hasbro Importacao e Exportacao e de Jogos e Brinquedos Lds | Portugal |
| Hasbro Magyarorszag Kft | Hungary |
| Hasbro Poland SpZoo | Poland |
| MB Espana, S.A. | Spain |
| S.A. Hasbro N.V. | Belgium |
| Palmyra Holdings Pte Ltd. | Singapore |
| Hasbro Hong Kong Limited | Hong Kong |
| Hasbro Singapore Pte Ltd. | Singapore |
| Hasbro Toy (Malaysia) Sdn Bhd | Malaysia |
| Hasbro International Trading, Inc. | Delaware |
| Hasbro Managerial Services, Inc. | Rhode Island |
| Larami Limited | Delaware |
| OddzOn, Inc. | Delaware |

(a) Inactive subsidiaries and subsidiaries with minimal operations have been omitted. Such subsidiaries, if taken as a whole, would not constitute a significant subsidiary.

ACCOUNTANTS' CONSENT

The Board of Directors
Hasbro, Inc.:

We consent to incorporation by reference in the Registration Statements Nos. 2-78018, 2-93483, 33-57344, 33-59583 and 333-38159 on Form S-8 and Nos. 33-41548 and 333-44101 on Form S-3 of Hasbro, Inc. of our reports dated February 4, 1998 relating to the consolidated balance sheets of Hasbro, Inc. and subsidiaries as of December 28, 1997 and December 29, 1996 and the related consolidated statements of earnings, shareholders' equity and cash flows and related schedule for each of the fiscal years in the three-year period ended December 28, 1997, which report on the consolidated financial statements is incorporated by reference and which report on the related schedule is included in the Annual Report on Form 10-K of Hasbro, Inc. for the fiscal year ended December 28, 1997.

/s/ KPMG Peat Marwick LLP

Providence, Rhode Island

March 26, 1998

| YEAR | YEAR | YEAR | YEAR |
|-------------|-------------|-------------|-------------|
| DEC-28-1997 | DEC-28-1997 | DEC-29-1996 | DEC-31-1995 |
| | 361,785 | 218,971 | 161,030 |
| | 0 | 0 | 0 |
| | 834,708 | 853,749 | 839,911 |
| | 51,700 | 46,600 | 48,800 |
| | 242,702 | 273,247 | 315,620 |
| 1,573,874 | | 1,486,589 | 1,425,498 |
| | 499,709 | 528,717 | 500,890 |
| | 219,106 | 215,172 | 187,650 |
| | 2,899,717 | 2,701,509 | 2,616,388 |
| 1,003,546 | | 830,818 | 869,864 |
| | 0 | 0 | 0 |
| | 0 | 149,382 | 149,991 |
| | 0 | 0 | 0 |
| | 69,900 | 66,080 | 44,043 |
| | 1,768,217 | 1,585,966 | 1,481,569 |
| 2,899,717 | | 2,616,388 | |
| | 3,188,559 | 3,002,370 | 2,858,210 |
| 3,188,559 | | 3,002,370 | 2,858,210 |
| | 1,359,058 | 1,328,897 | 1,237,197 |
| | 1,359,058 | 1,328,897 | 1,237,197 |
| | 852,253 | 777,561 | 792,161 |
| | 9,229 | 5,834 | 5,860 |
| | 27,486 | 31,465 | 37,588 |
| | 204,525 | 306,893 | 252,550 |
| | 69,539 | 106,981 | 96,979 |
| 134,986 | | 199,912 | 155,571 |
| | 0 | 0 | 0 |
| | 0 | 0 | 0 |
| | 0 | 0 | 0 |
| | 0 | 0 | 0 |
| | 134,986 | 199,912 | 155,571 |
| | 1.05 | 1.54 | 1.18 |
| | 1.02 | 1.47 | 1.15 |

As required under Statement of Financial Accounting Standards No. 128, the Company has restated its earnings per share into the new 'Basic' and 'Diluted' amounts. 1996 and 1995 data in columns 2 and 3 is provided solely to reflect that restatement