

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 27, 1998 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 19, 1999 was \$5,076,732,539.

The number of shares of Common Stock outstanding as of March 19, 1999 was 195,889,550.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of registrant's definitive proxy statement for its 1999 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 27, 1998, 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

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.

The Company is a worldwide leader in the design, manufacture and marketing

of toys, games, interactive software, puzzles and infant products. 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 trademarks, characters and other property rights for use in connection with the sale by others of noncompeting toys and non-toy products. Both internationally and in the U.S., its PLAYSKOOL, KENNER, TONKA, GALOOB, ODDZON, LARAMI, MILTON BRADLEY, PARKER BROTHERS, TIGER and HASBRO INTERACTIVE products provide children and families with what the Company believes to be the highest quality and most recognizable toys and games in the world.

(b) Description of Business Products

The Company's products are categorized for marketing purposes as follows:

(i) Toys and Games

Boys' toys are offered in a wide range of products, many of which are tied to entertainment properties, including STAR WARS and BATMAN action figures and accessories. The Company also offers such classic properties as G.I. JOE, ACTION MAN, STARTING LINE-UP, TRANSFORMERS action figures, the TONKA line of trucks, vehicles including the WINNER'S CIRCLE line of die cast vehicle assortments and the NERF line of soft action play equipment. In 1999, the Company will be launching a comprehensive range of action figures and accessories using characters associated with Lucasfilms' STAR WARS: EPISODE 1: THE PHANTOM MENACE as well as the G.I. JOE CLASSIC COLLECTION, celebrating the 35th birthday of this great American hero, ANIMORPHS TRANSFORMERS, a line of NASCAR MICRO MACHINES and an extensive line of POKEMON toys and collectibles.

Hasbro's girls toys include TV promoted large dolls, such as 1998's number one selling MCDONALDLAND HAPPY MEAL GIRL, the MY LITTLE PONY line of small dolls as well as the classic RAGGEDY ANN and RAGGEDY ANDY rag dolls. In 1999 the company will be introducing new large dolls, launching a line of products designed to help celebrate the 50th anniversary of the CLASSIC PEANUTS license, expanding the girls POKEMON product line, as well as expanding the POUND PUPPIES and SPICE GIRLS lines.

The preschool business is a portfolio of three key brands: PLAYSKOOL, BARNEY and TELETUBBIES. The PLAYSKOOL line includes such well-known products as MR. POTATO HEAD, SIT 'N SPIN, GLOWORM, as well as a successful line of infant toys and toddler role-play products. The BARNEY brand includes a complete line of preschool toys such as PLAY ALONG BARNEY and the BARNEY SONG MAGIC BANJO, featuring that adorable purple dinosaur and his friends. The new PBS television show, TELETUBBIES, inspired a line of products featuring the lovable quartet of TINKY WINKY, DIPSY, LALA and PO. Included on a list of many new products being introduced during 1999 are the PLAYSKOOL KICK START GYM, SING 'N STRUM BARNEY and TELETUBBIES TUMMY SURPRISE plush dolls.

Creative Play items for both girls and boys include such classic lines as PLAY-DOH, EASY-BAKE OVEN, both of which enjoyed record years in 1998, TINKERTOYS construction toys and LITE-BRITE and SPIROGRAPH design toys. During 1999, the Company will be offering new PLAY-DOH playsets, licensed refill bake sets for the EASY-BAKE OVEN, including KELLOGS POP TARTS SNACK STIX, which allow children to bake fruity flavored cookie sticks, as well as a STAR WARS PICTURE REFILL for LITE-BRITE. Internationally the Company will continue to expand and develop the creative play business with the GET SET and ART ATTACK product lines.

The LARAMI line of toys features a comprehensive range of water products, including the SUPER SOAKER line, celebrating its tenth anniversary in 1999.

The ODDZON range includes the KOOSH and VORTEX brands of sports and activity products, the RUBIK'S brand of logic puzzles plus the CAP CANDY brand of interactive candy and the SOUND BITES brand of electronic interactive candy - which allows one to hear sounds inside one's head while eating candy. New for 1999 in the ODDZON line will be the MARK MCGUIRE VORTEX power bat, LOOP DARTS, a 'soft' dart-board game and several interactive candy additions, including new M&M MARS licensed candy dispensers and a SOUND BITES radio where consumers can listen to their favorite radio station in their head.

The Company markets its games and puzzles under several well known 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. The Company's staple items include BATTLESHIP, THE GAME OF LIFE, SCRABBLE, CHUTES AND LADDERS, CANDY LAND, TROUBLE, MOUSETRAP, OPERATION, HUNGRY HUNGRY HIPPOS, CONNECT FOUR, TWISTER and BIG BEN puzzles. The Company also provides games and puzzles for the entire family, including such games as YAHTZEE, PARCHEESI, AGGRAVATION, JENGA and SCATTERGORIES and PUZZ 3-D, a series of three dimensional jigsaw puzzles. Items added within the MILTON BRADLEY brand for 1999 include SONNY THE SEAL ring toss game, BALLZERKO, an electronic hand-held pinball maze game, and an anniversary edition of CANDY LAND.

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, CLUE, SORRY!, RISK, BOGGLE, OUIJA and TRIVIAL PURSUIT, 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, ROOK and RACK-O, games for adults such as OUTBURST and CATCH PHRASE, a line of PLAYSKOOL games for children, as well as a line of puzzles. New under the PARKER BROTHERS brand in 1999 will be millennium editions of MONOPOLY and TRIVIAL PURSUIT, an updated version of A QUESTION OF SCRUPLES and BOP IT EXTREME, a new version of the popular electronic twist-pull game.

The HASBRO INTERACTIVE line began with CD-ROM games based on the Company's traditional games and brands, including MONOPOLY, RISK, SORRY!, BATTLESHIP and, for younger children, a series of TONKA titles, including TONKA CONSTRUCTION and TONKA GARAGE and CD-ROM playsets which hook onto computer keyboards and combine traditional play with computer games. The line now includes action games from ATARI and simulation games from MICROPROSE and licensed properties such as FROGGER, WHEEL OF FORTUNE and JEOPARDY, many of which are also marketed for use on video console systems such as NINTENDO and the SONY PLAYSTATION. In 1999, among other more traditional family and children's CD-ROM games, HASBRO INTERACTIVE will be launching a line of EM@IL GAMES in which two players communicate their moves via e-mail and an EASY-BAKE OVEN and a CLUE JR. CD-ROM playset.

TIGER products are among the most popular hand held electronic games and innovation keys its line for 1999. Fueled by the stunning success of FURBY in 1998, TIGER will be offering a complete line of extensions within this category. Included will be FURBY BUDDIES, which are low cost bean bag plush toys and the FURBY HAPPY MEAL toys, which will be available both as premiums at MCDONALDS and as products for sale at retail. TIGER has also freshened its lines with brands like SPORTS FEEL GAMES, WCW PRO POWER games, which feature sculpted action figures of real wrestlers with a dot matrix video game built in, and a line of NASCAR-themed racing electronic games. Other strong licenses which will continue to grow as part of TIGER'S 1999 offerings include a comprehensive line of STAR WARS: EPISODE 1 electronic games, WINNIE THE POOH electronic learning aids, POKEMON, TELETUBBIES, and, oriented towards adults, products based on television game shows including WHEEL OF FORTUNE, JEOPARDY, CONCENTRATION and THE PRICE IS RIGHT. Also being introduced in 1999 are E YO, TIGER'S introduction into the yo-yo category, and a table top tennis game that allows players to compete by playing table tennis with a special light as the "ball".

In addition to the United States, the Company operates 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 products and trademarks are licensed to other companies for certain countries and markets where the Company does not otherwise have a presence.

The Company 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.

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 policies 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 February 28, 1999 and March 1, 1998 were approximately \$570,000,000 and \$155,000,000, 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 1999 are not substantially different from those employed in 1998.

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 \$350,000,000 long-term and a \$150,000,000 short-term 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 1998, 1997 and 1996, approximately \$184,962,000, \$154,710,000 and \$152,487,000, 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 \$660,000,000 in guaranteed or minimum royalties between 1998 and 2007. Of this amount, in excess of \$110,000,000 has been paid and is included in the \$145,066,000 of prepaid royalties which are a component of prepaid expenses and other current assets on the balance sheet. Of the remaining amount, Hasbro may be required to pay approximately \$250,000,000, \$120,000,000 and \$120,000,000 in 1999, 2002 and 2005, respectively. Such payments are related to royalties which are expected to be incurred on anticipated revenues in the years 1999 through 2007.

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 1998, sales to the Company's two largest customers, Wal-Mart Stores, Inc. and Toys 'R Us, Inc., represented 18% and 17%, 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 in New York City 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 1998, the Company spent approximately \$440,692,000 in advertising, promotion and marketing programs compared to \$411,574,000 in 1997 and \$418,003,000 in 1996.

Manufacturing and Importing

As a result of the global integration and profit enhancement program announced in December 1997, the Company manufactures its products in four principal facilities, East Longmeadow, Massachusetts, Waterford, Ireland, Tijuana, Mexico and Valencia, Spain. Most of its products are manufactured from basic raw materials such as plastic and cardboard, although certain products also make use of electronics components. All of these materials are readily available but 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 and assembly. 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 10,000 persons worldwide, approximately 6,000 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. Any material product recall could have an effect on the Company, depending on the product, and could affect sales of other products.

During 1998, the CPSC released the results of a study of a chemical, diisononyl phthalate ("DINP") used to soften some plastic toys and children's products. The study concluded that few if any children are at risk from DINP

because the amount that they ingest does not even come close to a harmful level. Therefore, the CPSC staff did not recommend a ban on these products. However, the CPSC indicated that the study identified several areas of uncertainty where additional scientific research is needed. As a precaution while more scientific work is done, the CPSC staff requested the industry to remove DINP from soft rattles and teething rings. Approximately 90% of manufacturers, including the Company, indicated to the CPSC that they have or will remove DINP from the soft rattles and teething rings by early 1999. Canada and certain European countries have requested or required similar removal of DINP from products meant to be mouthed by children. The Company does not believe such removal will materially affect the Company.

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. Although the Company voluntarily produced documents and witnesses in the action, the Company was not named a defendant by the Commission in the action. The ALJ's decision was affirmed by the Commission on October 14, 1998.

In the wake of the ALJ's decision, numerous antitrust actions were 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 was 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 was amended to add as plaintiffs attorneys general from an additional forty-three 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 was 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. All of the California litigations were stayed to encourage the parties to pursue settlement discussions and negotiations in good faith. These discussions were 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.

On December 9, 1998, Hasbro entered into a Settlement Agreement and Release with the State Attorneys General and the Private Plaintiffs with respect to all of the pending state and federal actions. The parties are currently in the process of presenting the Settlement to the District Court for preliminary approval. Following this process, the Company anticipates that notice of the Settlement will be sent to potential class members, and thereafter the Settlement will be presented to the Court for final approval. No dates for these hearings have been scheduled.

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 inventory policies of retailers, including 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) The impact of Year 2000 issues, including the Company's incurring higher than expected costs to achieve, or not achieving, Year 2000 readiness with respect to its systems, or its customers, vendors or service providers failing to achieve such readiness; unanticipated technical malfunctions or difficulties which would arise during the validation process or otherwise; the inherent risk that assurances, warranties, and specifications provided by third parties with respect to the Company's systems, or such third party's Year 2000 readiness, may prove to be inaccurate, despite the Company's review process; the continued availability of qualified persons to carry out the remaining anticipated phases; the risk that governments may not be Year 2000 ready, which could affect the commercial sector in trade, finance and other areas, notwithstanding private sector Year 2000 readiness; whether, despite a comprehensive review, the Company has successfully identified all Year 2000 issues and risks; and the risk that proposed actions and contingency plans of the Company and third parties with respect to Year 2000 issues may conflict or themselves give rise to additional issues;

6) The risk that anticipated benefits of acquisitions and the Company's global integration and profit enhancement program 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	Administrative, Sales & Marketing Offices & Product Development	343,000	Owned	--
Pawtucket	Executive Office	23,000	Owned	--
East Providence	Administrative Office	120,000	Leased	1999
California				
Ontario	Warehouse	432,000	Leased	2002
Napa	Office & Warehouse	400,000	Leased	2013
South San Francisco	Office	69,000	Owned	--
Alameda	Product Development	38,400	Leased	2002
Illinois				
Vernon Hills	Office & Warehouse	21,000	Leased	2002
Massachusetts				
East Longmeadow	Office, Manufacturing & Warehouse	1,147,500	Owned	--
East Longmeadow	Warehouse	500,000	Leased	2000
Beverly	Office	100,000	Owned	--
Maryland				
Hunt Valley	Product Development	29,900	Leased	2003

New Jersey				

Northvale	Warehouse	75,000	Leased	2002
Mt. Laurel	Office	11,000	Leased	1999
New York				

New York	Office & Showroom	70,300	Leased	2011
New York	Offices & Showrooms	32,300	Leased	1999
New York	Office & Showroom	17,200	Leased	2006
Ohio				

Bedford Heights	Office and warehouse	187,100	Leased	2000
Cincinnati	Office	174,000	Leased	2007
Cincinnati	Warehouse	31,800	Leased	2008
Texas				

El Paso	Warehouse	1,000,000	Leased	2008
Australia				

Lidcombe	Office & Warehouse	161,400	Leased	2002
Eastwood	Office	16,900	Leased	2001
Argentina				

Buenos Aires	Office and Warehouse	54,000	Leased	2000
Austria				

Vienna	Office	4,000	Leased	1999
Belgium				

Brussels	Office & Showroom	20,700	Leased	1999
Canada				

Montreal	Office, Warehouse & Showroom	133,900	Leased	2001
Mississauga	Sales Office & Showroom	16,300	Leased	2004
Montreal	Warehouse	88,100	Leased	2001

Chile				
- - - - -				
Santiago	Warehouse	23,800	Leased	2000
Santiago	Office	3,500	Leased	2000
Denmark				
- - - - -				
Glostrup	Office	9,200	Leased	1999
England				
- - - - -				
Uxbridge	Office & Showroom	94,500	Leased	2013
Gloucestershire	Office	28,700	Leased	1999
France				
- - - - -				
Le Bourget du Lac	Office & Warehouse	108,300	Owned	--
Savoie Technolac	Office	33,500	Owned	--
Creutzwald	Warehouse	217,200	Owned	--
Creutzwald	Warehouse	30,700	Leased	1999
Gresy	Warehouse	24,500	Leased	1999
Germany				
- - - - -				
Dietzenbach	Office	39,400	Leased	1999
Soest	Office & Warehouse	164,200	Owned	--
Boner	Office & Warehouse	111,300	Owned	--
Greece				
- - - - -				
Athens	Office & Warehouse	25,100	Leased	2007
Hong Kong				
- - - - -				
Kowloon	Offices	20,000	Leased	1999
Kowloon	Offices	73,400	Leased	2000
New Territories	Office & Warehouse	17,800	Leased	1999
Kowloon	Warehouses	11,300	Leased	2000
New Territories	Warehouse	11,500	Leased	2000
Hungary				
- - - - -				
Budapest	Office	6,300	Leased	1999
Ireland				
- - - - -				
Waterford	Office, Manufacturing & Warehouse	244,400	Owned	--

Italy				

Milan	Office & Showroom	12,100	Leased	2002
Malaysia				

Selangor				
Darul Ehsan	Office	4,900	Leased	2000
Mexico				

Tijuana	Office, Manufacturing & Warehouse	143,800	Leased	1999
Tijuana	Manufacturing & Warehouse	205,000	Leased	1999
Tijuana	Warehouse	48,600	Leased	1999
Tijuana	Warehouse	46,900	Leased	1999
Periferico	Office	16,100	Leased	2001
Venados	Warehouses	118,100	Leased	1999
The Netherlands				

Ter Apel	Office & Warehouse	139,300	Owned	--
Ter Apel	Warehouse	79,400	Leased	1999
Utrecht	Office	17,000	Leased	2003
New Zealand				

Auckland	Office & Warehouse	110,900	Leased	2005
Norway				

Asker	Office	5,900	Leased	1999
Peru				

Lima	Warehouse	32,400	Leased	1999
Lima	Office	11,000	Leased	1999
Poland				

Warsaw	Office & Warehouse	14,300	Leased	2000
Portugal				

Estoril-Lisboa	Office	2,900	Leased	2003

Singapore				

Singapore	Office & Warehouse	9,300	Leased	2000
Spain				

Valencia	Office, Manufacturing & Warehouse	115,100	Leased	1999
Valencia	Office	27,600	Leased	2011
Valencia	Manufacturing & Warehouse	201,900	Leased	2011
Valencia	Warehouse	48,100	Leased	1999
Valencia	Warehouse	161,700	Leased	2002
Sweden				

Vosby	Office	7,400	Leased	1999
Switzerland				

Berikon	Office & Warehouse	25,000	Leased	1999
Delemont	Office	9,200	Leased	2004
Taiwan				

TPE County	Warehouse	14,400	Leased	1999
Wales				

Newport	Warehouse	72,000	Leased	2003
Newport	Warehouse	198,000	Owned	--

In addition to the above listed facilities, the Company either owns or leases various other properties approximating 450,000 square feet which are utilized in its operations. The Company also either owns or leases an aggregate of approximately 2,100,000 square feet not currently being utilized in its operations, approximately 1,300,000 of which results from the Company's global integration and profit enhancement program implemented during 1998. 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 (1)	50	Chairman of the Board and Chief Executive Officer	Since 1999
Herbert M. Baum (2)	62	President and Chief Operating Officer	Since 1999
Harold P. Gordon (3)	61	Vice Chairman	Since 1995
John T. O'Neill	54	Executive Vice President and Chief Financial Officer	Since 1989
Alfred J. Verrecchia (4)	56	Executive Vice President, Global Operations and Development	Since 1999
Virginia H. Kent (5)	44	Senior Vice President and Sector Head, Toys	Since 1999
E. David Wilson (6)	61	Senior Vice President and Sector Head, Games	Since 1999

George B. Volanakis (7)	51	Senior Vice President and Sector Head, International Businesses	Since 1999
Richard B. Holt	57	Senior Vice President and Controller	Since 1992
Cynthia S. Reed (8)	43	Senior Vice President and General Counsel	Since 1995
Douglas J. Schwinn (9)	48	Senior Vice President and Chief Information Officer	Since 1999
Martin R. Trueb (10)	47	Senior Vice President and Treasurer	Since 1997
Phillip H. Waldoks (11)	46	Senior Vice President - Corporate Legal Affairs and Secretary	Since 1995

- (1) Prior thereto, Chairman of the Board, President and Chief Executive Officer.
- (2) Prior thereto, President and Chief Executive Officer, Quaker State Corporation.
- (3) Prior thereto, Partner, Stikeman, Elliott (law firm).
- (4) Prior thereto, Executive Vice President and President, Global Operations from 1996 to 1999; prior thereto, Chief Operating Officer, Domestic Toy Operations.
- (5) Prior thereto, President, Brands and Product Development from 1996 to 1999; prior thereto, General Manager, Girls/Boys/Nerf.
- (6) Prior thereto, President, Hasbro Americas from 1996 to 1999; prior thereto, President, Hasbro Games Group, from 1995 to 1996; prior thereto, President, Milton Bradley.
- (7) Prior thereto, President, European Sales and Marketing from 1998 to 1999; prior thereto, President and Chief Executive Officer, The Ertl Company, Inc.
- (8) Prior thereto, Vice President - Legal.

- (9) Prior thereto, Senior Vice President and Chief Information Officer, OfficeMax, Inc., from 1997 to 1999; prior thereto, Senior Vice President, Information Services and Chief Information Officer, FoxMeyer Drug Company from 1995 to 1997; prior thereto, Vice President, Software Development, FoxMeyer Drug Company.
- (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 30, 1998, the Company issued an aggregate of 6,000,000 warrants to purchase 6,000,000 shares of common stock, par value \$.50 per share, of the Company, at an exercise price of \$23.3333 per share (as adjusted for the three-for-two stock split paid in the form of a 50% stock dividend on March 15, 1999), subject to anti-dilution adjustment in certain events, to Lucasfilm Ltd. and its subsidiary Lucas Licensing Ltd., 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 theatrical release in the United States of Star Wars: Episode 1: The Phantom Menace, which is expected to take place on May 19, 1999, except that exercisability would be accelerated on a change in control of the Company. The warrants would remain exercisable, with respect to 3,600,000 warrants until October 30, 2009 and with respect to 2,400,000 warrants until October 30, 2010.

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 1999 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 27, 1998 and
December 28, 1997

Consolidated Statements of Earnings for the Three Fiscal
Years Ended in December 1998, 1997 and 1996

Consolidated Statements of Shareholders' Equity for the
Three Fiscal Years Ended in December 1998, 1997 and 1996

Consolidated Statements of Cash Flows for the Three
Fiscal Years Ended in December 1998, 1997 and 1996

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 1998, 1997
and 1996:
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) Indenture, dated as of July 17, 1998, by and between the Company and Citibank, N.A. as Trustee. (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated July 14, 1998, File No. 1-6682.)

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. (Incorporated by reference to Exhibit 10(c) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 28, 1997, File No. 1-6682.)
- (d) Toy License Agreement between Lucas Licensing Ltd. and the Company, dated as of October 14, 1997. (Portions of this agreement have been omitted pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.)
- (e) First Amendment to Toy License Agreement between Lucas Licensing Ltd. and the Company, dated as of September 25, 1998. (Portions of this agreement have been omitted pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.)
- (f) Agreement of Strategic Relationship between Lucasfilm Ltd. and the Company dated as of October 14, 1997. (Portions of this agreement have been omitted pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.)
- (g) First Amendment to Agreement of Strategic Relationship between Lucasfilm Ltd. and the Company, dated as of September 25, 1998.
- (h) Warrant, dated October 14, 1997 between the Company and Lucas Licensing Ltd.

- (i) Warrant, dated October 14, 1997 between the Company and Lucasfilm Ltd.
- (j) Warrant, dated October 30, 1998 between the Company and Lucas Licensing Ltd.
- (k) Warrant, dated October 30, 1998 between the Company and Lucasfilm Ltd.
- (l) Asset Purchase Agreement dated as of February 8, 1998, together with Amendment thereto dated as of March 31, 1998, by and among the Company, Tiger Electronics Ltd. (formerly named HIAC X Corp. and a wholly-owned subsidiary of the Company), Tiger Electronics, Inc. and certain affiliates thereof and Owen Randall Rissman and the Rissman Family 1997 Trust. (Incorporated by reference to Exhibit 2(a) to the Company's Current Report on Form 8-K, dated April 1, 1998, File No. 1-6682.)

Executive Compensation Plans and Arrangements

- (m) 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.)
- (n) Amendment No. 1 to Employee Incentive Stock Option Plan. (Incorporated by reference to Exhibit 10(1) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 28, 1986, File No. 1-6682.)
- (o) 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.)
- (p) 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.)
- (q) 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.)
- (r) 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.)

- (s) 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.)
- (t) 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.)
- (u) 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.)
- (v) 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.)
- (w) 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.)
- (x) 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.)
- (y) 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.)
- (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) 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.)
- (cc) Form of Employment Agreement between the Company and eleven 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.)
- (dd) 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.)
- (ee) 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.)
- (ff) 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.)
- (gg) 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.)
- (hh) 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.)
- (ii) 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.)
- (jj) Hasbro, Inc. Amended and Restated Nonqualified Deferred Compensation Plan. (Incorporated by reference to Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the Period Ended March 29, 1998, File No. 1-6682.)

- (kk) 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.)
- (ll) 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.)
- (mm) 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.)
- (nn) Amendment, dated February 20, 1998, to Severance And Settlement Agreement And Release between the Company and Dan D. Owen. (Incorporated by reference to Exhibit 10(ff) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 28, 1997, File No. 1-6682.)
- (oo) Letter agreements, dated January 30, 1998, between the Company and George R. Ditomassi, Jr. (Incorporated by reference to Exhibit 10(gg) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 28, 1997, File No. 1-6682.)
- (pp) Consulting Agreement, dated January 31, 1998, between the Company and George R. Ditomassi, Jr. (Incorporated by reference to Exhibit 10(hh) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 28, 1997, File No. 1-6682.)
- (qq) Letter dated January 26, 1998 from the Company to George B. Volanakis. (Incorporated by reference to Exhibit 10(ii) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 28, 1997, File No. 1-6682.)
- (rr) Employment Agreement dated as of January 5, 1999, between the Company and Herbert M. Baum.
- (ss) Letter agreement, dated March 23, 1999, between the Company and Adam Klein.

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 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 4, 1999 was filed to announce the Company's results for the quarter and year ended December 27, 1998. Consolidated statements of earnings (without notes) for the quarter and year ended December 27, 1998 and December 28, 1997 and consolidated condensed balance sheets (without notes) as of said dates were also filed.

(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 3, 1999, we reported on the consolidated balance sheets of Hasbro, Inc. and subsidiaries as of December 27, 1998 and December 28, 1997 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 27, 1998, as contained in the 1998 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 1998. 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 LLP

Providence, Rhode Island

February 3, 1999

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:					
1998	\$51,700	13,057	2,832	(3,189)	\$64,400
	=====	=====	=====	=====	=====
1997	\$46,600	9,229	-	(4,129)	\$51,700
	=====	=====	=====	=====	=====
1996	\$48,800	5,834	-	(8,034)	\$46,600
	=====	=====	=====	=====	=====

(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 Date: March 26, 1999

Alan G. Hassenfeld
Chairman of the Board

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, Chief Executive Officer and Director (Principal Executive Officer)	March 26, 1999
/s/ John T. O'Neill ----- John T. O'Neill	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 26, 1999
/s/ Alan R. Batkin ----- Alan R. Batkin	Director	March 26, 1999
/s/ Herbert M. Baum ----- Herbert M. Baum	Director	March 26, 1999

/s/ Harold P. Gordon ----- Harold P. Gordon	Director	March 26, 1999
/s/ Alex Grass ----- Alex Grass	Director	March 26, 1999
/s/ Sylvia K. Hassenfeld ----- Sylvia K. Hassenfeld	Director	March 9, 1999
/s/ Marie-Josée Kravis ----- Marie-Josée Kravis	Director	March 26, 1999
/s/ Claudine B. Malone ----- Claudine B. Malone	Director	March 26, 1999
/s/ Morris W. Offit ----- Morris W. Offit	Director	March 4, 1999
/s/ Norma T. Pace ----- Norma T. Pace	Director	March 26, 1999
/s/ E. John Rosenwald, Jr. ----- E. John Rosenwald, Jr.	Director	March 26, 1999
/s/ Carl Spielvogel ----- Carl Spielvogel	Director	March 26, 1999

/s/ Preston Robert Tisch
- - ----- Director March 26, 1999
Preston Robert Tisch

/s/ Paul Wolfowitz
- - ----- Director March 26, 1999
Paul Wolfowitz

/s/ Alfred J. Verrecchia
- - ----- Director March 26, 1999
Alfred J. Verrecchia

HASBRO, INC.

Annual Report on Form 10-K

for the Year Ended December 27, 1998

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.)
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 - (a) Indenture, dated as of July 17, 1998, by and between the Company and Citibank, N.A. as Trustee. (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated July 14, 1998, File No. 1-6682.)
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 - (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. (Incorporated by reference to Exhibit 10(c) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 28, 1997, File No. 1-6682.)

- (d) Toy License Agreement between Lucas Licensing Ltd. And the Company, dated as of October 14, 1997. (Portions of this agreement have been omitted pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.)
- (e) First Amendment to Toy License Agreement between Lucas Licensing Ltd. and the Company, dated as of September 25, 1998. (Portions of this agreement have been omitted pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.)
- (f) Agreement of Strategic Relationship between Lucasfilm Ltd. and the Company dated as of October 14, 1997. (Portions of this agreement have been omitted pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.)
- (g) First Amendment to Agreement of Strategic Relationship between Lucasfilm Ltd. and the Company, dated as of September 25, 1998.
- (h) Warrant, dated October 14, 1997 between the Company and Lucas Licensing Ltd.
- (i) Warrant, dated October 14, 1997 between the Company and Lucasfilm Ltd.
- (j) Warrant, dated October 30, 1998 between the Company and Lucas Licensing Ltd.
- (k) Warrant, dated October 30, 1998 between the Company and Lucasfilm Ltd.
- (l) Asset Purchase Agreement dated as of February 8, 1998, together with Amendment thereto dated as of March 31, 1998, by and among the Company, Tiger Electronics Ltd. (formerly named HIAC X Corp. and a wholly-owned subsidiary of the Company), Tiger Electronics, Inc. and certain affiliates thereof and Owen Randall Rissman and the Rissman Family 1997 Trust. (Incorporated by reference to Exhibit 2(a) to the Company's Current Report on Form 8-K, dated April 1, 1998, File No. 1-6682.)

Executive Compensation Plans and Arrangements

- (m) 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.)

- (n) 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.)
- (o) 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.)
- (p) 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.)
- (q) 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.)
- (r) 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.)
- (s) 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.)
- (t) 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.)
- (u) 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.)
- (v) 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.)

- (w) 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.)
- (x) 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.)
- (y) 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.)
- (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) 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.)
- (cc) Form of Employment Agreement between the Company and eleven 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.)
- (dd) 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.)
- (ee) 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.)

- (ff) 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.)
- (gg) 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.)
- (hh) 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.)
- (ii) 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.)
- (jj) Hasbro, Inc. Amended and Restated Nonqualified Deferred Compensation Plan. (Incorporated by reference to Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the Period Ended March 29, 1998, File No. 1-6682.)
- (kk) 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.)
- (ll) 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.)
- (mm) 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.)
- (nn) Amendment, dated February 20, 1998, to Severance And Settlement Agreement And Release between the Company and Dan D. Owen. (Incorporated by reference to Exhibit 10(ff) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 28, 1997, File No. 1-6682.)

- (oo) Letter agreements, dated January 30, 1998, between the Company and George R. Ditomassi, Jr. (Incorporated by reference to Exhibit 10(gg) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 28, 1997, File No. 1-6682.)
- (pp) Consulting Agreement, dated January 31, 1998, between the Company and George R. Ditomassi, Jr. (Incorporated by reference to Exhibit 10(hh) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 28, 1997, File No. 1-6682.)
- (qq) Letter dated January 26, 1998 from the Company to George B. Volanakis. (Incorporated by reference to Exhibit 10(ii) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 28, 1997, File No. 1-6682.)
- (rr) Employment Agreement dated as of January 5, 1999, between the Company and Herbert M. Baum.
- (ss) Letter agreement, dated March 23, 1999, between the Company and Adam Klein.

- 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 LLP
- 27. Financial data schedule

[Information below, marked with [**], has been omitted pursuant to a request for confidential treatment. A complete copy of this document has been supplied to the Securities and Exchange Commission under separate cover. Approximately 44 pages (including schedules) have been omitted pursuant to the request for confidential treatment.]

TOY LICENSE AGREEMENT BETWEEN LUCAS LICENSING LTD. AND HASBRO
DATED AS OF OCTOBER 14, 1997

TOY LICENSE AGREEMENT

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TOY LICENSE AGREEMENT

This LICENSE AGREEMENT (the "Agreement") is made and entered into as of October 14, 1997, between Lucas Licensing Ltd., a California corporation ("Licensor"), on the one hand located at P. O. Box 2009, San Rafael, CA 94912, and Hasbro, Inc., a Rhode Island corporation, located at 1027 Newport Ave., Pawtucket, R.I. 02862-1059, Hasbro International, Inc. a Delaware Corporation, located at 1027 Newport Ave., Pawtucket, R.I. 02862-1059, and all Permitted Licensee Affiliates (jointly and severally "Licensee" or "Hasbro") on the other hand.

WHEREAS:

A. Licensor is a California corporation engaged in the licensing of entertainment intellectual properties related to the "Pictures" (as hereinafter defined);

B. Licensor owns or controls rights in respect of the Licensed Property (as hereinafter defined);

C. Licensee is engaged in the manufacture, distribution and sale of consumer products in the form of toys including, without limitation, toys based on entertainment intellectual properties licensed from third parties; and

D. Licensee wishes to be licensed to use the Licensed Property for the manufacture, distribution and sale of Licensed Products in the Territory and Licensor has agreed to license rights in the Licensed Property to Licensee, subject to the terms and conditions of this Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. GRANT OF LICENSE.

Subject to the terms and conditions of this Agreement, and in consideration for all of Licensee's warranties, representations and obligations hereunder, including, without limitation, Licensee's agreement to pay and actual payment to Licensor of the Royalties and Advances, Licensor grants to Licensee a non-transferable, non-assignable (except as otherwise specified in Subparagraph 25.1 hereinbelow) license during the Term and throughout the Territory:

1.1. to develop, design, manufacture, distribute, advertise, publicize, market and sell the Licensed Products set forth in Schedule II attached hereto, for sale to retail Customers through all channels of wholesale and retail distribution permitted hereunder; and

1.2. to reproduce the Licensed Property and to use the Licensor Trademarks on and in connection with the Licensed Products and containers, packaging, display and promotional material and in Consumer Marketing for the Licensed Products as provided in this Agreement. Concurrently with its execution of this Agreement, Licensee shall execute a Trademark License Agreement with Licensor on Licensor's then-current form for such

agreements (the "Trademark License Agreement"), a current copy of which form is attached hereto and by this reference incorporated herein as Exhibit A.

Licensor shall in a timely manner make available to Licensee such materials as may be available for use in exercising Licensee's rights hereunder, subject to the confidentiality provisions of Subparagraph 16.1 hereinbelow.

2. TERM AND TERRITORY.

2.1. Term.

(a) Unless earlier terminated as provided in this Agreement, including, without limitation, pursuant to this Subparagraph 2.1, the term of Licensee's rights pursuant to this Agreement (the "Term") shall consist of the time period commencing as of the date hereof (subject to Subparagraph 25.15 hereinbelow) and ending on the later of: (i) the final day of the third Calendar Year following the Calendar Year in which the initial general theatrical release in the United States (the "U.S. Release Date") of Episode III occurs; and (ii) December 31, 2007 (such later day constituting the "Expiration Date").

(b) Notwithstanding anything to the contrary contained herein or otherwise, the Term shall terminate as set forth below:

(i) if the U.S. Release Date of Episode I does not occur on or before June 30, 2004 (the "Episode I Outside Date"), then the Term shall terminate as of the Episode I Outside Date;

(ii) if the U.S. Release Date of Episode I occurs on or before the Episode I Outside Date, but the U.S. Release Date of Episode II does not occur prior to the date which is five (5) years following the U.S. Release Date of Episode I (the "Episode II Outside Date"), then the Term shall terminate as of the later of the Episode II Outside Date and December 31, 2007; or

(iii) if the U.S. Release Date for Episode I occurs on or before the Episode I Outside Date and the U.S. Release Date of Episode II occurs on or before the Episode II Outside Date, but the U.S. Release Date of Episode III does not occur on or before the date which is five (5) years after the U.S. Release Date of Episode II (the "Episode III Outside Date"), then the Term shall terminate as of the later of the Episode III Outside Date and December 31, 2007.

2.2. Territory. The territory of Licensee's rights hereunder (the "Territory") consists of the following applicable locations for the following applicable Licensed Products:

Licensed Product	Territory
Standard Toys (excluding Novelty Candy, Coloring Toys, Mechanical Design Toys and Craft Kits); Non-Standard Board Games; and Electronics/Hand-Held ("E/H")	Enumerated countries and groupings of countries set forth in Column A of Schedule III attached hereto (each such enumerated country or grouping of countries a "Sub-Territory" herein) and all other countries that currently exist or which may hereafter exist during the Term (other than the specific excluded countries listed in Schedule VI);
All Games and Puzzles ("G/P") (other than Non-Standard Board Games); Novelty Candy; Coloring Toys; Mechanical Design Toys; and Craft Kits	United States and Canada

Licensee's exercise of the rights granted under this Agreement in any country in the Territory that is not part of a Sub-Territory hereunder (each such country a "ROW Country") shall not entail any payment of Advances under Paragraph 7 of this Agreement, but shall entail payment of

Royalties under Paragraph 8 of this Agreement. Notwithstanding the foregoing, the sole activity of manufacturing a Licensed Product outside of the applicable Territory hereunder may take place in a country outside of the Territory if the terms and conditions of Paragraph 15 hereinbelow have been first satisfied and so long as no Licensed Product manufactured in such country is distributed by Licensee (or with Licensee's express or implied authority) from such country for the "sale" thereof (as defined in Subparagraph 8.2 hereinbelow) to a Customer outside of the Territory. Subject to Paragraph 23 hereinbelow, if Licensor elects to license to any third party the right to manufacture, distribute and sell during the Term of this Agreement any Licensed Product in any country outside of the Territory, then Licensor shall notify Licensee of such election in writing. Licensee shall thereafter have thirty (30) days from the date of such notice to negotiate and enter into a written agreement regarding such license which agreement shall incorporate all of the terms and conditions of this Agreement except for Paragraph 7 (Advance) and Paragraph 4 (Minimum Sales Levels) hereinbelow; provided, however, that neither Licensee nor Licensor shall be obligated to enter into an agreement with respect to such license. For purposes of this Agreement, a country shall be deemed to include all territories and possessions thereof.

3. RESTRICTIONS.

3.1. Distribution.

(a) General. Licensee shall not have the right:

(i) to distribute or sell (or authorize any entity to distribute or sell) any Licensed Product other than to a "bona fide and recognized" (as such term is commonly understood in the U.S. toy industry) third party wholesale entity for distribution directly to a Retail Entity, or directly to a bona fide and recognized third party Retail Entity (whether such third party Retail Entity is a third party "traditional retail store" (as that term is commonly understood in the U.S. toy industry), a third party direct-to-consumer paper-printed catalog company or direct mail company, a third party Internet Retail Entity or, subject to Subparagraph 3.1(c) hereinbelow, a third party Electronic Retailer). In particular, but not by way of limitation, Licensee shall not distribute any Licensed Product through any channel, method or outlet of distribution denoted as an Excluded Distribution Channel on Schedule IV attached hereto;

(ii) to distribute or sell (or authorize any entity to distribute or sell) any Licensed Product to any party if Licensee knows, or in the exercise of its reasonable good faith business judgment should know, that such distribution or sale will result in the distribution for sale or resale of any Licensed Product outside of the Territory;

(iii) to conduct or authorize any entity to conduct Consumer Marketing disseminated outside of the Territory for any Licensed Product; or

(iv) except with Licensor's prior written approval, to distribute or sell any Licensed Product to any Closeout Store in any country prior to the date eighteen (18) months after the initial "sale" (as such term is defined in Subparagraph 8.2 hereinbelow) of such Licensed Product to a Customer in such country.

(b) Licensor Channels. Notwithstanding the rights licensed to Licensee hereunder, Licensor shall also have the right to distribute and/or sell any Licensed Product purchased from Licensee, any Licensee Affiliate or Sublicensee through any Licensor Channel and, in this connection, Licensor shall purchase or require to be purchased from Licensee, a Licensee Affiliate or a Sublicensee any Licensed Product for which Licensee has exclusive rights hereunder and which is to be sold through a Licensor Channel, provided, Licensee shall manufacture and supply to Licensor or to Licensor's designee those numbers of such Licensed Product as Licensor shall request for the applicable Licensor Channel, and Licensee shall sell such Licensed Product to Licensor or to Licensor's designee at the lowest price and on the most favorable terms given by Licensee, a Licensee Affiliate or a

Sublicensee to a Customer for the same or comparable quantities of such Licensed Product being sold and delivered on comparable terms and conditions, whether or not such Licensed Product is Account Specific Merchandise, F.O.B. Product or otherwise. Notwithstanding the foregoing, in the case of Account Specific Merchandise, the foregoing obligation shall be subject to Licensee having received the consent of the person for whom such Account Specific Merchandise was created.

(c) Internet/Electronic Retailers. Licensee shall not have the right to manufacture, distribute and/or sell (or authorize any entity to manufacture, distribute or sell) any Licensed Product:

(i) through the Internet (except for the transmission, reception, recordation or display of information relating to a purchase order placed by a person to whom Licensee is permitted to sell under Subparagraph 3.1(a)(i) and except if such distribution or sale is through a bona fide and recognized third party Internet Retail Entity pursuant to Subparagraph 3.1[a][i] hereinabove, or through a Licensor Channel as permitted pursuant to Subparagraph 3.1[b] hereinabove) without Licensor's prior written approval in each instance; or

(ii) through any Electronic Retailer except that, at Licensor's request, Licensee is hereby licensed to supply to Licensor or to Licensor's designee such specific Licensed Products to such specific Electronic Retailer(s) as Licensor may approve in advance in writing.

3.2. Exclusivity. The rights licensed to Licensee hereunder shall be exclusive for Standard Toys (except for the Standard Toys defined as Plush, Craft Kits and Novelty Candy, for which Licensee's rights hereunder shall be non-exclusive), for G/P and for E/H, except as otherwise set forth in Schedule II.

3.3. Sublicenses.

(a) Approval of Sublicensee Agreement. Licensee shall have no right to sublicense to any entity (including to a distributor or to a Licensee Affiliate that is not a Permitted Licensee Affiliate) any right licensed to it hereunder (other than the right to manufacture any Licensed Product, which shall be subject to Paragraph 15 hereinbelow) or transfer or dispose of any Licensed Property to any distributor, including to a Licensee Affiliate that is not a Permitted Licensee Affiliate or to any other third party unless and until: (i) Licensor has provided Licensee with its prior written approval of the proposed sublicense and the terms and conditions of any and all agreements between Licensee and such proposed sublicensee (and any modifications thereof, whether oral or written) for such sublicense (collectively the "Sublicense Agreement"); (ii) such sublicensee shall have executed an Approval of Sublicensee Agreement with Licensor in substantially the form of Licensor's then-current form for such agreement, as such form may be revised by Licensor in its

reasonable discretion from time to time (any such sublicensee and all affiliated and related entities of such Sublicensee approved by Licensor for which an Approval of Sublicensee Agreement is fully executed, a "Sublicensee" herein); (iii) such Sublicensee shall agree in the Sublicense Agreement to be fully bound at all times by the terms and conditions of the following paragraphs and subparagraphs of this Agreement adjusted as appropriate: 3.1, 3.4, 3.5, 3.7, 3.8, 11.1, 11.2, 12, 13.2-13.8, 14, 16, 17, 19.1(c), 19.1(d) and 19.1(e); (iv) such Sublicensee shall execute a Trademark License Agreement with Licensor; and (v) such Sublicensee shall further agree in such Approval of Sublicensee Agreement that Licensor shall be a third party beneficiary thereof. A copy of Licensor's current form for Approval of Sublicensee Agreement is attached hereto as Exhibit B. The sublicense by Licensee of any rights licensed to Licensee hereunder shall in no manner whatsoever affect or otherwise diminish or relieve any of Licensee's obligations hereunder, and Licensee shall execute, and shall ensure

that each prospective Sublicensee executes, the Approval of Sublicensee Agreement. The failure by a Sublicensee to adhere to the terms of the Approval of Sublicensee Agreement or the Sublicensee Agreement shall not be imputed to Licensee unless such Sublicensee is a controlled affiliate of Licensee or Licensee fails to comply with its obligations under Subparagraph 3.3(b) hereinbelow.

(b) Enforcement of Sublicense Agreement. Licensee agrees to include and strictly enforce in each Sublicense Agreement all of the terms and conditions of this Agreement relevant to the sublicense to Sublicensee of any right licensed to Licensee hereunder. Licensee shall advise Licensor of any material breach thereof by a Sublicensee and of any corrective action taken by Licensee or by such Sublicensee as well as the results thereof. Licensee shall use its best efforts to cause such Sublicensee to cure such breach and, at the written request of Licensor following such breach, Licensee shall terminate such Sublicense Agreement, subject to the same cure provisions as are applicable to Licensee in Subparagraph 22.2(a) hereinbelow. Licensee hereby appoints Licensor its attorney-in-fact solely for the purpose of sending a notice of termination, subject to the immediately preceding sentence, in order to terminate such Sublicense Agreement or any specific rights thereunder, which appointment is irrevocable and coupled with an interest; provided, however, that Licensor will indemnify and hold harmless Licensee for damages resulting from knowingly making a material misstatement in connection with the exercise of such power of attorney.

3.4. (a) No Rights to Products Other Than Licensed Products. Other than the products, goods and articles defined in Schedule II as "Licensed Products," all products, goods, items, devices and articles of any kind based on or incorporating the Licensed Property are expressly excluded from the rights licensed to Licensee pursuant to this Agreement and are expressly reserved to Licensor. For the avoidance of doubt, Licensee acknowledges and agrees that Micro Toys and "Model Kits" (as hereinafter defined) do not constitute Licensed Products and are expressly excluded from this Agreement. The term "Model Kits," as used in this Agreement, means [**].

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(b) No Joint or Cross Distributing, Promoting or Selling. No Licensed Product shall be jointly or cross distributed, marketed, promoted or sold with any product or service (other than another Licensed Product manufactured hereunder) without Licensor's prior written consent in each instance.

3.5. Other Products. Licensee acknowledges and agrees that the fact that a Licensed Product is capable (whether or not by means of any electronic media or through the use of any electronic feature, mechanical feature, sound effect, light feature, mechanism or otherwise) of interacting with another product, good, item, device or article that is not a Licensed Product (the "Other Product") does not render such Other Product a Licensed Product hereunder or confer to Licensee any rights hereunder with respect to the use of the Licensed Property in conjunction with such Other Product.

3.6. Licensor Third Party Obligations. Notwithstanding anything to the contrary contained in this Agreement or otherwise, but without limitation of Licensor's other rights and remedies:

(a) Licensee acknowledges that Licensor may have heretofore executed agreements with third parties which may encompass rights with respect to some or all of the Licensed Products and/or which may grant to such third parties the right to dispose of, distribute and sell Licensed Products during their respective sell-off periods, which sell-off periods may occur during the Term, and that such sell-off rights shall not violate the terms of this Agreement; in this connection, Licensor agrees to disclose the identity of such third parties, the Licensed Products covered and the dates of their respective sell-off periods; provided, however, that the inadvertent failure by Licensor to disclose such information shall not constitute a breach hereunder, and such disclosure shall be subject to any applicable confidentiality restrictions; and

(b) Licensor shall have the unrestricted right, prior to the expiration or termination of the Term to provide for the disposition of any or all of the rights licensed to Licensee hereunder, including, without limitation, entering into agreements with any third party(ies) which provide for the right for such third

party(ies) to design, manufacture and/or distribute Licensed Products anywhere in the Territory, provided, that such agreement(s) shall not authorize the shipment of Licensed Products to customers on a date that would allow such Licensed Products to be sold to end users at retail prior to the expiration or termination of the Term.

3.7. No Similar Products or Dumping of Licensed Products. Licensee recognizes and acknowledges that the Licensed Property, and all elements thereof, and the goodwill associated with the same are material and substantial business assets of Licensor. In that connection, Licensee agrees that, during the Term and throughout the Territory, Licensee:

(a) will not Dump any Licensed Product in any country of the Territory during the Term and during any Sell-Off Period, subject to applicable law;

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(b) will not manufacture, distribute or sell any merchandise or authorize the manufacture, distribution or sale of any merchandise bearing any artwork or other representation which is confusingly similar to or which disparages the Licensed Property (or any element thereof); and

(c) shall use its best efforts to sell Licensed Products at a price which, in its reasonable, good faith business judgment, represents the best attainable price from its Customers.

3.8. No Sales Prior to January 1, 1999. Notwithstanding anything to the contrary contained in this Agreement (other than Subparagraph 25.17):

(a) with respect to all Licensed Products set forth on Schedule II other than E/H, Licensee shall not sell or distribute, or authorize the sale or distribution of, any Licensed Product (other than E/H) manufactured hereunder to a retail or wholesale entity for such entity's receipt anywhere in the Territory prior to January 1, 1999, except as the parties may otherwise mutually agree; and

(b) with respect to all Licensed Products set forth on Schedule II and defined as E/H, Licensee shall not manufacture, distribute, market, promote or sell or authorize the manufacture, distribution, marketing, promotion or sale of such Licensed Product prior to January 1, 1999, except as the parties may otherwise mutually agree.

3.9. Gift Market Other than with respect to a Gift Market Product sold in the Gift Market, Licensor shall not license to any third party the right to sell through any Excluded Distribution Channel any Licensed Product that is exclusively licensed to Licensee hereunder without Licensee's prior written consent.

4. OBLIGATIONS OF LICENSEE.

4.1. [**].

4.2. Minimum Sales Levels. Licensee shall exercise reasonable commercial efforts to ensure that Net Sales during each time period for which a Marketing Plan is due hereunder will be equal to or exceed the Sales Projections set forth in such Marketing Plan as approved by Licensor for such time period including the Net Sales outlined in Column D of Schedule III for Calendar Years 1999 and 2000 (the "Minimum Sales Levels"); provided, however, the parties agree that such Sales Projections are predicated upon the assumption that Episode I will have a U.S. Release Date between May 1 and June 30, 1999, and if the U.S. Release Date occurs after June 30, 1999, then the parties agree to adjust such Sales Projections in good faith.

4.3. [**].

4.4. [**].

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4.5. [**].

4.6. [**].

4.7. [**].

5. LICENSOR APPROVALS.

5.1. Creative Materials. Licensor will have the right to approve in the good faith exercise of its discretion the following material, in accordance with the procedures set forth in Subparagraph 5.2 hereinbelow:

(a) the Licensed Products, including, but not limited to, the initial concepts, design documents, scripts, copy, alpha version, beta version, unpainted sculpts, painted sculpts, prototypes and manufacturing samples;

(b) any (i) Artwork and Film Clips and (ii) all other audio and/or visual materials (including, without limitation, artwork, photographs, images and designs) incorporating any part of the Licensed Property, including, without limitation, initial concepts, preliminary designs and final artwork intended for any uses hereunder (the "Designs"); and

(c) any and all cartons, containers, packaging, instructions, tags, labeling and wrapping material for the Licensed Products and any and all Consumer Marketing, publicity, promotional and similar materials for the Licensed Products (including, by way of illustration, but not limitation, catalogs, trade advertisements, flyers, sales sheets, labels, package inserts and display materials) which are used in connection with the Licensed Products and which make use of any of the Licensed Property, as well as any trade or other Consumer Marketing or similar announcements intended to advise potential customers of the rights acquired by Licensee under this Agreement, whether or not such materials make use of the Licensed Property (collectively the "Consumer Marketing Materials").

All materials submitted in a language other than English will be accompanied by a complete and accurate English translation. Licensee shall ensure that all Licensed Products, in their finished goods form, shall in all material respects reflect and be accurate representations of the prototypes for the Licensed Products as approved by Licensor, and Licensee's failure to do so shall be deemed to be a material breach of this Agreement, provided that Licensee shall be entitled to cure such breach as provided in Subparagraph 22.2(a) hereinbelow.

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5.2. Approval Procedure.

(a) In General.

(i) [**].

(ii) Creative Materials: Licensee will submit to Licensor, along with Licensor's Standard Approval Form attached hereto as Exhibit C, the Licensed Products, the Designs, Consumer Marketing Materials and Copyright Materials for Licensor's approval, subject to Subparagraph 25.10 hereinbelow, prior to manufacture, printing, production, duplication, distribution, sale or other use by Licensee thereof and each and every modification thereto. If Licensor requires alterations prior to an approval, then such alterations shall be made at Licensee's sole cost and shall be submitted to Licensor for further written approval in accordance with this Subparagraph 5.2. Licensee agrees to strictly adhere to all of Licensor's product approval procedures, and to comply with Licensor's style and legal guides provided to Licensee's representative, and use best efforts to cause all parties with whom Licensee contracts relative to the Licensed Products to do so, and, where necessary, to incorporate changes in compliance therewith. Any modification of any Licensed Product, Design, Consumer Marketing Material and/or Copyright Material must be re-submitted in advance for Licensor's written approval as if it were a new Licensed Product, Design, Consumer Marketing Material and/or Copyright Material. Licensee agrees not to change the Licensed Product, Design, Consumer Marketing Material or Copyright Material, as the case may be, without first submitting to Licensor samples showing such proposed changes and obtaining Licensor's written approval of such samples.

(b) Licensor's Approvals. Any product, good or article not approved in writing by Licensor prior to the manufacture thereof [**] shall not be a Licensed Product and Licensee shall have no right to

manufacture, market, distribute, sell or exercise any other right licensed to it hereunder with respect to such product, good or article in such Sub-Territory. Licensor's approval of any Copyright Materials in accordance with this Subparagraph 5.2 with respect to a specific Licensed Product shall not be deemed to be approval for the use of any part of such Copyright Materials with respect to another Licensed Product.

(c) Third Party Sourcing. Licensee shall not have the right to use any artwork or other creative material incorporating elements of the Licensed Property used in connection with the products, goods or articles of third parties (including, without limitation, books, comics and trading cards), without first advising Licensor in writing of the third party which had used such artwork and without first obtaining Licensor's written approval thereof in accordance with this Paragraph 5.

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5.3. Pre-Existing Approvals: Licensor hereby acknowledges and affirms the written approvals given by it pursuant to the Prior Agreement (as hereinafter defined) in respect of any Copyright Materials prepared by Licensee and any Licensed Products manufactured pursuant to any of the "Prior Agreements" (as hereinafter defined) as well as (a) Licensee's right to use such Copyright Materials hereunder through September 30, 1998, and (b) Licensee's right to manufacture, distribute and sell any such Licensed Product during the Term and pursuant to the terms and conditions of this Agreement, including, without limitation, the Marketing Plans approved hereunder. The "Prior Agreements" means the following agreements: (i) agreement between Licensor and Hasbro, Inc., dated as of May 1, 1993, as amended (the "Toy Agreement"); (ii) agreement between Licensor and Hasbro, Inc., dated as of October 26, 1994, as amended (the "Games Agreement"); and (iii) agreement between Licensor and Hasbro, Inc., dated as of October 26, 1994, as amended (the "Puzzle Agreement").

6. [**].

6.1. [**].

6.2. [**].

6.3. [**].

7. ADVANCE.

7.1. Advance. Licensee agrees to pay to Licensor, an advance of Four Hundred Fifty Million Dollars (\$450,000,000), payable in the following amounts at the following times:

(a) One Hundred Million Dollars (\$100,000,000) thereof, payable on the initial shipment of any Licensed Product incorporating elements of Episode I that is sold to a Customer hereunder;

(b) One Hundred Fifty Million Dollars (\$150,000,000) thereof, contingent upon the occurrence of the initial general theatrical release in the United States of Episode I and payable on the U.S. Release Date of Episode I;

(c) One Hundred Million Dollars (\$100,000,000) thereof, contingent upon the occurrence of the initial general theatrical release in the United States of Episode II and payable on the U.S. Release Date of Episode II; and

(d) One Hundred Million Dollars (\$100,000,000) thereof, contingent upon the occurrence of the initial general theatrical release in the United States of Episode III and payable on the U.S. Release Date of Episode III.

In the event that the U.S. Release Date of Episode I does not occur on or before the Episode I Outside Date, then any portion of the Advance payment made pursuant to Subparagraph 7.1(a) hereinabove that has not been recouped by Licensee from Royalties

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earned on or before the Episode I Outside Date shall be refunded to Licensee within thirty (30) days following the Episode I Outside Date.

[**].

7.2. [**].

8. ROYALTIES AND OTHER CONSIDERATION.

8.1. Royalty Percentage. Licensee will pay to Licensor sums ("Royalties") equal to the following applicable percentage of Net Sales ("Royalty Percentage") for Net Sales of each unit of a Licensed Product:

(a) Basic Figures: With respect to Net Sales of each unit of Basic Figures: [**] of cumulative Net Sales of all Basic Figures throughout the Territory, subject to the provisions of Subparagraph 8.1(c) hereinbelow.

(b) Other Licensed Products: With respect to Net Sales of each unit of Other Licensed Products, [**] of cumulative Net Sales of all Other Licensed Products throughout the Territory, subject to the provisions of Subparagraph 8.1(c) hereinbelow.

(c) [**]

(iv) Royalty Adjustment. Licensor shall consider any request made by Licensee to reduce Royalty Percentages set forth in Subparagraphs 8.1(a)-(c) hereinabove for a specific Licensed Product solely for the reason that Licensee is required to pay a royalty to a third party inventor or holder of patent rights or manufacturing process rights in connection with such Licensed Product.

8.2. Net Sales. Subject to Subparagraph 8.8 hereinbelow, "Net Sales" shall be equal to [**].

8.3. Special Circumstances. Notwithstanding anything to the contrary contained in this Agreement, (i) to the extent that Licensee is prohibited by reason of a law in any country of the Territory from remitting to Licensor the full amount of Royalties payable to Licensor with respect to a Licensed Product, then the parties shall discuss in good faith an equitable treatment of the situation and the advisability of distributing such Licensed Product in such country and it shall be in Licensor's discretion to approve or disapprove such distribution of such Licensed Product in such country; and (ii) the parties acknowledge that Licensee may sell Licensed Products on a consignment basis (such as in Taiwan) or make demonstrator sales of Licensed Products (such as in France), and the parties agree to consider in good faith the treatment of returns in connection with such sales. Licensor acknowledges that in situations where local law or regulations in a particular country prohibit the payment of a royalty to an affiliated company (such as in Italy and Greece), Licensor agrees to enter into an agreement directly with such affiliated company in order to permit Licensor to receive the applicable Royalties due to Licensor

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hereunder. Such agreement will not otherwise alter or diminish any of Licensor's rights and entitlements or any of Licensee's obligations in accordance with this Agreement.

8.4. F.O.B. or Ex Works. Notwithstanding anything to the contrary contained herein or otherwise, with respect to the "sale" (as defined in Subparagraph 8.2 hereinabove) of a Licensed Product on a F.O.B., Ex Works or similar basis, the applicable Royalty for such Licensed Product shall be as follows:

(a) In those cases where the Licensed Product is specifically designed as and is intended to be sold as an F.O.B. Product, is sold directly to retailers on an F.O.B. basis and is not sold by Licensee other than on an F.O.B. basis then the applicable Royalty for such Licensed Product shall be [**] (such Royalty hereinafter the "F.O.B. Royalty").

(b) In those cases where the Licensed Product is offered for sale in a country on other than an F.O.B. basis and the same Licensed Product is also offered for sale in the same country on an F.O.B. basis, then the applicable Royalty for such Licensed Product sold on an F.O.B. basis shall be [**].

8.5. Episode I Bonus. On the U.S. Release Date of Episode I, Licensee shall pay to Licensor a non-recoupable bonus equal to Five Million Seven

Hundred Thousand Dollars (\$5,700,000).

8.6. Bundling Royalty. Licensee shall not have the right to distribute, market or sell (or authorize a third party to distribute, market or sell) any Licensed Product with any other product, good or article (other than another Licensed Product) in a single package at a single price ("Bundling") without Licensor's prior written approval of: (a) whether or not such Bundling may occur; (b) the terms and conditions of such Bundling; and (c) Licensor's Royalty in such instance.

8.7. [**].

8.8. Value-Added Taxes. Calculation of Net Sales shall not include any sales, use, Value Added Tax ("VAT"), excise, local privilege or any other tax. Licensee shall not pass along to Licensor and Licensor shall not bear any VAT or any other tax charges incurred with respect to a Licensed Product.

8.9. No Waiver. Acceptance of any sums by Licensor by way of Advances, Royalties or otherwise shall not prevent Licensor at any time from disputing or demanding particulars with reference to the amounts due nor shall such acceptance constitute Licensor's waiver of any breach by Licensee of any terms hereof.

8.10. No Carryover. If the parties agree to an extension of the Term and if, on the expiration of the Term, any Advance shall not have been recouped by the applicable Royalties paid to Licensor, then the shortfall will not be carried forward to any extension of the Term.

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8.11. Warrant. Concurrently with the execution of this Agreement, Licensee shall grant to Licensor a warrant (the "Warrant") for the purchase of up to four million three hundred thousand (4,300,000) fully paid and non-assessable shares of the common stock of Licensee following exercise of the Warrant at a per share exercise price equal to twenty-eight dollars (\$28), subject to adjustment as provided in the Warrant.

9. STATEMENTS AND PAYMENTS.

9.1. Payment Terms. Licensee will wire transfer (as immediately available funds) to Licensor all sums due to it hereunder for Licensor's receipt thereof within [**] days following the end of each calendar month based on the Net Sales by Licensee and any Licensee Affiliates of Licensed Products in such Calendar Month. Net Sales generated by a Sublicensee which is not a Licensee Affiliate shall be reported to Licensor in respect of the calendar month in which such Net Sales are paid or reported to Licensee or any Licensee Affiliate, whichever first occurs. All payments will be in United States currency. Late payments will accrue interest charges from the due date through the date of payment at an interest rate equal to [**] and shall be payable upon demand.

9.2. Remittance of Funds. All compensation amounts stated in this Agreement, including without limitation, Advances and Royalties accrued and/or payable to Licensor pursuant to this Agreement shall be computed, accrued, paid and remitted to Licensor as follows, and Licensee shall bear all costs (including, without limitation, all transactional and transfer costs, points and fees), as follows:

(a) All Royalties due and payable to Licensor hereunder shall be converted from the local currency of the source country to U.S. Dollars based upon the exchange rates as follows: (i) with respect to subsidiaries and affiliates of Licensor, the conversion rate shall be set by Citibank London as of the 20th day of the month following the close of each calendar month, subject to local holidays and week-ends and further subject to Licensee ensuring that Citibank London will make such conversion rates available to Licensor upon reasonable request, and (ii) with respect to other parties, the exchange rate shall be the rate of exchange published in The Wall Street Journal for such local currency which is in effect on the date payment is due to Licensor or, if payment to Licensor is late, then the rate of exchange published in The Wall Street Journal on the date payment is due or the date of actual payment, whichever rate yields the higher amount of U.S. Dollars.

(b) Subject to Subparagraphs 8.3 and 9.3, hereinbelow, it shall be Licensee's sole responsibility and expense to obtain the approval of any governmental authorities to take whatever steps that may be required and to comply in all respects with all applicable laws and

regulations in order to remit funds to Licensor.

9.3. Blocked Funds. If the payment of funds in any country is blocked from export out of such country ("Blocked Funds"), such payment either may be held by Licensee or a Sublicensee, or, at the election of Licensor, deposited in an interest-bearing escrow

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banking or other interest-bearing escrow account in Licensee's name on behalf of Licensor in the blocking country (if permitted by local law) or may be removed from such country and paid to Licensor, subject to whatever restrictions, limitations and/or taxes may be imposed by the government of such country upon such Blocked Funds. In the event of any such blockage, Licensor and Licensee shall cooperate in seeking an equitable solution. If no such solution is attained, Licensor may require Licensee to, or Licensee may voluntarily, suspend marketing and sales of Licensed Products in such blocked country, and this Agreement shall be deemed amended accordingly.

9.4. Payment Reports. Within [**] days after the close of each Calendar Month, Licensee will prepare and deliver to Licensor one or more Royalty report forms, each in the form attached hereto as Exhibit D, as such form shall be modified by Licensor from time to time, together with all other information required by Licensor hereunder (the "Royalty Report Form"). A Royalty Report Form will be due on a calendar monthly basis whether or not Royalties are payable to Licensor hereunder.

9.5. Report Information.

(a) Licensee shall furnish to Licensor, concurrently with the delivery of the Royalty Report Form pursuant to Subparagraph 9.4 hereinabove, a full and complete statement, duly certified by an officer of Licensee to be true and accurate, providing at least the following information: [**].

(b) Each and every item of financial information required to be submitted by Licensee pursuant to Subparagraphs 9.5(a)(i) through 9.5(a)(ix) hereinabove shall be broken down into the following categories: the Calendar Month to which the statement applies; cumulative from the inception of the Calendar Year to which such statement applies; and cumulative from and after the date of this Agreement to the close of the Calendar Month to which such statement applies; and such information shall be aggregated as follows: [**].

(c) All amounts to be reported pursuant to Subparagraph 9.5(a) above shall be first stated in the local currency in which the pertinent Net Sales occurred. If several currencies are involved in any reporting category, that category shall be broken down by each such currency. Next to each local currency amount shall be set forth the equivalent amount stated in U.S. Dollars, and the rate of exchange required to be used hereunder in making the conversion calculation.

(d) Each such statement and Royalty Report Form shall be provided by Licensee, at its sole expense, to Licensor in ASCII format or any other electronic media format as Licensor may reasonably request.

(e) Upon Licensor's reasonable written request, Licensee shall make available to Licensor such relevant data and information which Licensor shall reasonably require to substantiate any Royalty Report Form submitted to Licensor, the proper exercise of the rights licensed to Licensee hereunder and/or the operation and

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performance of Licensor's duties and obligations hereunder. Such data and information shall be included within the definition of "Licensee's Records" set forth in Subparagraph 11.1 hereinbelow and shall include, [**].

10. TAXES.

Except as provided in the remainder of this Paragraph 10, no withholding taxes of any kind may be deducted from any Royalties or gross amounts derived with respect to the sale of a Licensed Product. If and only to the extent that Royalties hereunder are remitted directly to Licensor from a country having a tax withholding requirement, then Licensee is authorized

by Licensor to deduct and to withhold from Royalties generated from such country any withholding tax imposed by such country at the local statutory rate or lower income tax convention rate, if applicable; provided, however, that the Royalties due to Licensor with respect to the "sale" (as defined in Subparagraph 8.2 hereinabove) of any particular Licensed Product may not be reduced by withholding taxes from more than one country, that such tax payments made by Licensee on behalf of Licensor may not reduce the amounts payable and paid to Licensor under this Agreement by more than the applicable withholding taxes of the relevant country and, that Licensee shall promptly provide Licensor with notification of and official receipts for all tax payments made on Licensor's behalf pursuant to this Agreement. If, within forty-five (45) days after each payment is made hereunder Licensor has not received either: (a) an authenticated withholding tax certificate (stamped by the appropriate tax authority); or (b) written evidence by Licensee (in form reasonably satisfactory to Licensor) that Licensee has filed an application to receive a withholding tax certificate from such tax authority, then Licensee shall immediately pay to Licensor an amount equal to the amount previously withheld by Licensee from such payment, divided by 1 minus the applicable withholding tax rate, (e.g., if the tax withheld was \$15, and the withholding tax rate was 15%, then Licensee shall remit to Licensor \$15 divided by 85%, or \$17.65).

11. RECORDS AND AUDITS.

11.1. Licensee's Records. During the Term and for not less than seven (7) years following the transactions to be recorded, but in the event of a pending audit conducted by Licensor hereunder of any of Licensee's Records for a period ending not earlier than the date on which such audit is finally resolved with respect to the Licensee's Records subject to such audit, Licensee will maintain complete and accurate records of all transactions relating to this Agreement and/or Licensee's rights and/or obligations hereunder including, but not limited to, the data and information described in Subparagraphs 9.5(a)-(e) hereinabove (collectively "Licensee Records") and Licensee will contractually obligate all Sublicensees and Manufacturers to maintain complete and accurate records of all transactions relating to this Agreement, the Sublicense Agreement or the Manufacturing Agreement, and/or the rights or obligations of any Sublicensees and/or Manufacturer, as the case may be, including, but not limited to, the data and information described in Subparagraph 9.5(e) hereinabove. No information pertinent to Licensee's rights and obligations under or performance in connection with third party agreements shall be

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considered Licensee Records, except and to the extent that such third party agreements relate to Licensed Products and/or Licensee's obligations hereunder.

11.2. Audits. Licensor or any independent certified public accountant selected by Licensor may from time to time, but not more frequently than one time per Calendar Year, upon reasonable notice and during normal business hours, inspect (a) with respect to audits conducted in the United States, at Licensee's main headquarters located in the United States any and all Licensee Records maintained by Licensee in the United States and such audit samples from other countries as may be reasonably requested by Licensor and (b) with respect to audits outside of the United States, wherever such records are kept outside of the United States. If, upon performing such audit, it is determined that Licensee has underpaid Licensor, Licensee will immediately make full payment under Paragraph 8 hereinabove. If the amount of underpayment exceeds the greater of [**] of the payments due Licensor in the period being audited and [**], Licensee will bear all direct, reasonable out-of-pocket expenses and costs related to such audit in addition to its obligation to make full payment under Paragraph 8 hereinabove. All underpayments and late payments will be subject to interest charges, at the rate specified for late payments in Subparagraph 9.1 hereinabove, calculated from the due date to the actual payment date. The obligation to maintain records and to grant Licensor and Licensor's representatives access to such records shall survive the expiration or earlier termination of this Agreement. All non-public information elicited by Licensor pursuant to Subparagraph 9.5(e) and through audits pursuant to this Subparagraph 11.2 shall be subject to Paragraph 16.1 hereinbelow as Confidential Information of Licensee.

12. COPYRIGHT AND TRADEMARK NOTICES.

12.1. Copyright and Trademark Notices. Licensee will place the following notice on each unit of a Licensed Product and on all Consumer Marketing,

promotional material, packaging and any other material using the Licensed Property:

TM or (R) (if verified in writing by Licensor) & (C) (_____) LUCAS.
In English or local language: All Rights Reserved. Used under
Authorization)

() First year of Publication.

If this notice cannot be used due to space limitations, Licensor will supply an alternative notice upon request. Licensee agrees that trademarks arising from the Licensed Property will only be displayed in a form and manner approved by Licensor. Licensor reserves the right to require changes in the required notice if Licensor in its reasonable judgment deems changes required by applicable law. [**]

12.2. First Use. Licensee agrees to provide Licensor with the date of first use of each Licensed Product pursuant to this Agreement in each country of the Territory, together with documentation evidencing the first sale or shipment of such Licensed Product. In addition, Licensee shall submit to Licensor at the beginning of each selling season, a

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statement on Licensor's standard form describing the Licensed Products that are being offered for sale.

13. OWNERSHIP.

13.1. Ownership of Copyright Materials. Licensor represents and warrants that it has the right to grant the license granted to Licensee in this Agreement. Licensee acknowledges and agrees that, as between Licensor and Licensee, the Licensed Property is owned solely and exclusively by Licensor. Further, Licensee acknowledges and agrees that if and to the extent that any Licensed Products, Designs, Consumer Marketing Materials, Production Materials or other works are based on, derived from or incorporate the Licensed Property or any part thereof (all of the foregoing to such extent being individually and collectively the "Copyright Materials"), such Copyright Materials will immediately from the inception of creation become the property of Licensor and be owned solely and exclusively by Licensor. Licensor's ownership rights under this Subparagraph 13.1 will include any and all copyrights and any other intellectual property rights in the Licensed Property and in any Copyright Materials. Licensor acknowledges and agrees that, as between Licensor and Licensee, Licensee is the owner of all tangible rights in and to any intellectual property created by or on behalf of Licensee that does not constitute any Copyright Material, any physical inventory of Licensed Products and, subject to Subparagraph 13.2 hereinbelow, in all Production Materials.

13.2. Ownership of Production Materials. In addition to Licensor's other rights and remedies hereunder, if the Agreement, in whole or in part, is terminated prior to the expiration of the Term then, at Licensor's sole option exercisable within thirty (30) days following such expiration or termination by written notice to Licensee, Licensor shall have the right: (a) to cause Licensee to destroy and to cause any and/or all Licensee Affiliates and/or Sublicensees to destroy any or all Production Materials, [**]. "Production Materials" shall be defined as any and all physical materials incorporating any element of the Licensed Property, tangible tools, molds and printing plates used in the development or production of the Licensed Products created pursuant to this Agreement which reproduce any aspect of the Licensed Property, whether or not developed by or on behalf of Licensee, a Licensee Affiliate, a Sublicensee, a Manufacturer or a third party. Subject to the foregoing, Licensee also agrees that upon Licensor's request, Licensee shall provide to Licensor satisfactory evidence of the destruction of any or all Production Materials[**], and that Licensor shall have the right at any time to enter the premises where the Licensed Products (or their components) are stored or manufactured (to the extent such premises are owned or controlled by Licensee or Licensee Affiliate) to take inventory or witness the destruction of [**] any Production Materials. Licensee shall not have any obligation to destroy or cause the destruction of [**] any Production Materials that can be used by Licensee without infringing or otherwise violating any of Licensor's rights.

13.3. Assignment of Ownership.

(a) Assignment by Licensee. Licensee acknowledges that the copyrights and all other proprietary rights in and to the Licensed

by and reserved to Licensor. Licensee shall neither acquire nor assert copyright ownership or any other proprietary right in the Licensed Property or in any derivation, adaptation, variation or name thereof. Without limiting the foregoing, Licensee hereby assigns, and shall contractually obligate all entities with whom it contracts relative to the creation, design or manufacture of a Licensed Product or Copyright Material to assign to Licensor, all right, title and interest which Licensee or any such other entity may have in the Licensed Property or any Copyright Material heretofore or hereafter created by Licensee, such other entity or by any employee of Licensee or such other entity including, without limitation, any copyrights and any other intellectual property rights therein and the goodwill associated therewith. All such new materials shall be included in the definition of "Licensed Property" under this Agreement. Licensee acknowledges that said assignment includes, without limitation, the right on Licensor's part to license such materials outside the Territory during the Term and anywhere thereafter, subject to the terms of this Agreement.

(b) Employment for Hire. Licensee acknowledges that the Licensed Property is owned solely and exclusively by Licensor. All Copyright Materials created or developed by any employee of Licensee shall be prepared by such employee as an employee for hire of Licensee under Licensee's sole supervision, responsibility and monetary obligation and shall be on a "work for hire" basis within the meaning of the U.S. Copyright Act of 1978, as amended. Licensee has caused or shall cause such Copyright Materials to be "works made for hire" (as that term is understood in the U.S. Copyright Law) within the scope of such employee's employment for Licensee, and such Copyright Materials, and the results and proceeds of such employee's services are freely assignable by Licensee hereunder.

(c) Assignment of Third Parties. Prior to and as a condition of retaining any third party who is not an employee of Licensee to assist with or contribute to the development or creation of any Copyright Materials, or any part thereof, Licensee, at its sole expense, will obtain from such third party a complete, executed written assignment of all right, title and interest in such Copyright Materials substantially in the form attached hereto as Exhibit E.

13.4. Further Assurances. During and after the Term, at Licensor's request, Licensee will assist and cooperate, and will cause all of its employees and contractors to assist and cooperate, with Licensor in all reasonable respects, including, without limitation, by executing documents (including the form attached hereto as Exhibit E), by giving testimony, executing documents and taking such further acts reasonably requested by Licensor to acquire, transfer, maintain, perfect and enforce copyright, trademark, trade secret, contract rights and other legal protection for the Licensed Property, any Copyright Materials and/or Licensor's interest, if any, in Production Materials. Further, if Licensee fails to comply with any of the obligations set forth above within ten (10) business days of Licensor's request, Licensee hereby appoints the officers of Licensor as its attorney-in-fact (which appointment is irrevocable and coupled with an interest) to execute documents on behalf of Licensee and its employees and contractors for this limited purpose; provided,

however, that Licensor will indemnify and hold harmless Licensee for damages resulting from Licensor's knowingly making a material misstatement in connection with its exercise of such power of attorney. Licensee shall not make any representations or do any act which may be taken to indicate that it has any right, title or interest in or to the ownership or use of the Licensed Property except under the terms of this Agreement. Nothing contained in this Agreement shall give Licensee any right, title or interest in or to the Licensed Property except for the rights licensed hereunder, subject to the terms and conditions hereof.

13.5. Moral Rights. Licensee hereby, on behalf of itself, its employees and its contractors, irrevocably transfers and assigns to Licensor, and waives and agrees never to assert, any and all "Moral Rights" (defined hereinbelow) Licensee or its or their respective employees or its

contractors may have in or with respect to the Licensed Property and/or any Copyright Materials.

13.6. Quality Assurance. Licensee shall ensure that the form, quality and standard of all materials used in the connection with the Licensed Products conforms to that of the samples approved by Licensor pursuant to this Agreement and complies with all good manufacturing practices relevant to the Licensed Products including methods of storage and with all laws and regulations relevant to the Licensed Products including any relevant regulations concerning the manufacture, sale or promotion or labeling or marking of such Licensed Products. Any modifications by or on behalf of Licensee to the Licensed Products previously approved above shall be submitted to Licensor for written approval as if the same were new and without approval.

13.7. Right To Inspect. Licensee shall allow Licensor and/or its duly authorized representative the right to inspect samples of the Licensed Products at any time and on reasonable notice, and shall afford Licensor every reasonable assistance and allow or use reasonable efforts to procure them access to any premises of Licensee or other premises where the Licensed Products are being created or held on behalf of Licensee, for so long as any use is made of the Licensed Property.

13.8. [**].

14. PROMOTIONAL VALUE, TRADEMARK RIGHTS AND GOODWILL.

14.1. Promotional Value. Licensee acknowledges that Licensor is entering into the Agreement not only in consideration of the Royalties to be paid, but also for the promotional value to be secured by Licensor for the Pictures as a result of the manufacture, sale and distribution by Licensee of Licensed Products and the Consumer Marketing and promotion of the Licensed Products.

14.2. Trademark License Agreement. Licensee will execute the Trademark License Agreement attached hereto as Exhibit A, and Licensee's use of Licensor Trademarks will be subject to the terms and conditions of the Trademark License Agreement.

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14.3. Goodwill. Licensee recognizes the great value of the goodwill associated with the Licensed Property and acknowledges that such goodwill exclusively belongs to Licensor and that the Licensed Property has acquired a secondary meaning in the mind of the public. Further, any and all goodwill arising from use of the Licensed Property by Licensee, a Licensee Affiliate, a Sublicensee and/or a Manufacturer pursuant to this Agreement will inure to Licensor's sole benefit.

14.4. Registrations. Except with the written approval of Licensor, Licensee will not register or attempt in any country to register copyrights in, or register as a trademark, service mark, design patent or industrial design, or business designation, any of the Licensed Property, Licensor Trademarks or derivations or adaptations thereof, or any word, symbol or design which is so similar thereto as to suggest association with or sponsorship by Licensor or by any Licensor-Related Entities.

15. APPROVAL OF MANUFACTURERS.

15.1. Approval of Manufacturer Agreement. Licensee shall have no right to sublicense the right to manufacture any Licensed Product hereunder to any entity (including to a Licensee Affiliate that is not a Permitted Licensee Affiliate or any other third party) unless and until: (a) Licensor has provided Licensee with its prior written approval of the proposed manufacturer and the terms and conditions of any and all agreements between Licensee and any proposed manufacturer (and any modifications thereof), whether oral or written, for and/or to the extent relating to the manufacture of Licensed Products (individually and collectively, the "Manufacturing Agreement"); (b) such manufacturer shall have executed an Approval of Manufacturer Agreement with Licensor in substantially the form of Licensor's then-current form for such agreement, as such form may be revised by Licensor in its reasonable discretion from time to time (any such manufacturer approved by Licensor for which an Approval of Manufacturer Agreement is fully executed, a "Manufacturer"); (c) such Manufacturer shall agree in the Manufacturing Agreement to be fully bound at all times by the following subparagraphs of this Agreement adjusted as appropriate: 3.7(b), 3.8, 11.1, 12, 13.2, 13.3, 13.4, 13.5, 13.6, 13.7, 13.8, 14, 15, 16 and 19.1(e); (d) such Manufacturer shall execute a Trademark License Agreement with Licensor; and (e) such manufacturer shall

further agree in such Manufacturing Agreement that Licensor shall be a third party beneficiary thereof. A copy of Licensor's current form of Approval of Manufacturer Agreement is attached hereto as Exhibit F. The manufacturer of Licensed Products by any third party shall in no manner whatsoever affect Licensee's obligations hereunder and Licensee shall execute, and ensure that each prospective Manufacturer executes, the Approval of Manufacturer Agreement. The failure by a Manufacturer to adhere to the terms of the Approval of Manufacturer Agreement or the Manufacturer Agreement shall not be imputed to Licensee unless such Manufacturer is a controlled affiliate of Licensee or Licensee fails to comply with its obligations under Subparagraph 15.2 hereinbelow.

15.2. Enforcement of Manufacturing Agreement. Licensee agrees to include and strictly enforce in each Manufacturing Agreement all of the terms and conditions of this Agreement relevant to the manufacture of the Licensed Products. Licensee shall advise

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Licensor of any material breach thereof by a Manufacturer and of any corrective action taken by Licensee or by such Manufacturer, as well as the results thereof. Licensee shall use its best efforts to cause such Licensee to cure such breach and, at the written request of Licensor following such breach, Licensee shall terminate such Manufacturing Agreement, subject to the same cure provisions as are applicable to Licensee in Subparagraph 22.2(a) hereinbelow. Licensee hereby appoints Licensor its attorney-in-fact solely for the purpose of sending a notice of termination, subject to the immediately preceding sentence, in order to terminate such Manufacturing Agreement or any specific rights thereunder, which appointment is irrevocable and coupled with an interest; provided, however, that Licensor will indemnify and hold harmless Licensee for damages resulting from knowingly making a material misstatement in connection with the exercise of such power of attorney.

16. CONFIDENTIALITY.

16.1. Confidential Information. The parties hereto agree that the material terms and conditions contained in this Agreement and/or in any other agreement between Licensor and Licensee related to the Licensed Products are confidential ("Confidential Information"). In addition to Confidential Information, the parties agree that any and all information and material concerning or pertaining to the following are confidential and proprietary to Licensor (collectively, "Special Confidential Information"): (i) any script, concept, schedule of Licensor or of any Licensor-Related Entity (including, without limitation, any pre-production, production or post-production schedule or release schedule for any Prequel or for any derivative work thereof) and (ii) any Copyright Material and/or any Production Material (including without limitation, any artwork, design or prototype created for any Licensed Product to the extent incorporating any element of the Licensed Property). The parties hereto acknowledge that all elements of any Marketing Plan constitute Confidential Information of Licensee and shall be treated as such hereunder. Notwithstanding the foregoing, the parties acknowledge that certain elements of any Marketing Plan may be shared by Licensor with certain persons or categories of persons but not others and Licensor and Licensee shall mutually agree as to the elements of such Marketing Plan that may be shared with certain persons and the identity of such persons.

Without the prior written consent of the party disclosing Confidential Information or Special Confidential Information (the "Disclosing Party"), the recipient of any Confidential Information or Special Confidential Information (the "Recipient") shall not use, copy, or disclose, or authorize or permit the use, copy or disclosure of, any Confidential Information or Special Confidential Information; provided, that Confidential Information may be disclosed to the Recipient's employees, directors, officers and shareholders, attorneys, financial advisors, auditors, agents and/or accountants acting in such capacities, and then only if such disclosure is solely for the purpose of effectuating the terms and conditions of this Agreement, and such individuals or entities shall be informed by the Recipient of the confidentiality of such Confidential Information and shall be directed by the Recipient in writing to treat such Confidential Information confidentially and to restrict the use of such Confidential Information to said purpose. In addition to the foregoing, Licensee will not disclose any Special Confidential Information to any third party for any

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purpose (including the exercise of its rights or performance of its obligations hereunder) unless Licensor otherwise agrees and such third party has executed a written confidentiality agreement in form and substance acceptable to Licensor, which confidentiality agreement shall restrict the use of any Special Confidential Information to the minimal extent necessary to effectuate the terms and conditions of this Agreement as they apply to such third party and requires such third party to use its best efforts to maintain all Special Confidential Information in the strictest confidence.

Licensee further agrees and acknowledges that Licensor's sole purpose in disclosing Special Confidential Information to Licensee or allowing Licensee access to Special Confidential Information is for the sole purpose of aiding Licensee in performing its obligations hereunder. Licensee shall receive and hold all Special Confidential Information in the strictest confidence and Licensee acknowledges, represents, warrants and agrees to use its best efforts to protect the confidentiality of all Special Confidential Information.

Licensee's obligations pursuant to Subparagraph 16.1 shall not apply to any Confidential Information or Special Confidential Information which: (A) is or becomes publicly available or part of public domain through no fault of the Recipient or of its employees; (B) is authorized in writing by Licensor to become publicly known; (C) is received from a third party authorized by Licensor to receive such information without restriction and without breach of this Agreement; or (D) is the minimum amount required to be publicly disclosed in order to comply with any applicable law, regulation, stock exchange rule, subpoena, or valid order of a court of competent jurisdiction.

16.2. Publicity or Announcements. Subject to subparagraph 16.1(D) hereinabove, without limitation of the foregoing and notwithstanding anything to the contrary contained in this Agreement or otherwise, no announcements, press releases, or publicity about the existence of or any terms of this agreement, the relationship of the parties or about the rights relating to the Licensed Products to be exercised hereunder shall be made or authorized to be made by Licensor, any Licensor-Related Entity, Licensee or any Licensee Affiliate without the prior written approval of Licensor and Licensee in each instance.

16.3. Rights of Publicity. Except as expressly set forth herein, Licensee acquires no right to use and will not use without Licensor's prior written approval the characters, artwork, designs, trade names, copyrighted materials, trademarks or service marks of Licensor or any Licensor-Related Entities in any Consumer Marketing, publicity or promotion, to express or imply any endorsement by Licensor or any Licensor-Related Entities of Licensee's services or products, or in any other manner except as expressly authorized in this Agreement. The foregoing provision shall survive expiration or termination of this Agreement.

17. PRODUCT SAMPLES.

17.1. General. Upon commercial release of each version of a Licensed Product SKU (including each language version or modified version) by or for Licensee, Licensee will furnish to Licensor at no cost the following items: [**].

If Licensor requests a reasonable number of additional items, Licensee will supply to Licensor such samples at Licensee's direct out-of-pocket cost of manufacture.

18. INTENTIONALLY DELETED.

19. REPRESENTATIONS AND WARRANTIES.

19.1. Licensee. Licensee represents and warrants that:

(a) Hasbro, Inc. has the full power and authority to enter into this Agreement on behalf of Licensee and all Permitted Licensee Affiliates and that Licensee including all Permitted Licensee Affiliates have the full power and authority to perform all of Licensee's material obligations pursuant to this Agreement;

(b) it is and shall remain throughout the term a corporation in good standing in the jurisdiction of its incorporation;

(c) it will not harm or misuse the Licensed Property or bring the Licensed Property into disrepute;

(d) except as specifically provided in this Agreement, it will not create any expenses chargeable to Licensor without the prior written approval of Licensor;

(e) it will comply in all material respects with all laws and regulations relating or pertaining to the manufacture, production, distribution, sale, Consumer Marketing and use of the Licensed Property, the Licensed Products and Copyright Materials, and will maintain the highest quality and standards of Licensee as of the date of this Agreement;

(f) unless the parties have otherwise agreed pursuant to a mutually approved Marketing Plan with respect to a particular Sub-Territory, it will diligently and continuously at all times throughout the Term market and distribute the Licensed Products in each country throughout the Territory;

(g) each and every Permitted Licensee Affiliate set forth in Schedule I meets the definition of a Licensee Affiliate in Subparagraph 24.69 hereinbelow; and

(h) this Agreement has been duly authorized, executed and delivered by Licensee and constitutes the legal, valid and binding obligation of Licensee, enforceable against Licensee in accordance with its terms, subject to Subparagraph 8.3 hereinabove.

19.2 Licensor. Licensor represents and warrants that:

(a) Licensor has the full power and authority to enter into this Agreement and to perform all of Licensor's material obligations pursuant to this Agreement;

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(b) this Agreement has been duly authorized, executed and delivered by Licensor and constitutes the legal, valid and binding obligation of Licensor, enforceable against Licensor in accordance with its terms; and

(c) [**].

20. INDEMNITIES.

20.1. By Licensor. Subject to Subparagraph 20.3 hereinbelow, Licensor shall indemnify and hold harmless Licensee from any and all loss, liability, damage, cost or expense (including reasonable counsel fees and costs, whether or not in connection with litigation) to the extent arising out of any claims or suits brought or made against Licensee by reason of any breach or alleged breach by Licensor of any warranty, covenant or obligation contained in this Agreement. Licensee shall provide Licensor with prompt written notice, cooperation and assistance relative to any such claim or suit. Licensor shall have the option to undertake and conduct the defense of any suit so brought, provided that Licensor regularly consults with Licensee regarding such defense. Licensor will not enter into any settlement of any claims or suits without the prior written consent of Licensee, which consent shall not be unreasonably withheld. If Licensor undertakes such defense and Licensee nevertheless retains its own counsel to monitor such defense, Licensee shall be solely responsible for the fees and any other expenses related to such counsel. Licensee shall not, however, be entitled to recover for lost profits. This agreement to indemnify shall survive the expiration or earlier termination of this Agreement.

20.2. By Licensee. Except for Licensor's obligations under Subparagraph 20.1 above, Licensee shall indemnify and hold harmless Licensor and all "Licensor-Related Entities" (as hereinafter defined) from any and all loss, liability, damage, cost or expense (including reasonable counsel fees and costs, whether or not in connection with litigation) to the extent arising out of any claims or suits brought or made against Licensor or any Licensor-Related Entities arising out of or in connection with:

(a) any activities of Licensee related to this Agreement or to any of the matters herein contained;

(b) any alleged defects or inherent dangers in the Licensed Products;

(c) any breach or alleged breach by Licensee of any warranty, covenant or obligation contained in this Agreement;

(d) any infringement or violation of any copyrights, patents, trademarks, trade secrets or other intellectual property or proprietary rights of any third party in connection with the Licensed Products, Copyright Materials or Production Materials except with respect to the Licensed Property (excluding any material added or changed by or on behalf of Licensee);

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(e) libel, slander, or other forms of defamation except with respect to the Licensed Property (excluding any material added or changed by or on behalf of Licensee);

(f) plagiarism, piracy or unfair competition resulting from the alleged unauthorized use of titles, formats, ideas, characters, plots, performers, or other material except with respect to the Licensed Property (excluding any material added or changed by or on behalf of Licensee); and/or

(g) breach of contract, implied in fact or in law, resulting from the alleged submission, acquisition or use of program, musical or literary material used by Licensee.

Licensor shall provide Licensee with prompt written notice, cooperation and assistance relative to any such claim or suit. Licensee shall have the option to undertake and conduct the defense of any suit so brought, provided, that Licensee regularly consults with Licensor regarding such defense. Licensee will not enter into any settlement of any claims or suits without the prior written approval of Licensor, which consent shall not be unreasonably withheld. If Licensee undertakes such defense and Licensor nevertheless retains its own counsel to monitor such defense, Licensor shall be solely responsible for the fees and any other expenses related to such counsel. This agreement to indemnify shall survive the expiration or earlier termination of this Agreement.

20.3. [**].

20.4. Notification. Licensee and Licensor agree to give each other prompt written notice of any claim or suit which may arise under the indemnity provisions set forth above. Without limiting the foregoing, Licensee agrees to give Licensor written notice of any product liability claim made with respect to any Licensed Product within seven (7) days of Licensee's receipt of notice thereof.

20.5. Intellectual Property Protections. At Licensor's request, Licensee shall assist Licensor, to the extent reasonably necessary, in protecting any of Licensor's rights to the Licensed Property. Licensor may commence or prosecute any claims or suits in its own name or (with the approval of Licensee, which approval will not be unreasonably withheld) in the name of Licensee or may join Licensee as a party thereto. With respect to any apparent infringement of the Licensed Property by any third party, Licensor and Licensee will discuss the appropriate enforcement steps and which steps are taken shall be determined by Licensor in its reasonable discretion. If Licensor and Licensee both agree to participate in pursuing any protection or enforcement action, then Licensor and Licensee shall share equally all out-of-pocket costs and expenses related to any such action (including, without limitation, attorneys' fees and costs). Reimbursement payments required pursuant to this Subparagraph 20.5 from one party to the other not paid within thirty (30) days following receipt of invoices for such payments will accrue interest charges from the due date through the date of payment at an interest rate equal to three percent (3%) over the prime lending rate set by the Bank of America N.T.S.A., or the

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maximum legal rate, if such maximum legal rate is lower, and shall be payable upon demand. In the event any monies are recovered from any such action which are in excess of the costs and expenses of such action, then such monetary recoveries shall be shared equally between Licensor and Licensee. If Licensor declines to participate in or otherwise pursue any enforcement, Licensee may take steps to do so, provided that Licensee first obtains Licensor's prior written approval. Licensee in such

circumstances agrees to provide current reports regarding the status of any action or negotiations concerning such alleged infringing activity, and shall proceed in consultation with Licensor and Licensor's counsel. Licensee's choice of counsel in any such proceeding shall be subject to Licensor's prior reasonable written approval. Licensee shall not settle or compromise any claim without Licensor's prior written approval, such approval not to be unreasonably withheld. Should Licensee recover any sums from the alleged infringer, it shall be entitled to retain the proceeds of any such actions to the extent of Licensee's reasonable out-of-pocket expenses for the proceeding, and the remainder will be shared equally between Licensee and Licensor.

21. INSURANCE.

21.1. Insurance. Licensee will, throughout the Term and for a period no less than three (3) years following the expiration or termination of this Agreement, maintain insurance in the amounts, for the purposes set forth in and in accordance with this Paragraph 21, covering any and all claims brought anywhere in the world relating to the Licensed Products, as follows:

(a) Product Liability and Advertising Injury Liability. Licensee will carry Product Liability and Advertising Injury Liability Insurance obtained from a reputable carrier with a Best's rating of "A" or better, naming Licensor, George W. Lucas, Jr. and all Licensor-Related Entities as additional insureds, and covering any and all claims, demands and causes of action for personal injury or property damage arising out of or purporting to arise out of any defects in or failure to perform by any Licensed Product or arising out of or purporting to arise out of any advertising and/or any physical or intangible material used in connection therewith in a minimum amount of [**] combined single limit for each occurrence for personal injury and property damage.

(b) [**]

21.2. Notification. Each policy shall provide for prompt written notice (not to exceed thirty [30] days) to Licensor from the insurer by registered mail, return receipt requested, in the event of any material modification, cancellation or termination of the policy referred to in Subparagraph 21.1(a) hereinabove. Licensee will furnish to Licensor within thirty (30) business days after the date of execution of this Agreement a Certificate of Insurance naming Licensor, George W. Lucas, Jr., and all Licensor-Related Entities as additional insureds on said policy.

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21.3. Compliance. Licensee's compliance with this Paragraph 21 in no way affects Licensee's indemnity obligations, except to the extent that Licensee's insurance company actually pays Licensor amounts which Licensee would otherwise be obligated to pay Licensor.

22. EXPIRATION AND TERMINATION.

22.1. Term. This Agreement will continue in full force and effect during the Term, unless terminated earlier in accordance with the provisions of this Agreement, except with respect to those matters which by the terms of this Agreement or by their nature survive termination or expiration.

22.2. Events of Termination. Without prejudice to any other right or remedy available to Licensor, Licensor will have the right to terminate this Agreement immediately upon written notice to Licensee:

(a) if Licensee breaches any of the material terms of this Agreement and, if such breach is curable, and is not corrected within twenty-five (25) days after Licensor sends Licensee written notice thereof (or, in the event of a curable breach which cannot be corrected within twenty-five [25] days, if Licensee fails to commence such correction within twenty-five [25] days and thereafter diligently prosecutes it to completion);

(b) if Licensee becomes insolvent or generally fails to pay, or admits in writing its inability to pay its debts as they become due, or makes any assignment for the benefit of creditors, or files a petition in bankruptcy, or is adjudged bankrupt, or is placed in the hands of a receiver, or if the equivalent of any such proceedings or acts occurs, though known by some other name or term;

(c) if Licensee becomes the subject of a voluntary or involuntary

petition in bankruptcy or any involuntary proceeding relating to insolvency, receivership, liquidation or composition for the benefit of creditors, if such petition or proceeding is not dismissed within sixty (60) days of filing; or

(d) if Licensee attacks the title of Licensor in and to any Licensed Property (including, without limitation, any copyright or trademark pertaining thereto) or Licensee attacks the validity of any license granted hereunder.

22.3. Effect of Expiration or Termination.

(a) Cessation and Delivery. Upon the expiration or earlier termination of this Agreement, subject to Subparagraph 22.3(c) hereinbelow:

(i) Licensee shall:

(A) immediately cease and cause the cessation of all of its activities hereunder respecting the Licensed Property including,

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without limitation, the design, development, manufacture, sale, Consumer Marketing, and distribution of Licensed Products and, within thirty (30) days after such expiration or termination, send Licensor a complete inventory report of Licensed Products; and

(B) subject to the provisions of Subparagraph 13.2 hereinabove, at Licensor's election, [**]:

(1) [**]

(2) furnish Licensor with a sworn certificate of destruction, signed by an officer of Licensee. Without limitation of its rights and remedies, Licensor shall have the right to enter the premises where the Licensed Products are located (to the extent such premises are controlled by Licensee or a Licensee Affiliate) to verify inventory of Production Materials, [**].

Licensee shall have no further right to exercise any of the rights licensed hereunder or otherwise acquired in relation to this Agreement. Licensee agrees that its failure to stop in all respects the manufacture, sale and/or distribution upon the termination of this Agreement will result in immediate irreparable damage to Licensor for which there is not adequate remedy at law, and in the event of such failure by Licensee, Licensor shall be entitled to seek injunctive relief in addition to its other rights and remedies in such event. Licensor shall be entitled to recover from Licensee, in addition to any other remedies in the event of material default, reasonable attorneys' fees, costs and expenses, including collection agency fees incurred by Licensor in the enforcement of any provision hereof. Licensor's exercise of any of the foregoing remedies shall not operate as a waiver of any other rights or remedies which Licensor may have.

(ii) Licensee shall immediately cancel or terminate all contracts, orders and requests for the manufacture, sale, distribution or supply of any goods or services which involve or may lead to any use, application or exploitation of the any Licensed Product or the rights herein licensed or any part thereof.

(b) Reversion of Rights. Upon the expiration or earlier termination of this Agreement, subject to Subparagraph 22.3(c) hereinbelow, all rights licensed to Licensee hereunder will immediately revert to Licensor, Licensor may exploit such license rights itself or grant such rights to any third party.

(c) Limited Sell-Off Rights. Licensee shall have the non-exclusive right, for a period of ninety (90) days after expiration or earlier termination of this Agreement (the "Sell-Off Period") to dispose of its inventory of Licensed Products "in hand"

or "in process" (as such terms are commonly understood in the U.S. toy industry), which Licensed Products are manufactured during the Term pursuant to orders actually received by Licensee from its retail Customers prior to the close of the Sell-Off Period (the "Final Orders"); provided, however, that:

(i) this Agreement has not been terminated for breach or any other reason set forth in Subparagraph 22.2 hereinabove;

(ii) Licensee shall not manufacture (or authorize or permit the manufacture of) Licensed Products after the expiration of the Term;

(iii) Licensee shall not distribute or sell (or authorize or permit the distribution or sale of) Licensed Products after the expiration of the Sell-Off Period;

(iv) Licensee shall only distribute and sell Licensed Products in amounts necessary to fulfill such Final Orders;

[**]

(d) Return of Confidential Information. Upon termination or expiration of this Agreement, the Recipient of Confidential Information will immediately return all Confidential Information within such Recipient's possession or control and Licensee will immediately return all Special Confidential Information received from Licensor that is in Licensee's possession or control, and an officer of Licensee or Licensor, as the appropriate party may be, will certify to the other party in writing that such Recipient has done so.

(e) Payments. Upon termination of this Agreement or upon expiration of the Sell-Off Period, all monies owed Licensor will become immediately due and payable by Licensee to Licensor.

22.4. No Damages for Termination. Licensor will not be liable to Licensee for damages of any kind, including incidental or consequential damages, on account of the expiration or termination of this Agreement in accordance with the terms and conditions of this Agreement. Licensee waives any right it may have to receive any compensation or reparations on account of expiration or termination of this Agreement by Licensor in accordance with the terms and conditions of this Agreement, other than as expressly provided in this Agreement. Without limiting the generality of this Subparagraph 22.4, Licensor will not be liable to Licensee, on account of such termination or expiration, for reimbursement or damages for the loss of goodwill, prospective profits or anticipated income, or on account of any expenditures, investments, leases or commitments made by either party or for any other reason whatsoever based upon or growing out of such termination or expiration.

23. RESERVED RIGHTS.

23.1. Licensor's Retained Rights. Notwithstanding anything to the contrary contained in this Agreement or otherwise, Licensor retains all rights not expressly licensed to Licensee pursuant to this Agreement, including, without limitation, the right to manufacture, distribute and sell Gift Market Product through the Gift Market [**].

23.2. Reversion of Rights. Notwithstanding anything to the contrary contained in this Agreement or otherwise, the parties understand and agree that

(a) if Licensee fails to manufacture, distribute and sell any of the following applicable Licensed Products in any Sub-Territory on or before December 31 of the Calendar Year in which the initial theatrical release of Episode I within such Sub-Territory occurs, then all rights licensed to Licensee hereunder with respect to such applicable Standard Toys in such Sub-Territories shall terminate and shall immediately revert to Licensor: Molding Compound Toys, Coloring Toys, Mechanical Design Toys, Craft Kits or Novelty Candy; and

(b) if Licensee fails to manufacture, distribute and sell the following

Licensed Products in any Sub-Territory on or before the later of December 31, 2001 and the end of the second Calendar Year following the initial theatrical release of Episode I in such Sub-Territory, then all rights licensed to Licensee hereunder with respect to such applicable Licensed Products pursuant to this Agreement for such Sub-Territory shall terminate and shall immediately revert to Licensor: electronic organizers, personal digital assistants and electronic diaries.

24. DEFINITIONS.

24.1. [**].

24.2. [**].

24.3. "Advance" has the meaning set forth in Subaragraph 7.1 hereinabove.

24.4. [**].

24.5. [**].

24.6. [**].

24.7. [**].

24.8. "Basic Figures" means [**].

24.9. "Audio Board Games" has the meaning set forth in Schedule II hereinbelow.

24.10. "Blocked Funds" has the meaning set forth in Subparagraph 9.3 hereinabove.

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24.11. "Board Games" has the meaning set forth in Schedule II hereinbelow.

24.12. "Bundling" has the meaning set forth in Subparagraph 8.6 hereinabove.

24.13. "Calendar Month" means Licensee's fiscal month. Licensee's fiscal month alternates between four (4) and five (5) week periods, beginning on a Monday and ending on a Sunday, within Licensee's fifty-two (52) or fifty-three (53) week Calendar Year.

24.14. "Calendar Quarter" means any of the following applicable consecutive successive three (3) month period during a Calendar Year: January 1 through and including March 31, April 1 through and including June 30; July 1 through and including September 30; and October 1 through and including December 31.

24.15. "Calendar Year" means the time period from the first Monday following the last Sunday of the previous Calendar Year and including the last Sunday of the Calendar Year, except with respect to 1998 for which "Calendar Year" means the time period from September 28, 1998 through and including December 27, 1998.

24.16. "Card Games" has the meaning set forth in Schedule II hereinbelow.

24.17. "Carrying Cases" has the meaning set forth in Schedule II hereinbelow.

24.18. "Chain" means a group of twenty (20) or more retail store outlets.

24.19. "Classic Trilogy" has the meaning set forth in Subparagraph 24.68(a) (i) hereinbelow.

24.20. "Closeout Stores" means retailers that offer for sale a majority of their inventory initially on a so-called "closeout" basis (as such term is customarily understood in the U.S. toy industry).

24.21. [**].

24.22. "Confidential Information" has the meaning set forth in Subparagraph 16.1 hereinabove.

24.23. "Consumer Marketing" means the solicitation and/or commercial enticement for the sale of any product, good or article by means of television, radio, print, outdoor, Internet, sweepstakes, free-goods offers, cross-promotions with third parties (e.g.

PepsiCo) or other promotions directed to consumers, retailer in-store display materials, point-of-purchase signage, roto print advertisements, public relations efforts, or by any other means, whether now or hereafter known, devised, invented or developed.

24.24. "Consumer Marketing Materials" has the meaning set forth in Subparagraph 5.1(c) hereinabove.

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24.25. [**].

24.26. "Copyright Materials" has the meaning set forth in Subparagraph 13.1 hereinabove.

24.27. [**].

24.28. "Creative Play Toys" has the meaning set forth in Schedule II hereinbelow.

24.29. [**].

24.30. "Customer" means an entity that is not a Licensee, a Licensee Affiliate (including any Permitted Licensee Affiliate) or a Sublicensee.

24.31. [**].

24.32. "Designs" has the meaning set forth in Subparagraph 5.1(b) hereinabove.

24.33. "Disclosing Party" has the meaning set forth in Subparagraph 16.1 hereinabove.

24.34. "Dolls" has the meaning set forth in Schedule II hereinbelow.

24.35. "Dump" means to distribute a Licensed Product in a manner which disparages the Licensed Property, materially diminishes the value of Licensor's goodwill, trademark or tradename rights pursuant to any applicable laws in the relevant country of the Territory [**].

24.36. "Electronic Retailers," means retailers that market and sell products to consumers primarily through electronic media, including, without limitation, by means of television (such as, without limitation, QVC, HSN) or Internet.

24.37. [**].

24.38. [**].

24.39. [**].

24.40. "Electronic Target Games" has the meaning set forth in Schedule II hereinbelow.

24.41. "Electronic Novelty Toys" has the meaning set forth in Schedule II hereinbelow.

24.42. "Electronics/Hand-Held" or "E/H" has the meaning set forth in Schedule II hereinbelow.

24.43. "Episode I" has the meaning set forth in Subparagraph 24.68(a) (ii) hereinbelow.

24.44. "Episode II" has the meaning set forth in Subparagraph 24.68(a) (ii) hereinbelow.

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24.45. "Episode III" has the meaning set forth in Subparagraph 24.68(a) (ii) hereinbelow.

24.46. "Episode I Outside Date" has the meaning set forth in Subparagraph 2.1(b) (i) hereinabove.

24.47. "Episode II Outside Date" has the meaning set forth in Subparagraph 2.1(b) (ii) hereinabove.

- 24.48. "Episode III Outside Date" has the meaning set forth in Subparagraph 2.1(b)(iii) hereinabove.
- 24.49. [**].
- 24.50. "Event Window" means a minimum four (4) week period associated with the theatrical release of a Picture, the video release of a Picture, the Christmas Holiday, or other key promotional event.
- 24.51. "Excluded Distribution Channels" has the meaning set forth in Schedule IV hereinbelow.
- 24.52. "Final Orders" has the meaning set forth in Subparagraph 22.3(c) hereinabove.
- 24.53. [**].
- 24.54. "F.O.B. Royalty" has the meaning set forth in Subparagraph 8.4(a) hereinabove.
- 24.55. "Games and Puzzles" or "G/P" has the meaning set forth in Schedule II hereinbelow.
- 24.56. "Games Agreement" has the meaning set forth in Subparagraph 5.3 hereinabove.
- 24.57. "Gift Market" has the meaning set forth in Schedule IX hereinbelow.
- 24.58. "Gift Market Product" means the following: [**]
- 24.59. [**].
- 24.60. "Hand-Held Games" has the meaning set forth in Schedule II hereinbelow.
- 24.61. [**].
- 24.62. [**].
- 24.63. [**].
- 24.64. [**].

- 24.65. "Internet" means the computer-generated, computer-mediated or computer-assisted transmission, reception, recordation or display arising from any network or other connection of instruments or devices now or hereafter known, devised, invented or developed capable of transmission, reception, recordation and/or display (such instruments or devices to include, without limitation, computers, laptops, cellular or PCS telephones, pagers, PDAs, wireless transmitters or receivers, modems, radios, televisions, satellite receivers, cable networks, smart cards and set-top boxes).
- 24.66. [**].
- 24.67. "Licensed Products" means those products, goods and articles, within the enumerated categories set forth in Schedule II attached hereto, and which are based on or incorporating elements of the Licensed Property.
- 24.68. "Licensed Property" means, subject to the terms, conditions and restrictions contained in Licensor's or any Licensor Related Entity's agreements with persons, firms or entities rendering services or granting rights,
- (a) the original titles, designs, character names and likenesses, dialogue, music and sound effects, words, symbols, logographics and the footage, photographs, artwork, visual representations of the props, costumes, sets, special effects and any other original creative elements which appear in, have become directly associated with, and as are depicted in, the following motion pictures:
- (i) those certain previously released theatrical motion pictures (and the special editions thereof released theatrically in 1997) entitled "STAR WARS: EPISODE IV - A NEW HOPE," "STAR WARS: EPISODE V - THE EMPIRE STRIKES BACK" and

"STAR WARS: EPISODE VI - RETURN OF THE JEDI" (the "Classic Trilogy"); and/or

(ii) each of the first three succeeding prequel theatrical motion pictures to the Classic Trilogy tentatively entitled "Episode I," "Episode II" and "Episode III," respectively (each such prequel theatrical motion picture a "Prequel" herein).

(Classic Trilogy and the Prequels are jointly, severally and collectively referred to as the "Picture[s]");

(b) such original titles, designs, character names and likenesses, dialogue, music and sound effects, words, symbols, logographics, photographs, artwork, visual representation of the props, costumes, sets, special effects, and any other original creative elements which do not exist in the Pictures but which are embodied in games, novels, comics, videogames, television programs or series (whether live action or animated) based on and derived from the Pictures, to the

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extent of Licensor's right to grant the rights licensed to Licensee pursuant to Paragraph 1 hereinabove (collectively "Spin-Off Properties"); and

(c) such original trademarks, tradenames, servicemarks and servicenames owned by Licensor and arising out of and which have become directly associated with the Pictures or Spin-Off Properties, to the extent of Licensor's rights in each applicable country of the Territory under such country's applicable trademark laws, including, but not limited to, those specified in Schedule V (the "Licensor Trademarks").

- 24.69. "Licensee Affiliate" means any entity that is directly or indirectly controlled by, under common control with or that controls Licensee (including, without limitation, any Permitted Licensee Affiliate). For purposes of this definition of "Licensee Affiliate," an entity will control another entity, or be deemed to control another entity, if such entity: (a) has the ability to elect a majority of the directors, trustees (or other managers) of such other entity; (b) is a general partner or joint venturer of such other entity; (c) directly or indirectly holds (or has power to vote) twenty percent (20%) or more of the economic interests of such other entity; or (d) directly or indirectly holds (or has power to vote) five percent (5%) or more of the voting equity interests of such other entity.
- 24.70. "Licensee's Records" has the meaning set forth in Subparagraphs 9.5(e) and 11.1 hereinabove.
- 24.71. "Licensor Channel" means [**].
- 24.72. INTENTIONALLY OMITTED.
- 24.73. "Licensor Trademarks" has the meaning set forth in Subparagraph 24.63(c) hereinabove.
- 24.74. "Licensor-Related Entities" means George W. Lucas, Jr. and all of Licensor's present and future affiliated, related and/or subsidiary entities, including, without limitation, Lucasfilm Ltd., LucasArts Entertainment Company, Lucas Digital Ltd. and/or Lucas Learning Ltd. and their respective divisions, subsidiaries, directors, employees, officers, successors, assigns, agents and joint venturers.
- 24.75. "Manufacturer" has the meaning set forth in Subparagraph 15.1 hereinabove.
- 24.76. "Manufacturing Agreement" has the meaning set forth in Subparagraph 15.1 hereinabove.
- 24.77. [**].
- 24.78. [**].

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- 24.79. "Micro Toys" means the following: "Intermediate Vehicles," "Micro Vehicles," "Micro Playsets," and "Micro Figures" (as such terms are defined hereinbelow) [**].
- 24.80. [**].
- 24.81. "Minimum Sales Levels" has the meaning set forth in Subparagraph 4.2 hereinabove.
- 24.82. "Model Kits" has the meaning set forth in Subparagraph 3.4(a) hereinabove.
- 24.83. [**].
- 24.84. "Moral Rights" means any rights to claim authorship of a work, to object to or prevent the modification of a work, or to withdraw from circulation or control the publication or distribution of a work, and any similar right, existing under the law of any country in the world or under any treaty.
- 24.85. "Net Sales" has the meaning set forth in Subparagraph 8.2 hereinabove.
- 24.86. "Non-Standard Board Games" means "Board Games," "Video Board Games" and "Audio Board Games" (as such terms are defined in Schedule II hereinbelow) [**].
- 24.87. "Novelty Candy" has the meaning set forth in Schedule II hereinbelow.
- 24.88. "Other Licensed Products" means all Licensed Products other than Basic Figures.
- 24.89. "Other Product" has the meaning set forth in Subparagraph 3.5 hereinabove.
- 24.90. "Permitted Licensee Affiliates" means those Licensee Affiliates set forth in Schedule I and such additional Licensee Affiliates as Licensor shall approve, if at all, in writing.
- 24.91. "Pictures" has the meaning set forth in Subparagraph 24.68(a) hereinabove.
- 24.92. [**].
- 24.93. "Plush" has the meaning set forth in Schedule II hereinbelow.
- 24.94. [**].
- 24.95. [**].
- 24.96. "Prequel" has the meaning set forth in Subparagraph 24.68(a)(ii) hereinabove.
- 24.97. "Prior Agreements" has the meaning set forth in Subparagraph 5.3 hereinabove.
- 24.98. [**].
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- 24.99. "Production Materials" has the meaning set forth in Subparagraph 13.2 hereinabove.
- 24.100. "Puzzles" has the meaning set forth in Schedule II hereinbelow.
- 24.101. "Puzzle Agreement" has the meaning set forth in Subparagraph 5.3 hereinabove.
- 24.102. [**].
- 24.103. "Recipient" has the meaning set forth in Subparagraph 16.1 hereinabove.
- 24.104. "Retail Entity" means a Customer which is ordinarily in the business of selling goods and products directly to a public (non-business) consumer.

- 24.105. "Role-Playing Toys" has the meaning set forth in Schedule II hereinbelow.
- 24.106. "Royalties" means the applicable "Royalty Percentage" of "Net Sales," as such terms are defined and set forth in Subparagraphs 8.1 and 8.2 hereinabove.
- 24.107. "Royalty Percentage" has the meaning set forth in Subparagraph 8.1 hereinabove.
- 24.108. "Royalty Report Form" has the meaning set forth in Subparagraph 9.4 hereinabove.
- 24.109. [**].
- 24.110. "Sell-Off Period" has the meaning set forth in Subparagraph 22.3(c) hereinabove.
- 24.111. [**].
- 24.112. [**].
- 24.113. [**].
- 24.114. "Special Confidential Information" has the meaning set forth in Subparagraph 16.1 hereinabove.
- 24.115. "Spin-Off Properties" has the meaning set forth in Subparagraph 24.68(b) hereinabove.
- 24.116. [**].
- 24.117. "Standard Playsets" has the meaning set forth in Schedule II hereinbelow.
- 24.118. "Standard Vehicles" has the meaning set forth in Schedule II hereinbelow.

- 24.119. "Standard Figures" has the meaning set forth in Schedule II hereinbelow.
- 24.120. "Standard Toys" has the meaning set forth in Schedule II hereinbelow.
- 24.121. "Sublicense Agreement" has the meaning set forth in Subparagraph 3.3 hereinabove.
- 24.122. "Sublicensee" has the meaning set forth in Subparagraph 3.3 hereinabove.
- 24.123. [**].
- 24.124. "Sub-Territory" has the meaning set forth Subparagraph 2.2 hereinabove.
- 24.125. [**].
- 24.126. [**].
- 24.127. "Term" has the meaning set forth in Subparagraph 2.1 hereinabove.
- 24.128. "Territory" has the meaning set forth in Subparagraph 2.2 hereinabove.
- 24.129. "Toy Agreement" has the meaning set forth in Subparagraph 5.3 hereinabove.
- 24.130. "Trademark License Agreement" has the meaning set forth in Subparagraph 1.2 hereinabove.
- 24.131. [**].
- 24.132. "U.S. Release Date" has the meaning set forth in Subparagraph 2.1 hereinabove.
- 24.133. "Video Board Games" has the meaning set forth in Schedule II hereinbelow.

- 24.134. "VAT" has the meaning set forth in Subparagraph 8.8 hereinabove.
- 24.135. "Warrant" has the meaning set forth in Subparagraph 8.11 hereunder.
- 24.136. "Water Toys" has the meaning set forth in Schedule II hereinbelow.
- 24.137. [**].

25. GENERAL.

25.1. Assignment. Subject to the other terms and conditions of this Subparagraph 25.1, this Agreement will bind and inure to the benefit of each party and to their respective successors and permitted assigns. Except as expressly permitted herein, Licensee shall not voluntarily or by operation of law assign, sub-license, transfer, encumber or otherwise dispose of all or part of any right or privilege licensed to Licensee in this Agreement,

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including to a Licensee Affiliate, without Licensor's prior written approval, provided that the Licensee may assign its rights to any Licensee Affiliate so long as the Licensee directly or indirectly holds more than fifty percent (50%) of the equity economic and voting interests of such Licensee Affiliate. For purposes of this Subparagraph 25.1, any change in control of Licensee, whether through merger, acquisition, reorganization, liquidation, foreclosure, involuntary sale in bankruptcy, or the purchase of substantially all of Licensee's assets or otherwise, shall be deemed a purported assignment subject to Licensor's prior written approval. A "Change of Control" of Licensee shall have the meaning specified in the Warrant. Any attempted assignment, sublicense, transfer, encumbrance or other disposal without such approval will be null and void and constitute a material default and material breach of this Agreement.

25.2. Governing Law. This Agreement will be governed by and construed in accordance with the laws of the federal laws of the United States and the laws of the State of California applicable to agreements entered into, and to be performed entirely, within California between California residents (and excluding the United Nations Convention on Contracts for the International Sale of Goods) without regard to choice of law provisions and regardless of the place or places of its actual execution or performance. Any suit, action or proceeding between or among any of the parties hereto arising out of or related to this Agreement will be brought solely in the federal or state courts in the Northern District of California, and Licensee hereby submits to the personal jurisdiction thereof and agrees to such courts as the appropriate venue. Notwithstanding the foregoing, Licensee agrees that, for purposes of collecting monies due pursuant to this Agreement, Licensee, at Licensor's election, may be subject to whatever local laws and courts have jurisdiction in any country of the Territory over Licensee. Process in any action or proceeding referenced to in this Subparagraph 25.2 may be served on Licensee at the address for notices set forth in Subparagraph 25.5 hereinbelow.

25.3. Attorneys' Fees. In the event of any legal proceeding between the parties arising out of or related to this Agreement, the prevailing party shall be entitled to recover, in addition to any other relief awarded or granted, its costs and expenses (whether or not in connection with litigation and including, without limitation, reasonable attorneys' fees and costs) incurred in connection with any such proceeding.

25.4. Equitable Relief. Licensee recognizes and acknowledges that a breach by Licensee of any covenants, agreements or undertakings made or assumed by it will cause Licensor irreparable damage, which cannot be readily remedied in damages in an action at law, and may, in addition thereto, constitute an infringement of Licensor's intellectual property and other rights in the Licensed Property, thereby entitling Licensor to equitable remedies (including, without limitation, injunctive relief), costs (including, without limitation, whether or not in connection with litigation) and reasonable attorney's fees. For purposes of this Subparagraph 25.4, Licensee acknowledges that (by way of example and not limitation) infringement of Licensor's intellectual property rights include any use of the Licensed Property by Licensee other than those licensed under this Agreement, failure to obtain approvals required under this Agreement, use or release of any Licensed Product or

Confidential Information in violation of this Agreement, and failure to secure permissions and transfers of rights from third parties as required pursuant to this Agreement.

25.5. Notices. Any notice to be given or served under this Agreement shall be in writing and shall be delivered to the parties addressed as set forth below, or to such other address as either party shall notify the other party of in writing, as follows: personally or sent by cable, telegram or teletype or by facsimile, telex, telecopy or other print out communication mechanism or by first class, prepaid, registered or certified mail (if available) post (air mail if posted to another country) to the party to be served at the address set forth below in this Subparagraph 25.5 or to such other address as either party may from time to time notify in writing to the other. Such notice shall be deemed to have been served: (a) immediately in the case of personal delivery; (b) in the case of a cable, telegram or teletype, on the first business day after the receipt by the relevant service of the order therefor; (c) in the case of facsimile, telex, telecopy or other print out mechanism, on the expiration of four (4) hours from the time of transmission subject in the case of telex or facsimile to proof by the sender that he/she holds an acknowledgment (whether in mechanical form or otherwise) confirming its receipt at its destination and subject in the case of facsimile or other print out transmission in the absence of a written acknowledgment to the original notice being sent by post or by personal delivery in accordance with this Subparagraph 25.5 not later than the next business day after such transmission; and (d) in the case of postal delivery, on the second business day following the date of posting (the fifth business day if posted to another country) or on acknowledgment of receipt if earlier.

If to Licensor:

For notices to Licensor: P. O. Box 2009, San Rafael, CA 94912,
Attention: Vice President; with a copy to: General Counsel.

For all approvals by Licensor pursuant to Paragraph 5 above: P. O.
Box 2009, San Rafael, CA 94912, Attention: Approvals Coordinator

For all other approvals by Licensor including, without limitation,
pursuant to Paragraph 4 above: P.O. Box 2009, San Rafael, CA 94912,
Attention: Vice President

For statements and payments to Licensor: P. O. Box 2009, San Rafael,
CA 94912, Attention: Cashier

For wire transfers: pursuant to Licensor's written wire transfer
instructions

For deliveries requiring Licensor's street address: 5858 Lucas
Valley Road, Nicasio, CA 94946

If to Licensee:

Hasbro, Inc.
1027 Newport Avenue
Pawtucket, RI 02862
Attention: General Counsel
Fax: 401-727-5089

and

Hasbro, Inc.
615 Elsinore Place
Cincinnati, OH 45202
Attention: Vice President-Law
Fax: 513-579-4757

25.6. No Waiver. No action taken by either party pursuant to this Agreement, and no waiver by either party, whether express or implied, of any provision or right in this Agreement or any breach thereof, and no failure of either party to exercise or enforce any of its rights under this Agreement, will constitute a continuing waiver with respect to such provision or right or as a breach or waiver or any other provision or right, whether or not similar.

25.7. Independent Contractors. The parties to this Agreement are and shall remain independent contractors. There is no relationship of partnership, employer, employee, principal, agent, joint venture, employment, franchise or agency between the parties. Except as expressly provided in this Agreement, neither party will have the power to bind the other or incur obligations on the other's behalf without the other's prior written approval and shall not represent that it has such right.

25.8. Nonexclusive Remedy. The exercise by either party of any remedy under this Agreement will be without prejudice to its other remedies under this Agreement or otherwise.

25.9. Severability. This Agreement is severable. If any provision of this Agreement is found invalid or unenforceable in any jurisdiction, that provision, as to that jurisdiction, will be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the other remaining provisions of this Agreement, which other remaining provisions will not be affected and shall remain in force, to the maximum extent permissible.

25.10. Approvals. Except as otherwise expressly stated herein, any and all Licensor approvals pursuant to this Agreement may be given or withheld in Licensor's reasonable discretion. Failure by Licensor to give written approval within fourteen (14) days from the date of a submission to Licensor will be deemed disapproval; provided, however, if Licensee thereafter notifies Licensor in writing that it has not received approval, and

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Licensor does not respond within forty-eight (48) hours of receipt of such notice, the submission will be deemed approved as if in writing hereunder. A delivery to or an approval made by an authorized representative of Hasbro, Inc. or Hasbro International, Inc. shall be deemed to constitute a delivery to and an approval, as the case may be, made by Hasbro, Inc. or Hasbro International, and all Permitted Licensee Affiliates. A delivery to or an approval made by an authorized representative of Lucas Licensing Ltd. shall be deemed to constitute a delivery to or an approval, as the case may be, made by Licensor.

25.11. Headings, Captions and Names. The name of this Agreement, and all headings and captions herein contained, are for reference and convenience only and do not define, limit or expand the scope or intent of any provision hereof and shall not be relied upon in or in connection with the construction or interpretation of this Agreement. The words "herein," "hereunder," "hereof" and similar terms refer to this entire Agreement and shall not be limited to the specific paragraphs or subparagraphs in which they are used.

25.12. Counterparts. This Agreement may be executed in one or more counterparts, and by telefacsimile transmission, each copy of which shall be deemed an original and all of which, when taken together, shall constitute one and the same instrument, but this Agreement shall not be binding upon the parties until it has been signed by both parties. The parties hereto agree that facsimile signatures on a copy of this Agreement shall be effective and enforceable as if they were original signatures.

25.13. Further Instruments. Except as otherwise expressly provided in this Agreement, each party shall furnish to the other (and shall deliver and cause to be executed, acknowledged and delivered to the other) any further instruments, which such other party may reasonably require or deem necessary from time to time to evidence, establish, protect, enforce, defend or secure to such other party any or all of its rights hereunder or to more effectuate or carry out the purposes, provisions or intent of this Agreement.

25.14. Governmental Approval. Licensor and Licensee shall (i) as promptly as practicable, make all necessary filings required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and (ii) use all commercially reasonable efforts to obtain the early termination of the waiting period under such Act. Licensor and Licensee agree to cooperate with each other in the preparation of the filings referred to in the preceding sentence and shall each bear fifty percent (50%) of the out-of-pocket filing fees required in connection with such filings.

25.15. Conditioned Effectiveness of License. Notwithstanding anything in this Agreement to the contrary, this Agreement will not be deemed effective until the expiration or early termination of the waiting period applicable to the transactions contemplated hereby under the

Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. Upon such expiration or early termination, this Agreement will be deemed effective, without any further action of Licensor or Licensee.

25.16. Lucasfilm Ltd. Guarantee. Lucasfilm Ltd. hereby agrees to guarantee the performance of Licensor's obligations under this Agreement.

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25.17. Force Majeure. In the event that China's loss of most favored nations trade status renders performance impossible or commercially impracticable and such impossibility or impracticability of performance can reasonably be expected to continue for at least ninety (90) days, then the parties shall discuss in good faith appropriate action to take in light of such circumstances.

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25.18. Entire Agreement. This Agreement (including all Exhibits and Schedules attached hereto, which Exhibits and Schedules are incorporated herein by this reference), constitutes the complete and entire agreement between the parties with respect to the subject matter hereof, superseding and replacing the Prior Agreements and any and all prior agreements, negotiations, communications, and understandings (both written and oral) regarding such subject matter. This Agreement may only be modified, or any rights under it waived, by a written document executed by both parties. Notwithstanding the foregoing, the right to manufacture, distribute, market and sell Licensed Products under the terms of the Prior Agreements shall survive the execution and delivery of this Agreement, the "Royalty" set forth and defined in the Prior Agreements shall be applicable to the "Licensed Products" (set forth and defined in the Prior Agreements) in the "Territories" (set forth and defined in the Prior Agreements) for Net Sales occurring up to and including December 31, 1998 and, without limitation, the parties agree that Licensee shall no longer have the right to the "Sell-Off Period" (set forth and defined in the Prior Agreements).

LUCAS LICENSING LTD. ("Licensor")

HASBRO, INC.

By: /s/ GORDON RADLEY

By: /s/ HAROLD P. GORDON

Title: President

Title: Vice Chairman

And

HASBRO INTERNATIONAL, INC. on behalf
of itself and all Permitted Licensee
Affiliates

By: /s/ HAROLD P. GORDON

Title: Vice Chairman

(jointly and severally "Licensee")

LUCASFILM LTD.
(solely with respect to the
obligation contained in
Subparagraph 25.16
of the foregoing agreement)

By: /s/ GORDON RADLEY

Title: President

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Toy License Agreement Between Lucas Licesning Ltd. and Hasbro dated as of
October 14, 1997

Schedule I - PERMITTED LICENSEE AFFILIATES

BYS Toys (Hong Kong) Limited

Claster Television, Inc.
Connector Set L.P.
Funkskool (India) Ltd.
Groupe Hasbro France S.A.
Guangzhou Palmyra Bai-Yun-Shan Toys Limited
Hasbro Argentina S.A.
Hasbro Asia - Pacific Marketing Ltd.
Hasbro Australia Limited
Hasbro Aust Pty Ltd.
Hasbro B.V.
Hasbro Canada Inc.
Hasbro Chile LTDA
Hasbro Customer Services Limited
Hasbro de Mexico, S.A.de C.V.
Hasbro Deutschland GmbH
Hasbro Far East LTD
Hasbro Far East Services Limited
Hasbro Far East Venture Ltd.
Hasbro Finland OY
Hasbro Foreign Sales Corp.
Hasbro Hellas S.A.
Hasbro Hong Kong Limited
Hasbro Importatacao e Exportacao de Jogos e Brinquedos, Lda
Hasbro Industries (UK) Limited
Hasbro Interactive, Inc.
Hasbro Interactive Limited
Hasbro International Trading, Inc.
Hasbro International, Inc.
Hasbro Ireland Limited
Hasbro Israel Ltd.
Hasbro Italy S.r.l.
Hasbro Japan K.K.
Hasbro Latin America, Inc.
Hasbro Latin America Investments, Inc.
Hasbro Magyarorszag Kft
Hasbro Managerial Services, Inc.
Hasbro Mexicana S.A. de C.V.
Hasbro New Zealand Limited
Hasbro Norway AS
Hasbro Osterreich Ges.m.b.H.
Hasbro Peru S.A.
Hasbro Poland Sp.Zo.o.

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Hasbro Promotions and Direct, Inc.
Hasbro Sales Inc./Les ventes Hasbro Inc.
Hasbro Scandinavia AS
Hasbro Schweiz AG
Hasbro Servicios S.A. de C.V.
Hasbro Singapore Pte Ltd.
Hasbro Sweden AB
Hasbro Toy (Malaysia) Sdn Bhd
Hasbro U.K. Limited
HIAC V Corp.
HIAC VI Corp.
HIAC VIII Corp.
HIAC IX Corp.
HMS Juguetes S.A. de C.V.
Inter-Toy Equitum Araclari Sanayl Ve Ticaret A.S.
ISIX, Inc.
Juguetrenes S.A. de C.V.
K=NEX France S.N.C.
K=NEX G.m.b.H.
K=NEX International U.K.
K=NEX International, L.P.
Larami Far East Limited
Larami Limited
MB Espana, S.A.
MB International B.V.
MB Internacional Brinquedos, Ltda.
MB Nederland B.V.
Milton Bradley Company (Georgia)
Milton Bradley Limited
Milton Bradley Storage Limited
NanHai County Yongnan Toy Manufacturing Company Limited

OddzOn/Cap Toys Far East Limited
OddzOn/Cap Toys Far East Services Limited
OddzOn/Cap Toys, Inc.
Palmyra Holdings Pte Ltd.
Palmyra (Hong Kong) Limited
Playskool Realty, Inc.
PromoToys S.r.l.
S.A. Hasbro N.V.
3D Licensing Limited
Toltoys (Australia) Pty Ltd.
Tonka International, Inc.
Tonka Manufacturing, Inc.
Tonka (UK) Ltd.
Wrebbbit Inc.

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Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of
October 14, 1997

Schedule II - LICENSED PRODUCTS

The term "Licensed Products" as used in, and subject to the terms and conditions
of the Agreement, means: (A) "STANDARD TOYS," (B) "GAMES AND PUZZLES" AND (C)
"ELECTRONICS/HAND HELD" (as such terms are defined hereinbelow).

(A) STANDARD TOYS: The term "Standard Toys," as used in the Agreement, means the
following: "Standard Figures," "Standard Vehicles," "Standard Playsets,"
"Role-Playing Toys," "Dolls," "Plush," "Water Toys," "Carrying Cases," "Creative
Play Toys," and "Novelty Candy" (as such terms are defined hereinbelow).

[**]

(B) "GAMES AND PUZZLES": The term "Games and Puzzles," as used in the Agreement
means all "Board Games," "Video Board Games," "Audio Board Games," "Card Games"
and "Puzzles":

[**]

(C) "ELECTRONICS/HAND HELD": The term "Electronics/Hand-Held," as used in the
Agreement, means "Hand-Held Games," "Electronic Novelty Toys" and "Electronic
Target Games," but specifically excluding "Youth Electronics" (as such terms are
defined hereinbelow):

[**]

(D) EXCLUSIONS FOR INTERACTIVE PRODUCTS: Notwithstanding anything to the
contrary set forth above in this Schedule II or otherwise, and without
limitation, (a) expressly excluded from "Licensed Products" are: all items of
the kinds described in this Section (D) and [**]

In the event of any inconsistencies or conflict between the terms and conditions
in Sections A, B, or C of this Schedule II and the terms and conditions of
Section D of this Schedule II, the terms and conditions of Section D shall
prevail.

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Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of
October 14, 1997

Schedule III - ADVANCES and MINIMUM SALES LEVELS (U.S. \$000's)

[**]

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Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of
October 14, 1997

Schedule IV -EXCLUDED DISTRIBUTION CHANNELS

[**]

Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of October 14, 1997

Schedule V - LICENSOR TRADEMARKS

The Licensor Trademarks include, to the extent of Licensor's rights therein in the applicable country of the Territory, all of the trademarks, characters and other protectible elements as appearing in the Pictures and the Spin-Off Properties, including, without limitation:

Admiral Akbar
Artoo-Detoo (R2-D2)

AT-AT
A-Wing

Ben (Obi-Wan) Kenobi
Bib Fortuna
Biggs Darklightner
Boba Fett
Bomarr Monk
Bossk (Bounty Hunter)

Chewbacca
Cloud City
Darth Vader
Death Star
Dengar
Dewback
Dr. Evazan

Droid
The Emperor
Emperor Palpatine

Endor

Ewok

Gamorrean Guard
Grand Moff Tarkin
Garindan
Greedo

Han Solo

Hoth
Ishi Tib
Jabba the Hutt

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Jawa
Klaatu
Lak Sivrak
Lando Calrissian

Lobot
Logray
Lord Darth Vader
Luke Skywalker
Malikili
Max Rebo
Millennium Falcon
Mon Mothma
Nien Numb
Oola
Ponda Baba
Pote Snitkin

Princess Leia Organa

Rancor

Ree-Yees

Return of the Jedi
Return of the Jedi Logo
Ronto

Saelt-Marae
See-Threepio (C-3PO)
Shadows of the Empire

Star Wars
Star Wars Logo

Tauntaun

The Empire Strikes Back
The Empire Strikes Back Logo
The Force
TIE Fighter

Tusken
Ugnaught
Wampa

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Weequay (Skiff Guard)
Wicket
Xizor

X-Wing
Yak Face
Yoda
Zuckus

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Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of
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Schedule VI - EXCLUDED COUNTRIES

People's Republic of China (other than Hong Kong)

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Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of
October 14, 1997

SCHEDULE VII [**]

SVII-1

Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of
October 14, 1997

Schedule VIII - MARKET CATEGORIES

[**]

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Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of
October 14, 1997

[**]

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Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of October 14, 1997

Exhibit A - TRADEMARK LICENSE AGREEMENT

AGREEMENT dated as of this _____ day of _____, _____, between Lucas Licensing Ltd. ("Licensor") and Hasbro, Inc. and Hasbro International, Inc. and all "Permitted Licensee Affiliates" (as defined in the License Agreement) (collectively, "Licensee").

1. TRADEMARKS, PRODUCTS AND LICENSED TERRITORY: Licensor is, as between Licensor and Licensee, the owner of the trademarks indicated on Schedule A-1 attached hereto and made a part hereof ("Licensor Trademarks"). Licensor desires that Licensee be permitted to use the Licensor Trademarks on those goods indicated on Schedule A-2 attached hereto and made a part hereof ("Licensed Products") in the country or countries ("Licensed Territory") listed on Schedule A-3 listed on Schedule III attached hereto and made a part hereof pursuant to the terms and conditions hereof. The parties acknowledge and agree that the designations of the Licensed Products and Licensed Territory contained in Schedules A-2 and A-3, respectively, are not intended to, and shall not, supersede or alter in any manner the designations used with respect to these matters in any commercial agreement between the parties related to the subject matter hereof including but not limited to the Toy License Agreement dated as of October __, 1997 among the parties hereto (the "License Agreement").

2. LICENSE: Licensor hereby grants to Licensee a license (as provided in the License Agreement) to use the Licensor Trademarks on and in connection with the Licensed Products and for the sole purpose to affix the Licensor Trademarks to or on the Licensed Products and packaging, containers, display materials, advertising and promotional materials sold, used or distributed in connection with the Licensed Products. Licensee hereby agrees to limit its use of the Licensor Trademarks in accordance with the foregoing and according to processes, specifications and other quality standards established or approved by Licensor pursuant to the License Agreement for the Licensed Products with respect to which the Licensor Trademarks are used. Without limiting the generality of the foregoing, the quality of all such Licensed Products shall be at least as high as that of similar goods presently sold or distributed by Licensee, and shall be subject to such approval procedures established by any commercial agreement between the parties related to the subject matter hereof.

3. TERM: The Term of this Agreement shall be _____, including any so-called "sell-off period", to which Licensee is entitled, if at all.

4. LIMITED GRANT: All rights in the Licensor Trademarks other than those specifically granted herein are reserved to Licensor for its own use and benefit. Licensee acknowledges that it shall not acquire any rights of whatsoever nature in the Licensor Trademarks as a result of Licensee's use thereof, and that all use of the Licensor Trademarks by Licensee shall inure to the benefit of Licensor.

5. DISPLAY OF TRADEMARKS AND PROPRIETARY NOTICES: Pursuant to the terms and conditions of the License Agreement: (a) Licensee agrees that the Licensor Trademarks shall be displayed only in such form and manner as shall be specifically approved by Licensor; (b) Licensee shall cause to appear on all material on or in connection with which the Licensor Trademarks are used, such legends, markings and notices as Licensor may require; (c) Licensee

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Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of October 14, 1997

agrees that it shall use no markings, legends or notices relating to the Licensor Trademarks on the Licensed Products and packaging and advertising therefor other than as approved in advance in writing by Licensor; (d) Licensor reserves the right to make such changes in the specified notices as Licensor reasonably deems necessary or desirable to protect Licensor's interests in the Licensed Trademarks, provided however that such changes shall not be required to be made on Licensed Products and packaging or advertising therefor which have already been manufactured or printed in accordance with Licensor's previous

instructions or approval. The foregoing shall not limit Licensor's ability to reasonably require so-called "running changes" or to otherwise to enforce the provisions of this Agreement or any other agreement between the parties.

The words "Registered User" and/or the symbol J or 7 shall be used on all Licensed Products, packaging and advertising manufactured or printed after Licensor notifies Licensee in writing that such words and symbol are legally permitted in the specific country or countries in the Licensed Territory within which the Licensed Products will be distributed.

6. COMPLIANCE WITH QUALITY STANDARDS: If the quality standards set forth herein are not met, or if said quality standards are not maintained throughout the period of manufacture of any Licensed Products hereunder, then, upon written notice from Licensor, Licensee shall immediately discontinue the manufacture and distribution of such Licensed Products that do not meet said quality standards. The foregoing shall not limit Licensor's rights or remedies for failure to maintain such quality standards as provided elsewhere herein or in any other agreement between the parties hereto.

7. PRODUCTION SAMPLES: In accordance with the terms and conditions of the License Agreement, Licensee agrees to submit to Licensor and to any other recipient(s) which Licensor may from time to time designate in writing, on a regular basis, representative samples of the Licensed Products and of any or all materials bearing the Trademarks in order Licensor may be assured that the provisions of this Agreement are being observed. Said samples should be submitted to Licensor at the address specified by Licensor.

8. GOODWILL OF THE TRADEMARK: Licensee recognizes the great value of the goodwill associated with the Licensor Trademarks and acknowledges that the Licensor Trademarks and all rights therein and goodwill pertaining thereto belong exclusively to Licensor.

9. SIMILAR TRADEMARKS: Licensee shall give Licensor prompt written notice of any adverse use in the Licensed Territory of a trademark or other designation similar to the Licensor Trademarks of which Licensee is or becomes aware. Licensee further agrees that it shall not at any time apply for any registration of any copyright, trademark or other designation, nor file any document with any governmental authority, nor take any other action which would affect the ownership of the Licensor Trademarks.

10. TERMINATION: Upon the expiration or earlier termination of this Agreement, all rights to use the Licensor Trademarks or any other symbols of goodwill owned by Licensor relative to the Licensed Products, together with the appurtenant goodwill thereof shall revert automatically to Licensor, and Licensee shall immediately discontinue all use of the Licensor Trademarks except as may herein be provided.

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Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of October 14, 1997

11. ASSIGNMENT UPON TERMINATION: Upon written request by Licensor, or in any event upon the termination of this Agreement for whatever reason, Licensee shall execute and deliver to Licensor a document, in form and substance reasonably satisfactory to Licensor, assigning to Licensor all of Licensee's right, title and interest, if any, in and to the Licensor Trademarks. In the event Licensee fails to execute and deliver said document, Licensor shall have the right to execute same as Licensee's attorney-in-fact, and Licensee does hereby irrevocably appoint (such appointment being irrevocable and coupled with an interest) Licensor its true and lawful attorney-in-fact only for the purpose of executing such document.

12. RECORDATION OF AGREEMENT, REGISTERED USER: Licensor, at its discretion, shall have the right to record this Agreement at the appropriate Registry or governmental authority in the Licensed Territory at Licensor's expense, and Licensee agrees to cooperate as requested by Licensor in arranging such recordation, or in varying or canceling such recordation in the event of amendments to, or termination of, this Agreement. Licensee hereby appoints Licensor as its agent for the purpose of lodging, prosecuting and completing registered user entries at the appropriate registry in the Territory and at Licensor's expense, such appointment being irrevocable and coupled with an interest.

13. GENERAL: The terms and conditions of this Agreement are subject to the terms and conditions of the License Agreement and in the event of a conflict between the terms or conditions herein contained and those of the License Agreement, the latter shall prevail. Approvals hereunder shall be made subject to the terms of the License Agreement. This Agreement does not constitute either party the agent

of the other or create a partnership or joint venture between the parties except as provided herein, and Licensee shall have no power to obligate or bind Licensor in any manner whatsoever. This Agreement shall be governed by the laws of the State of California applicable to agreements made and fully performed in California.

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

("Licensee") Lucas Licensing Ltd. ("Licensor")

Name: Name:
Title: Title:

Ex A-3

Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of October 14, 1997

Schedule A-1 to TRADEMARK LICENSE AGREEMENT

LICENSOR TRADEMARKS

The Licensor Trademarks include such original trademarks, tradenames, servicemarks and servicenames owned by Licensor and arising out of and which have become directly associated with the "Pictures" or the "Spin-Off Properties" (as such terms are defined in the License Agreement), to the extent of Licensor's rights in each applicable country of the Territory under such country's applicable trademark laws, including, but not limited to:

Admiral Akbar
Artoo-Detoo (R2-D2)

AT-AT
A-Wing

Ben (Obi-Wan) Kenobi
Bib Fortuna
Biggs Darklightner
Boba Fett
B=omarr Monk
Bossk (Bounty Hunter)

Chewbacca
Cloud City
Darth Vader
Death Star
Dengar
Dewback
Dr. Evazan

Droid
The Emperor
Emperor Palpatine
Endor

Ewok

Gamorrean Guard
Grad Moff Tarkin
Garindan
Greedo

Han Solo

Hoth

Ex A-4

Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of October 14, 1997

Ishi Tib
Jabba the Hutt

Jawa
Klaatu
Lak Sivrak
Lando Calrissian

Lobot
Logray
Lord Darth Vader
Luke Skywalker
Malikili
Max Rebo
Millennium Falcon
Mon Mothma
Nien Numb
Oola
Ponda Baba
Pote Snitkin

Princess Leia Organa

Rancor

Ree-Yees
Return of the Jedi
Return of the Jedi Logo
Ronto

Saelt-Marae
See-Threepio (C-3PO)
Shadows of the Empire

Star Wars
Star Wars Logo

Tauntaun

The Empire Strikes Back
The Empire Strikes Back Logo
The Force
TIE Fighter

Tusken
Ugnaught

Ex A-5

Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of
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Wampa
Weequay (Skiff Guard)
Wicket
Xizor

X-Wing
Yak Face
Yoda
Zuckus

Ex A-6

Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of
October 14, 1997

Schedule A-2 to TRADEMARK LICENSE AGREEMENT

LICENSED PRODUCTS

Ex A-7

Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of
October 14, 1997

Schedule A-3 to TRADEMARK LICENSE AGREEMENT

Ex A-8

Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of October 14, 1997

Exhibit B - APPROVAL OF SUBLICONSEE AGREEMENT

THIS AGREEMENT, dated as of _____, is made by and among LUCAS LICENSING LTD., a California corporation, P.O. Box 2009, San Rafael, California 94912, U.S.A. (hereinafter referred to as "Licensor"), (sublicensee company name), _____ [address] (hereinafter referred to as "Company") and Hasbro, Inc., Hasbro International and all "Permitted Licensee Affiliates" (as defined in the License Agreement) (jointly and severally "Licensee"), _____ [address].

WHEREAS: Reference is made to that certain license agreement between Licensor and Hasbro, Inc., Hasbro International and all "Permitted Licensee Affiliates" (as defined in the License Agreement) (jointly and severally "Licensee") (the "License Agreement"), pursuant to which License Agreement Licensee is licensed the right to distribute and sell, subject to the terms and conditions of the License Agreement, certain products, goods or articles governed thereby (the "Licensed Products") based on the "Licensed Property" (as defined therein); and

WHEREAS: Company and Licensee have entered into an agreement dated _____, (the "Sublicense Agreement"), whereby Licensee has sublicensed to Sublicensee the right to distribute and/or sell certain Licensed Products based on or incorporating the Licensed Property in the country or countries set forth therein (the "Territory") and for a term set forth in the Sublicense Agreement;

NOW, THEREFORE, for the promises set forth herein by the parties and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereto agree as follows:

1. RESPONSIBILITY OF LICENSEE. Subject to the terms and conditions of the License Agreement, nothing contained in this Agreement or in the Sublicense Agreement shall in any manner whatsoever affect or otherwise diminish or relieve Licensee of any of its obligations under the License Agreement.

2. SUBLICONSEE AGREEMENT: In order to induce Licensor to execute this Agreement, Licensee and Company hereby represent and agree that, subject to the approval of Licensor, Company has executed the Sublicense Agreement. A copy of such Sublicense Agreement is attached hereto as Attachment B-1 and is incorporated herein by this reference. Without limitation of Licensor's rights, if Company breaches a material term of the Sublicensee Agreement, and, as a result of such breach, Licensee is in material breach of the License Agreement, subject to the provisions of Subparagraph 22.2(a) of the License Agreement, then, notwithstanding anything to the contrary contained in the Sublicense Agreement, Licensor shall have the right, pursuant to the License Agreement to send to Company a notice of termination ("Termination Notice") in the name of Licensee and the Sublicense Agreement shall be deemed terminated as of the date Company receives such Termination Notice.

3. APPROVAL BY LICENSOR: Subject to the terms and conditions hereof, Licensor hereby approves Company to act for Licensee as a sublicensee of the rights and obligations of Licensee solely with respect to the sale and distribution of Licensed Products governed by the Sublicense Agreement. It is expressly understood and agreed that the rights sublicensed

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Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of October 14, 1997

hereunder do not include the right to manufacture of Licensed Products for which Company must, with Licensor's prior written approval, execute an Approval of Manufacturer Agreement in accordance with the terms and conditions of the License Agreement

4. ACKNOWLEDGMENT OF LICENSE AGREEMENT: Company hereby represents that Company has reviewed and is familiar with all of the provisions of the License Agreement identified in Subparagraph 8.3 of the License Agreement as being relevant to Company's activities hereunder, and Company agrees that in performing under this Agreement, Company shall perform, be bound by and comply with each and all of such terms and conditions of the License Agreement as they apply to Company.

Without limitation of Licensor's rights and remedies, in the event of a breach or threatened breach by Licensee of any term or condition of the License Agreement and/or in the event of a breach or threatened breach by Company of any term or condition of the Sublicense Agreement that would result in a breach of Licensee's obligations pursuant to the License Agreement, Licensor shall be entitled to seek legal and/or equitable relief by way of injunction or otherwise against Licensee and/or against Company, at the discretion of Licensor, to restrain, enjoin and/or prevent any such breach or threatened breach.

5. OBLIGATIONS OF COMPANY: Company hereby agrees that in exercising the rights authorized herein:

(a) Company shall only distribute and/or sell a Licensed Product pursuant to the Sublicense Agreement in accordance with the instructions of Licensee;

(b) Except as provided in Subparagraph 10(a) herein below, Company shall not assign or license, in any manner whatsoever, the rights granted to Company herein or delegate any of its obligations under the Sublicense Agreement or under this Agreement to any party;

(c) Company shall execute a Trademark License Agreement with Licensor, or with any entity designated by Licensor, with respect to the Licensed Products in a form substantially identical to the Trademark License Agreement executed by Licensee with respect to the Licensed Products; and

(d) Without limitation of Licensor's rights hereunder, Company shall upon execution of the Sublicense Agreement and of this Agreement assume all of Licensee's obligations with respect to rights sublicensed in the Sublicense Agreement for the Licensed Products governed thereby.

6. EFFECT OF EXPIRATION OR TERMINATION: Without limitation, upon the expiration or earlier termination of the Sublicense Agreement, Company shall comply with and be bound by the terms and conditions as are imposed upon Licensee pursuant to subparagraph 22.3 of the License Agreement and (a) immediately cease all activities authorized hereunder respecting the Licensed Products including, without limitation, the distribution and sale of Licensed Products and, within thirty (30) days after such expiration or termination, Company shall send Licensor and Licensee a complete inventory report of all Licensed Products within its possession or control; and (b) at Licensor's election, [**] furnish Licensor with a sworn certificate of destruction of such Production Materials, signed by an officer of Company. Upon the expiration or termination of the Sublicense Agreement, including a sell-off period thereunder, if any, except as otherwise expressly

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Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of October 14, 1997

provided herein, Company shall have no further right to exercise the rights sublicensed hereunder or otherwise acquired in relation to this Agreement or the Sublicense Agreement.

7. COMPANY RECORDS AND AUDITS:

(a) Company will maintain complete and accurate records during and for five (5) years after the termination or expiration of the Sublicense Agreement, related to this Agreement and/or the rights sublicensed pursuant to the Sublicense Agreement. The obligation to maintain records and to grant Licensor and Licensor's representatives access to such records shall survive the expiration or earlier termination of this Agreement.

(b) An independent certified public accountant selected by Licensor may, upon reasonable notice and during normal business hours, inspect any and all records of Company related to the exercise of Company's rights under this Agreement and/or the Sublicense Agreement, including without limitation its payment obligations. If, upon performing such audit, it is determined that Company owes Licensor monies, Company will immediately make full payment thereof. If the amount of such payment exceeds [**], Company will bear all out-of-pocket expenses and costs of such audit in addition to its obligation to make full payment. All underpayments and late payments will accrue interest charges from the due date through the date of payment at an interest rate equal to [**], and shall be payable upon demand.

8. LICENSOR AS THIRD PARTY BENEFICIARY. In addition to Licensor's other rights and remedies pursuant to the License Agreement and to this Agreement, Licensor is a third party beneficiary of the obligations of Company under any and all agreements, whether oral or written, between Company and Licensee respecting the Licensed Products, including, without limitation, the Sublicense Agreement, and

Licensors shall have the right at any time to enforce such obligations related to the Licensed Property and to exercise any of Licensee's rights and remedies directly against Company as if Licensor were a direct party thereto if Licensee fails to enforce such obligations or to exercise any such rights or remedies within twenty-five (25) days following Licensee's receipt of Licensor's written request therefor.

9. CONFIDENTIALITY.

(a) Confidential Information. Company acknowledges and agrees that the terms and conditions contained in this Agreement, the Sublicense Agreement and/or any other agreement between or among any or all of the parties are confidential, as well as any and all information and material concerning or pertaining to: (i) any script, concept, marketing plan, schedule of Licensor or of any Licensor-Related Entity (including, without limitation, any pre-production, production or post-production schedule or release schedule for any "Prequel" [as defined in the License Agreement] or for any derivative work thereof); (ii) any project, product, good or article pertaining to the Licensed Property; (iii) any term or condition of any agreement between Licensor and any individual or entity relating to any Licensed Product (including, without limitation, any talent agreement); and (iv) any "Copyright Material" (as such term is defined in the License Agreement) are confidential and proprietary to Licensor (individually and collectively the "Confidential Information"). Company further acknowledges and agrees that, except as otherwise expressly provided in this Subparagraph 10(a), Company shall not use, copy, or disclose, or authorize or permit the use, copy or disclosure of, any Confidential Information in whole or in

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Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of October 14, 1997

part in any manner or to any person, firm, enterprise, organization, corporation or entity unless authorized in advance in writing by Licensor. Company shall receive and hold, and shall contractually obligate and cause all entities with whom it contracts relative to the Licensed Products to maintain, all Confidential Information in the strictest confidence and Company acknowledges, represents, warrants and agrees to use its best efforts to protect the confidentiality of all Confidential Information. Furthermore, Company will not disclose any Confidential Information to any third party for any purpose (including the exercise of its rights or performance of its obligations) unless Licensor otherwise agrees in writing and such third party has executed a written confidentiality agreement in form and substance acceptable to Licensor, which confidentiality agreement, inter alia, shall restrict the use of any Confidential Information to the minimal extent necessary to effectuate the terms and conditions of this Agreement as they apply to such third party and requires such third party to use its best efforts to maintain all Confidential Information in the strictest confidence. Company's obligations pursuant to this Subparagraph 9(a) shall not apply to any Confidential Information which: is authorized in writing by Licensor to become publicly known; is rightfully received from a third party authorized by Licensor to receive such information without restriction and without breach of this Agreement; or is the minimum necessary to comply with any law, regulation, stock exchange rule or valid order of a court of competent jurisdiction.

(b) Publicity or Announcements. Without limitation of the foregoing, except to the minimum extent necessary to comply with any law, regulation or stock exchange rule, no announcements, press releases, or publicity about the existence or any terms of this Agreement, the relationship of the parties or about the rights relating to the Licensed Products to be exercised hereunder shall be made by Company without the prior written approval of Licensor in each instance.

(c) Rights of Publicity. Except as expressly set forth herein, Company acquires no rights to use and will not use without Licensor's prior written approval the characters, artwork, designs, trade names, copyrighted materials, trademarks or service marks of Licensor in any advertising, publicity or promotion, to express or imply any endorsement by Licensor of Company's services or products, or in any other manner except as expressly authorized in this Agreement. The foregoing provision shall survive expiration or termination of this Agreement.

10. GENERAL.

(a) Assignment. This Agreement will bind and inure to the benefit of each party and to their respective successors and assigns. Company shall not voluntarily or by operation of law assign, sub-license, transfer, encumber or otherwise dispose of all or part of any right or privilege granted to Company in this Agreement, without Licensor's prior written approval. For purposes of this Paragraph, any change in control of Company, whether through merger, acquisition,

reorganization, liquidation, foreclosure, involuntary sale in bankruptcy, or the purchase of substantially all of Company's assets or otherwise, shall be deemed a purported assignment subject to Licensor's prior written approval. Any attempted assignment, sublicense, transfer, encumbrance or other disposal without such approval will be null and void and constitute a material default and material breach of this Agreement.

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Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of October 14, 1997

(b) Governing Law. This Agreement will be governed by and construed in accordance with the laws of the federal laws of the United States and the laws of the State of California applicable to agreements executed, and to be performed entirely, within California between California residents (and excluding the United Nations Convention on Contracts for the International Sale of Goods) without regard to choice of provisions and regardless of the place or places of its actual execution and performance. Any suit, action or proceeding between or among the parties hereto arising out of or related to this Agreement will be brought solely in the federal or state courts in the Northern District of California, and Company hereby submits to the personal jurisdiction thereof and agrees to such courts as the appropriate venue. Notwithstanding the foregoing, Company agrees that, for purposes of collecting monies due pursuant to this Agreement, Company, at Licensor's election, may be subject to whatever local laws and courts have jurisdiction in any country of the Territory over Company.

(c) Attorneys' Fees. In the event of any legal proceeding between or among any of the parties hereto arising out of or related to this Agreement, the prevailing party shall be entitled to recover, in addition to any other relief awarded or granted, its costs and expenses (whether or not in connection with litigation and including, without limitation, reasonable attorneys' fees and costs) incurred in connection with any such proceeding.

(d) Equitable Relief. Company recognizes and acknowledges that a breach by Company of any covenants, agreements or undertakings made or assumed by it hereunder or under the Sublicense Agreement will cause Licensor irreparable damage, which cannot be readily remedied in damages in an action at law, and may, in addition thereto, constitute an infringement of Licensor's intellectual property and other rights in the Licensed Property, thereby entitling Licensor to equitable remedies (including, without limitation, injunctive relief), reasonable costs (including, without limitation, whether or not in connection with litigation) and reasonable attorney's fees.

(e) Notices. All notices and approvals under this Agreement will be deemed received when delivered personally, sent by confirmed facsimile transmission or received through nationally-recognized express courier, to the address shown below or as may otherwise be specified by either party to the other in accordance with this Subparagraph 10(e). All such notices to Licensor will be directed as follows:

For notices to Licensor: P. O. Box 2009, San Rafael, CA 94903, Attention: Vice President, Licensing, with a courtesy copy to: General Counsel.

For notices to Company: _____

(f) No Waiver. No waiver by either party, whether express or implied, of any provision of this Agreement or any breach thereof, and no failure of either party to exercise or enforce any of its rights under this Agreement, will constitute a continuing waiver with respect to such provision or right or as a breach or waiver or any other provision or right, whether or not similar.

(g) Severability. This Agreement is severable. If any provision of this Agreement is found invalid or unenforceable, that provision will be enforced to the maximum extent permissible, and the other remaining provisions of this Agreement will not be affected and shall remain in force.

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Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of October 14, 1997

(h) Approvals. Any and all approvals of Licensor permitted, rendered or required pursuant to this Agreement may be given or withheld by Licensor in the manner provided in the License Agreement.

(i) Headings Captions and Definitions. The name of this Agreement, and all headings and captions herein contained are for reference and convenience only and do not define, limit or expand the scope or intent of any provision hereof and shall not be relied upon in or in connection with the construction or interpretation of this Agreement. Except as herein otherwise expressly defined, all capitalized terms contained in this Agreement shall have the same meaning as such words have in the License Agreement. The words "herein," "hereunder" and similar terms refer to this entire Agreement and shall not be limited to the specific paragraphs or subparagraphs in which they are used.

(j) Counterparts. This Agreement may be executed in one or more counterparts, and by telefacsimile transmission, each copy of which shall be deemed an original and all of which, when taken together, shall constitute one and the same instrument, but this Agreement shall not be binding upon the parties until it has been signed by all parties hereto. The parties hereto agree that telecopied signatures hereto shall be effective and enforceable.

(k) Further Instruments: Except as otherwise expressly provided in this Agreement, each party shall furnish to the others (and shall deliver and cause to be executed, acknowledged and delivered to the other) any further instruments, which any such other party may reasonably require or deem necessary from time to time to evidence, establish, protect, enforce, defend or secure to such other party any or all of its rights hereunder or to more effectuate or carry out the purposes, provisions or intent of this Agreement.

(l) Entire Agreement. This Agreement constitutes the complete and entire agreement by and among all of the parties with respect to the subject matter hereof, superseding and replacing any and all prior agreements, negotiations, communications, and understandings (both written and oral) by and among all of the parties regarding such subject matter. This Agreement may only be modified, or any rights under it waived, by a written document executed by all parties. By signing in the spaces provided below, the parties hereto have accepted and agreed to all of the terms and conditions set forth above.

LUCAS LICENSING LTD. ("Licensor")

By: _____

Its: _____

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Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of October 14, 1997

THE FOREGOING IS ACCEPTED AND AGREED TO:

_____ ("Company")

By: _____

Title: _____

HASBRO, INC., on behalf of itself and all "Permitted Licensee Affiliates" (as defined in the License Agreement)

By: _____

Title: _____

("Licensee")

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Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of October 14, 1997

Attachment B-1 (SUBLICENSE AGREEMENT)

Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of
October 14, 1997

Exhibit C - STANDARD APPROVAL FORM

STANDARD APPROVAL FORM

Licensed Property	Star Wars _____	Date sent to LHI _____
Licensee	_____	Date Received _____
_____	_____	Date Called _____
_____	_____	Date Returned _____
_____	_____	Phone: _____
_____	_____	Fax: _____
Attention: _____		

Article Enclosed (one form per item) _____

Checklist

_____	Art	_
_____	Editorial	_
_____	Legal	_
_____	Marketing	_
_____	Merchandising	_

Comments (LHI use only) _____

|_ | See attached

Merchandising Coordinator, Lucas Licensing Ltd.

Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of
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Exhibit D - ROYALTY REPORT FORM (To be provided)

Exhibit E - THIRD PARTY COPYRIGHT ASSIGNMENT FORM

Date: _____

[Name and Address of artist] (the "Artist") agrees to make for [Licensee] ("Company") the following original artwork, which shall be satisfactory to Lucas Licensing Ltd. ("LIC"), for the project described below:

LIC is the owner of all worldwide rights in and to the films entitled [specify films] (collectively the "Films") and is the owner of all rights, including all copyrights, in and to the works based on or derived from the Films.

Company is a licensee of LIC with respect to use of the Films (and elements thereof) with respect to _____, and Company wishes to develop [description of work] (the "Project").

Artist wishes to have Company commission artwork in connection with the Project. Artist understands that Company will commission such artwork only on a work-for-hire basis or on the condition that all rights in and to such artwork are assigned by Artist to LIC.

1. Assignment: Artist hereby sells, transfers and assigns to LIC, exclusively and perpetually, all worldwide rights, titles and interest of every kind and nature in the artwork more particularly described on Schedule II attached hereto (hereinafter the "Work"), including, but not limited to, (a) all copyrights herein for the full term of such copyrights, including any periods of extension or renewal, (b) the right of reproduction in any and all media of the Work, in whole or in part, including, but not limited to, any characters or figures depicted or developed therein, (c) the moral rights of authors in the Work in whole or in part, and (d) all rights of manufacture, merchandising, recordation, reproduction, display and exhibition of the Work in whole or in part, by any means now known and/or hereafter devised.

2. Work for Hire: Should Artist be deemed an employee of Company, or any third party licensee, or should the Work be deemed a work-for-hire, Artist agrees that the Work was created within the scope of Artist's employment, or that the Work is considered a work made-for-hire.

3. Assistance by Artist: Artist agrees to assist LIC at no cost or expense to Artist in obtaining registration and enforcement of copyrights and other rights of any kind or nature in the Work, or any portion of it, including, but not being limited to, the execution of further assignments or other documents.

4. Consideration: Artist agrees and acknowledges that Company is not permitted to commission artwork from third parties unless LIC grants its approval thereto. Artist further agrees and acknowledges that Artist has executed this Agreement in consideration of LIC's permission to allow Company to commission Artist to participate in the Project. Artist agrees and acknowledges that Company (and LIC) shall be solely responsible for all payment due Artist with respect to the Work, and that any failure by Company to pay Artist, any breach by Company of any agreement Company may have with Artist, or any act or omission of Company, shall not

Ex E-1

Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of
October 14, 1997

effect a revocation of, diminish, limit, or otherwise affect in any manner LIC's ownership of all rights in and to the Work under this Agreement.

5. Exercise of Rights: The rights granted by this agreement to LIC shall be exercised by LIC and Company in their sole and exclusive discretion.

6. Artist's Warranty, Indemnity and Acknowledgment: Artist warrants that the Work is and shall be wholly original, except for any materials provided Artist by Company, and except for any materials utilized by Artist from the public domain; that to Artist's knowledge no third party has any right, title or interest in and to the Work; that Artist has the full right and authority to make this assignment; that no rights in or to the Work are being retained or reserved by Artist; that proper releases have been obtained from all persons whose names or likenesses may be incorporated or used in the Work, unless specifically excepted at the end of this Agreement; and that use by LIC and Company of the Work will not infringe or violate the rights of any third party. Artist agrees to indemnify and hold Company and LIC harmless against any and all loss, cost, liability and expenses (including reasonable counsel fees) arising

out of any breach of the warranties contained in this agreement.

7. Moral Rights/Rental and Lending Rights: Artist hereby irrevocably transfers and assigns to LIC, and waives and agrees never to assert, any and all "Moral Rights" (defined below) in or with respect to the Work and/or the Licensed Property, even after expiration or termination of this Agreement. "Moral Rights" means any rights to claim authorship of a work, to object to or prevent the modification of a work, or to withdraw from circulation or control the publication or distribution of a work, and any similar right, existing under the law of any country in the world or under any treaty. If and to the extent applicable in respect of rights commonly known as moral rights, including but without limitation, those defined in Sections 77-89 inclusive of the U.K. Copyright Designs and Patents Act 1988, as amended, Artist hereby waives all such rights in their entirety and Artist hereby warrants that Artist has procured or shall procure, so far as the same is permissible, waivers of all such rights in their entirety from all persons who may have such rights in and to the Work and/or the Licensed Property, the intent that such waiver shall be irrevocable and shall extend to Artist and/or Artist's assigns and successors in title.

8. Company's Indemnity and Acknowledgment: To the best of Company's knowledge, any contributions and changes Company makes to the Work will not infringe or violate the rights of any third party. Company hereby indemnifies Artist and shall hold Artist harmless from any loss, liability, damage, cost or expense (including reasonable counsel fees), arising out of any claims or suits which may be brought or made against Artist by reason of the breach by Company of the warranties or representations made in this agreement.

9. Confidentiality and Acknowledgment of Ownership: Artist agrees to hold in strictest confidence, and not disclose to any person or organization any confidential information relating to LIC, Company, or the Films which Artist obtains by virtue of the access to such information granted to Artist by Company or LIC. Artist acknowledge that such information is the sole property of LIC, and is considered to be trade secrets of LIC, and includes any information relating to works-in-progress, business, trade secrets, scripts, plots, or any other confidential

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Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of October 14, 1997

matter relating to the artistic creations or business of LIC and/or any of its affiliated or related entities.

10. Successors and Assigns: This agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, successors, agents, administrators and assigns.

11. Governing Law: This agreement shall be construed according to the laws of the State of California, which courts sitting in Northern California shall have exclusive jurisdiction.

By: _____
("Artist")

Lucas Licensing Ltd.

By: _____

Its: _____

Ex E-3

Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of October 14, 1997

Exhibit F - APPROVAL OF MANUFACTURER AGREEMENT

THIS AGREEMENT dated as of _____ by and among LUCAS LICENSING LTD. ("Licensor"), 5858 Lucas Valley Road, Nicasio, California 94946 U.S.A. (mailing address: P.O. Box 2009, San Rafael, California 94912 U.S.A.), _____ ("Company"), located at _____, and Hasbro, Inc., Hasbro International and all "Permitted Licensee Affiliates" (as defined in the License Agreement) ("Licensee"), located at _____.

WHEREAS: Reference is made to that certain license agreement dated as of _____ (the "License Agreement") between Licensor and _____ Licensee under which Licensee was granted the right to manufacture and distribute the products, goods and articles of merchandise specified therein ("Licensed Products") relating to the certain Licensed Property governed thereby; and

WHEREAS: Company and Licensee have executed an agreement dated _____, _____, (the "Manufacturing Agreement") whereby Company has been engaged by Licensee to manufacture certain Licensed Products based on or incorporating the Licensed Property in the country or countries set forth therein (the "Territory") and for a term as set forth therein (the "term") commencing on [term Effective Date] and continuing until [term end date];

NOW, THEREFORE, for the promises set forth herein by the parties and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereto agree, as follows:

1. RESPONSIBILITY OF LICENSEE: Subject to the terms and conditions of the License Agreement, nothing contained in this Agreement or in the Manufacturing Agreement shall in any manner whatsoever affect or otherwise diminish or relieve Licensee of any of its obligations under the License Agreement.

2. MANUFACTURING AGREEMENT: In order to induce Licensor to execute this Agreement, Licensee and Company hereby represent and agree that, subject to the approval of Licensor, Company has executed the Manufacturing Agreement. Without limitation of Licensor's rights, if Company breaches a material term of the Manufacturing Agreement and, as a result of such breach, Licensee is in material breach of the License Agreement, subject to the provisions of Subparagraph 22.2(a) of the License Agreement, then, notwithstanding anything to the contrary contained in the Manufacturing Agreement, Licensor shall have the right, pursuant to the License Agreement to send to Company a notice of termination ("Termination Notice") in the name of Licensee and the Agreement shall be deemed terminated as of the date Company receives such Termination Notice.

3. APPROVAL BY LICENSOR: Subject to the terms and conditions hereof, Licensor hereby approves of Company as a manufacturer of the Licensed Products governed by the Manufacturing Agreement, for the Term, as such Term shall expire or be terminated hereunder, and for the Territory.

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Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of October 14, 1997

4. ACKNOWLEDGMENT OF LICENSE AGREEMENT: Company hereby represents that Company has reviewed and is familiar with all of the provisions of the License Agreement identified in Subparagraph 15.1 of the License Agreement as being relevant to Company's activities hereunder, and Company agrees that in performing under this Agreement, Company shall perform, be bound by and comply with each of such terms and conditions of the License Agreement as they apply to Company. Without limitation of Licensor's rights and remedies, in the event of a breach or threatened breach by Licensee of any term or condition of the License Agreement and/or in the event of a breach or threatened breach by Company of any term or condition of the Manufacturing Agreement that would result in a breach of Licensee's Agreement, Licensor shall be entitled to seek legal and/or equitable relief by way of injunction or otherwise against Licensee and/or against Company, at the discretion of Licensor, to restrain, enjoin and/or prevent any such breach or threatened breach.

5. OBLIGATIONS OF COMPANY: Company hereby agrees that in exercising the rights authorized herein:

(a) Company shall only manufacture the Licensed Products pursuant to the Manufacturing Agreement in accordance with the instructions of Licensee;

(b) Company shall not assign or license, in any manner whatsoever, the rights granted to Company herein or delegate any of its obligations under the Manufacturing Agreement or under this Agreement, to any party without Licensor's prior written consent;

(c) Company shall execute a Trademark License Agreement with Licensor, or with any entity designated by Licensor, with respect to the Licensed Products in a form substantially identical to the Trademark License Agreement executed by Licensee with respect to the Licensed Products; and

(d) Without limitation of Licensor's rights hereunder, Company shall upon execution of the Manufacturing Agreement and this Agreement assume all of Licensee's obligations with respect to manufacture of the Licensed Products

governed thereby.

6. EFFECT OF EXPIRATION OR TERMINATION: Without limitation, upon the expiration or earlier termination of the Manufacturing Agreement, Company shall comply with and be bound by the same terms and conditions as are imposed upon Licensee pursuant to Subparagraph 22.3 of the License Agreement. Upon the expiration or termination of the Manufacturing Agreement, except as otherwise expressly provided herein, Company shall have no further right to exercise the rights approved hereunder or otherwise acquired pursuant to the Manufacturing Agreement.

7. COMPANY RECORDS AND AUDITS:

(a) Company will maintain complete and accurate records during and for five (5) years after the termination or expiration of the Manufacturing Agreement related to this Agreement and/or the rights granted to Company pursuant to the Manufacturing Agreement. The obligation to maintain records and to grant Licensor and Licensor's representatives access to such records shall survive the expiration or earlier termination of this Agreement.

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Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of October 14, 1997

(b) An independent certified public accountant selected by Licensor may, upon reasonable notice and during normal business hours, inspect any and all records of Company related to the exercise of Company's rights under this Agreement and/or under the Manufacturing Agreement. If, upon performing such audit, it is determined that Company owes Licensor monies, Company will immediately make full payment thereof. If the amount of such payment exceeds [**], Company will bear all expenses and costs of such audit in addition to its obligation to make full payment. All underpayments and late payments will accrue interest charges from the due date through the date of payment at an interest rate equal to [**], and shall be payable upon demand.

8. LICENSOR AS THIRD PARTY BENEFICIARY: In addition to Licensor's other rights and remedies pursuant to the License Agreement and this Agreement, Licensor is a third party beneficiary of the obligations of Company under any and all agreements, whether oral or written, between Company and Licensee respecting the Licensed Products, including, without limitation, the Manufacturing Agreement, and Licensor shall have the right at any time to enforce such obligations and to exercise any of Licensee's rights and remedies directly against Company as if a direct party thereto if Licensee fails to enforce such obligations or to exercise any such rights or remedies within twenty-five (25) days following Licensee's receipt of Licensor's written request therefor.

9. CONFIDENTIALITY:

(a) Confidential Information. Company acknowledges and agrees that the terms and conditions contained in this Agreement, the Manufacturing Agreement and/or any other agreement between or among any or all of the parties are confidential, as well as any and all information and material concerning or pertaining to: (i) any script, concept, marketing plan, schedule of Licensor or of any Licensor-Related Entity (including, without limitation, any pre-production, production or post-production schedule or release schedule for any "Prequel" [as defined in the License Agreement] or for any derivative work thereof); (ii) any project, product, good or article pertaining to the Licensed Property; (iii) any term or condition of any agreement between Licensor and any individual or entity relating to any Licensed Product (including, without limitation, any talent agreement); and (iv) any "Copyright Material" (as such term is defined in the License Agreement) are confidential and proprietary to Licensor (individually and collectively the "Confidential Information"). Company further acknowledges and agrees that, except as otherwise expressly provided in this Subparagraph 9(a), Company shall not use, copy, or disclose, or authorize or permit the use, copy or disclosure of, any Confidential Information in whole or in part in any manner or to any person, firm, enterprise, organization, corporation or entity unless authorized in advance in writing by Licensor. Company shall receive and hold, and shall contractually obligate and cause all entities with whom it contracts relative to the Licensed Products to maintain, all Confidential Information in the strictest confidence and Company acknowledges, represents, warrants and agrees to use its best efforts to protect the confidentiality of all Confidential Information. Furthermore, Company will not disclose any Confidential Information to any third party for any purpose (including the exercise of its rights or performance of its obligations) unless Licensor otherwise agrees in writing and such third party has executed a written confidentiality agreement in form and substance acceptable to Licensor, which confidentiality agreement, inter alia, shall restrict the use of any Confidential Information to the minimal extent necessary to effectuate the terms

and conditions of this Agreement as they apply to such third party shall require

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such third party to use its best efforts to maintain all Confidential Information in the strictest confidence. Company's obligations pursuant to this Subparagraph 9(a) shall not apply to any Confidential Information which: is authorized in writing by Licensor to become publicly known; is rightfully received from a third party authorized by Licensor to receive such information without restriction and without breach of this Agreement; or is the minimum amount necessary to comply with any valid order of a court of competent jurisdiction.

(b) Publicity or Announcements. Without limitation of the foregoing, except to the extent necessary to comply with any law, regulation or stock exchange rule, no announcements, press releases, or publicity about the existence or any terms of this Agreement, the relationship of the parties or about the rights relating to the Licensed Products to be exercised hereunder shall be made by Company without the prior written approval of Licensor in each instance.

(c) Rights of Publicity. Except as expressly set forth herein, Company acquires no rights to use and will not use without Licensor's prior written approval the characters, artwork, designs, trade names, copyrighted materials, trademarks or service marks of Licensor in any Advertising, publicity or promotion, to express or imply any endorsement by Licensor of Company's services or products, or in any other manner except as expressly authorized in this Agreement. The foregoing provision shall survive expiration or termination of this Agreement.

10. GENERAL:

(a) Assignment. This Agreement will bind and inure to the benefit of each party and to their respective successors and assigns. Company shall not voluntarily or by operation of law assign, sub-license, transfer, encumber or otherwise dispose of all or part of any right or privilege granted to Company in this Agreement or in the Manufacturing Agreement, without Licensor's prior written approval. For purposes of this Subparagraph 10(a), any change in control of Company, whether through merger, acquisition, reorganization, liquidation, foreclosure, involuntary sale in bankruptcy, or the purchase of substantially all of Company's assets or otherwise, shall be deemed a purported assignment subject to Licensor's prior written approval. Any attempted assignment, sublicense, transfer, encumbrance or other disposal without such approval will be null and void and constitute a material default and material breach of this Agreement.

(b) Governing Law. This Agreement will be governed by and construed in accordance with the laws of the federal laws of the United States and the laws of the State of California applicable to agreements executed, and to be performed entirely, within California between California residents (and excluding the United Nations Convention on Contracts for the International Sale of Goods) without regard to choice of provisions and regardless of the place or places of its actual execution and performance. Any suit, action or proceeding between or among any of the parties hereto arising out of or related to this Agreement will be brought solely in the federal or state courts in the Northern District of California, and Company hereby submits to the personal jurisdiction thereof and agrees to such courts as the appropriate venue. Notwithstanding the foregoing, Company agrees that, for purposes of collecting monies due pursuant to this Agreement, Company, at Licensor's election, may be subject to whatever local laws and courts have jurisdiction in any country of the Territory over Company.

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(c) Attorneys' Fees. In the event of any legal proceeding between or among any of the parties hereto arising out of or related to this Agreement, the prevailing party shall be entitled to recover, in addition to any other relief awarded or granted, its costs and expenses (whether or not in connection with litigation and including, without limitation, reasonable attorneys' fees and costs) incurred in connection with any such proceeding.

(d) Equitable Relief. Company recognizes and acknowledges that a breach by Company of any covenants, agreements or undertakings made or assumed by it hereunder or under the Manufacturing Agreement will cause Licensor irreparable damage, which cannot be readily remedied in damages in an action at law, and

may, in addition thereto, constitute an infringement of Licensor's intellectual property and other rights in the Licensed Property, thereby entitling Licensor to equitable remedies (including, without limitation, injunctive relief), reasonable costs (including, without limitation, whether or not in connection with litigation) and reasonable attorney's fees.

(e) Notices. All notices and approvals under this Agreement will be deemed received when delivered personally, sent by confirmed facsimile transmission or received through nationally-recognized express courier, to the address shown below or as may otherwise be specified by either party to the other in accordance with this Subparagraph 10(e). All such notices to Licensor will be directed as follows:

For notices to Licensor: P. O. Box 2009, San Rafael, CA 94903, Attention: Vice President, Licensing, with a courtesy copy to: General Counsel.

For notices to Company: _____

(f) No Waiver. No waiver by either party, whether express or implied, of any provision of this Agreement or any breach thereof, and no failure of either party to exercise or enforce any of its rights under this Agreement, will constitute a continuing waiver with respect to such provision or right or as a breach or waiver or any other provision or right, whether or not similar.

(g) Severability. This Agreement is severable. If any provision of this Agreement is found invalid or unenforceable, that provision will be enforced to the maximum extent permissible, and the other remaining provisions of this Agreement will not be affected and shall remain in force.

(h) Approvals. Any and all approvals of Licensor permitted, rendered or required pursuant to this Agreement may be given or withheld in Licensor's sole discretion, subject to the terms of the License Agreement.

(i) Headings, Captions, and Definitions. The name of this Agreement, and all headings and captions herein contained are for reference and convenience only and do not define, limit or expand the scope or intent of any provision hereof and shall not be relied upon in or in connection with the construction or interpretation of this Agreement. Except as herein otherwise expressly defined, all capitalized terms contained in this Agreement shall have the same meaning as such words have in the License Agreement. The words "herein," "hereunder" and similar terms refer to this entire Agreement and shall not be limited to the specific paragraphs or subparagraphs in which they are used.

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Toy License Agreement Between Lucas Licensing Ltd. and Hasbro dated as of October 14, 1997

(j) Counterparts. This Agreement may be executed in one or more counterparts, and by telefacsimile transmission, each copy of which shall be deemed an original and all of which, when taken together, shall constitute one and the same instrument, but this Agreement shall not be binding upon the parties until it has been signed by all parties hereto. The parties hereto agree that telecopied signatures hereto shall be effective and enforceable.

(k) Further Instruments. Except as otherwise provided in this Agreement, each party shall furnish to the others (and shall deliver and cause to be executed, acknowledged and delivered to the other) any further instruments, which any such other party may reasonably require or deem necessary from time to time to evidence, establish, protect, enforce, defend or secure to such other party any or all of its rights hereunder or to more effectuate or carry out the purposes, provisions or intent of this Agreement.

(l) Entire Agreement. This Agreement constitutes the complete and entire agreement by and among all of the parties with respect to the subject matter hereof, superseding and replacing any and all prior agreements, negotiations, communications, and understandings (both written and oral) by and among all of the parties regarding such subject matter. This Agreement may only be modified, or any rights under it waived, by a written document executed by all parties.

By signing in the spaces provided below, the parties hereto have accepted and agreed to all of the terms and conditions hereof.

AGREED TO AND ACCEPTED:

("Company") LUCAS LICENSING LTD. ("Licensor")

By: _____ By: _____

Its: _____

Its: _____

Date: _____

Date: _____

HASBRO, INC. on behalf of itself and
all "Permitted Licensee Affiliates" (as
defined in the License Agreement"
("Licensee")

By: _____

Its: _____

Date: _____

FIRST AMENDMENT TO TOY LICENSE AGREEMENT

[Information below, marked with [**], has been omitted pursuant to a request for confidential treatment. A complete copy of this document has been supplied to the Securities and Exchange Commission under separate cover. Approximately 4 pages (including a schedule) have been omitted pursuant to the request for confidential treatment.]

Reference is made to the Toy License Agreement made and entered into as of October 14, 1997 between Lucas Licensing Ltd., a California corporation ("Licensor"), located at P. O. Box 10149, San Rafael, CA 94912, on the one hand, and Hasbro, Inc., a Rhode Island corporation, located at 1027 Newport Ave., Pawtucket, R.I. 02862-1059, Hasbro International, Inc. a Delaware Corporation, located at 1027 Newport Ave., Pawtucket, R.I. 02862-1059, and all Permitted Licensee Affiliates (jointly and severally "Licensee" or "Hasbro") on the other hand (hereinafter the "Toy License Agreement").

For good and valuable consideration, the receipt and adequacy of which is hereby acknowledged by the parties, the parties hereby agree to amend the Toy License Agreement as follows:

1. Paragraph 2.2 (Territory) shall be supplemented and amended by adding, in the left hand column entitled "Licensed Products," the words "Micro Toys;" after the words "and Craft Kits);".

2. Paragraph 3.2 (Exclusivity) shall be supplemented and amended by adding Micro Toys to the list of Licensed Products as to which the rights licensed to Licensee under the Toy License Agreement shall be exclusive.

3. Paragraph 3.4(a) (No Rights to Products Other Than Licensed Products) shall be amended by deleting the words "Micro Toys and" from line six (6) thereof.

4. Paragraph 3.8 of the Toy License Agreement shall be amended by replacing the reference to "Subparagraph 25.17" with "Subparagraph 25.18."

5. The Toy License Agreement shall be supplemented and amended by adding the following as a new Paragraph 3.10:

"3.10 Japan. Licensor shall have absolute approval over the distribution (including, without limitation, the identity of the distributor) of Micro Toys in Japan, provided that the parties will endeavor to preserve the economic benefits to Hasbro as would otherwise arise through Hasbro's distribution of Micro Toys in Japan."

6. Paragraph 4.3(b)[**] shall be supplemented and amended by [**].

7. The Toy License Agreement shall be further supplemented and amended by changing Paragraph 4.3(b) to Paragraph 4.3(b) (i) and by adding a new Paragraph 4.3(b) (ii) as follows: [**]

Except as set forth in this Paragraph 7, all specific references in the Toy License Agreement to Paragraph 4.3(b) are hereby deemed to refer to Paragraph 4.3(b) (i).

8. Paragraph 4.3(c) shall be supplemented and amended by adding a new Subparagraph 4.3(d) (iii) as follows: [**]

9. Paragraph 4.3(d) shall be amended by [**]

10. Paragraph 4.3(e) [**] shall be deleted in its entirety. In this connection, Paragraph 24.64 [**] shall also be deleted in its entirety. Both Paragraphs 4.3(e) and 24.64 shall hereafter be deemed to read "Intentionally Deleted."

11. Paragraph 4.3(f) [**] shall be supplemented and amended [**]:

12. Subparagraph 4.4: [**]

13. Paragraph 5.3 (Pre-Existing Approvals) shall be supplemented and amended by deleting the word "and" prior to the beginning of clause (iii) and by adding the following at the end of the paragraph after the words ("Puzzle Agreement"):

"; and (iv) those various license agreements between Licensor and Lewis Galoob Toys, Inc. now known as Galoob Toys, Inc., on behalf of itself and/or any or all of its affiliated, related and subsidiary entities including, without limitation, that certain license agreement dated as of

October 30, 1992, as amended, including by agreements dated as of May 14, 1997 and dated as of July 24, 1997."

14. Paragraph 7.1 shall be deleted in its entirety and the following is deemed inserted in its place:

"7.1 Advance. Licensee agrees to pay to Licensor an advance of Five Hundred Ninety Million Dollars (\$590,000,000), payable in the following amounts at the following times:

(a) One Hundred Million Dollars (\$100,000,000) thereof, payable on the initial shipment of any Licensed Product incorporating elements of Episode I that is sold to a Customer hereunder:

(b) Two Hundred Fifty Million Dollars (\$250,000,000) thereof, contingent upon the initial general theatrical release in the United States of Episode I and payable on the U.S. Release Date of Episode I;

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(c) One Hundred Twenty Million Dollars (\$120,000,000) thereof, contingent upon the occurrence of the initial general theatrical release in the United State of Episode II and payable on the U.S. Release Date of Episode II; and

(d) One Hundred Twenty Million Dollars (\$120,000,000) thereof, contingent upon the occurrence of the initial general theatrical release in the United States of Episode III and payable on the U.S. Release Date of Episode III.

In the event that the U.S. Release Date of Episode I does not occur on or before the Episode I Outside Date, then any portion of the Advance payment made pursuant to Subparagraph 7.1(a) hereinabove that has not been recouped by Licensee from Royalties earned on or before the Episode I Outside Date shall be refunded to Licensee within thirty (30) days following the Episode I Outside Date. [**]

15. Paragraph 7.2 is deleted in its entirety and the following is deemed inserted in its place:

[**]

16. Paragraph 8.1 (Royalty Percentage) shall be supplemented and amended by changing Subparagraph 8.1(c) to Subparagraph 8.1(d) and by adding the following as a new Subparagraph 8.1(c):

"(c) Micro Toys: With respect to Net Sales of each unit of Micro Toys, [**] of cumulative Net Sales of all Micro Toys throughout the Territory."

Except as set forth in this Paragraph 16, all references in the Toy License Agreement to Subparagraph 8.1(c) are hereby deemed to refer to Subparagraph 8.1(d).

17. Paragraph 8.5 (Episode I Bonus) shall be amended to read as follows:

"8.5 Episode I Bonus. On the U.S. Release Date of Episode I, Licensee shall pay to Licensor a non-recoupable bonus equal to Thirteen Million Eight Hundred Thousand Dollars (\$13,800,000)."

18. Subparagraph 8.6 (Bundling Royalty) is deleted in its entirety and the following is inserted in its place:

"8.6 Bundling Royalty. Licensee shall not have the right to distribute, market or sell (or authorize a third party to distribute, market or sell) any Licensed Product with any other product, good or article (including another Licensed Product) in a single package at a single price ("Bundling") without Licensor's prior written approval of: (a) whether or not

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such Bundling may occur; (b) the terms and conditions of such Bundling; and (c) Licensor's Royalty in such instance."

19. Paragraph 8.11 (Warrant) shall be supplemented and amended by adding a new

8.11.A., as follows, after the end of the final sentence thereof:

"A. Concurrently upon the closing of either: (i) the merger of Licensee (or a wholly-owned subsidiary of Licensee) with Galoob Toys, Inc., a Delaware corporation ("Galoob") or (ii) the acquisition by Licensee (or a wholly-owned subsidiary of Licensee) of Fifty Percent (50%) or more of the capital stock of Galoob or the acquisition of all or substantially all of the assets of Galoob (the "Galoob Acquisition"), Licensee hereby agrees to issue to Licensor a warrant in the form attached hereto as Exhibit A (the "Exchange Warrant") for the purchase of up to Two Million Four Hundred Thousand (2,400,000) fully paid and non-assessable shares of the common stock of Licensee following exercise of such warrant at a per share exercise price equal to thirty-five dollars (\$35.00), subject to adjustment as provided in the Exchange Warrant, in exchange for the fully unexercised warrant dated October 14, 1997 between Licensor and Galoob."

20. Paragraph 9.5(b) (Report Information) shall be supplemented and amended by deleting the word "and" before clause (iv), changing Sub-Paragraph 9.5(b)(iv) to 9.5(b)(v) and by adding the following as a new Sub-Paragraph 9.5(b)(iv):

"(iv) by Micro Toys in each Sub-Territory (and in each country within such Sub-Territory, if more than one country exists in a Sub-Territory); and"

21. Paragraph 9.1 (Payment Terms) and 9.4 (Payment Reports) are deemed amended by deleting the words "[**] days" and inserting instead the words "[**] days".

22. Paragraph 12.1(Copyright and Trademark Notices): The notice set forth in Paragraph 12.1 is hereby deemed deleted and the following notice is deemed inserted in its place: "(C) Lucasfilm Ltd. & TM. All Rights Reserved. Used Under Authorization. (in English or local language)."

23. Paragraph 23.1 (Licensor's Retained Rights) shall be amended by revising the last sentence thereof to read as follows:

24. Paragraph 24.69 (Licensee Affiliate) shall be supplemented and amended by adding the words "other than Licensor" after the word "entity " in line one (1) thereof.

25. Paragraph 24.79 (Micro Toys) shall be amended to read as follows:

"MICRO TOYS means the following: `Intermediate Vehicles,' `Micro Vehicles,' `Micro Playsets,' and `Micro Figures' (as such terms are defined hereinbelow) [**]"

26. Paragraph 24.88 shall be amended to read as follows:

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"'Other Licensed Products' means all Licensed Products other than Basic Figures and Micro Toys."

27. Paragraph 25.18 (Entire Agreement) shall be supplemented and amended by adding after the word "Royalty" in line 10 the words "and all 'Foreign Guarantees' (as defined in the Prior Agreements)."

28. Schedule I (Permitted Licensee Affiliates) shall be supplemented and amended by adding the following entities as "Permitted Licensee Affiliates: Galoob Toys, Inc., Galco International Toys, N.V. and Galoob Direct, Inc."

29. Schedule II (Licensed Products) shall be amended by deleting the initial paragraph of such Schedule II (which precedes Clause A thereof) and inserting the following in its place:

The term "Licensed Products" as used in, and subject to the terms and conditions of the Agreement, means: (A) "STANDARD TOYS," (B) "GAMES AND PUZZLES," (C) "ELECTRONICS/HAND HELD" and (D) "MICRO TOYS" (as such terms are defined hereinbelow or, in the case of Micro Toys, as defined in the Agreement).

30. Schedule II (Licensed Products) shall be further supplemented and amended by deleting the word "above" after the words "set forth" in line 2 of Clause D, and by adding the following at the end of such Schedule II:

"E. MICRO TOYS"

31. Schedule III (Advances and Minimum Sales Levels) shall be supplemented and amended by adding the schedule [**] attached hereto as Attachment A.

32. The terms and conditions of this first amendment to the Toy License

Agreement (the "First Toy License Amendment") shall become effective concurrently with the closing of the Galoob Acquisition; provided, however, that if the closing of the Galoob Acquisition has not occurred on or before March 31, 1999, then this First Toy License Amendment shall automatically terminate and be of no further force and effect.

33. Notwithstanding anything to the contrary, Licensee shall as promptly as practicable following the execution of a definitive agreement with respect to the Galoob Acquisition, make any necessary filings required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, that are related to any and all transactions arising out of or connected with the subject matter of this First Toy License Amendment, including, without limitation the Galoob Acquisition. As between Licensor and Licensee, Licensee shall be solely responsible for one hundred percent (100%) of all filing fees required in connection with all such filings (provided that Licensor shall cooperate and make such filings as are required to comply with such Act).

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In all respects other than those specifically enumerated above, the Toy License Agreement shall remain in full force and effect.

This First Toy License Amendment is entered into as of September 25, 1998.

LUCAS LICENSING LTD. ("Licensor")

HASBRO, INC.

By: /s/ HOWARD ROFFMAN

By: /s/ ALFRED J. VERRECCHIA

Title: Vice President

Title: Executive Vice President and
President - Global Operations

and

HASBRO INTERNATIONAL, INC. on behalf
of itself and all Permitted Licensee
Affiliates

By: /s/ ALFRED J. VERRECCHIA

Title: Executive Vice President and
President - Global Operations

(jointly and severally "Licensee")

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Attachment A

Schedule I - ADVANCES AND MINIMUM SALES LEVELS (U.S. \$000'S)

[**]

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Exhibit A

[Filed as a separate exhibit.]

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AGREEMENT OF STRATEGIC RELATIONSHIP

[Information below, marked with [**], has been omitted pursuant to a request for confidential treatment. A complete copy of this document has been supplied to the Securities and Exchange Commission under separate cover.]

This AGREEMENT OF STRATEGIC RELATIONSHIP (the "agreement") is made and entered into as of October 14, 1997, between Lucasfilm Ltd., a California corporation ("Lucasfilm"), on the one hand, located at P. O. Box 2009, San Rafael, CA 94912 and Hasbro, Inc., a Rhode Island corporation, located at 1027 Newport Avenue, Pawtucket, RI 02862 ("Hasbro"), on the other hand.

WHEREAS:

A. Lucasfilm is a California corporation engaged in the production of theatrical motion pictures and the licensing of intellectual property rights related to such theatrical motion pictures;

B. Lucasfilm owns or controls rights in respect of the Property (as hereinafter defined);

C. Hasbro is engaged in the manufacture, distribution and sale of consumer products in the form of toys including, without limitation, toys based on entertainment intellectual properties licensed from third parties;

D. Lucasfilm and Hasbro have a longstanding relationship with respect to the licensing of such rights; and

E. Lucasfilm and Hasbro wish to establish a strategic relationship whereby Hasbro would acquire the opportunity to license certain rights in and to theatrical motion pictures produced by Lucasfilm for the manufacture, distribution and sale of Products in the Territory, subject to the terms and conditions of this Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. GRANT OF RIGHTS.

Subject to the terms and conditions of this agreement, and in consideration for all of Hasbro's obligations hereunder, including, without limitation, Hasbro's agreement to grant to Lucasfilm a warrant as provided in Paragraph 4 hereinbelow, Lucasfilm grants to Hasbro an exclusive, non-transferable, non-assignable right of first negotiation (the "First Negotiation Right") and, as more specifically provided in Subparagraph 3.3 hereinbelow, right of first refusal (the "First Refusal Right") during the Term and throughout the Territory to license the Property as provided in Paragraph 3 hereinbelow:

1.1. to develop, design, manufacture, distribute, advertise, publicize, market and sell the Products, for sale to retail Customers through all channels of wholesale and retail distribution permitted hereunder; and

1.2. for reproduction on containers, packaging, display and promotional material and in Advertising and Advertising Materials for the Products.

The First Negotiation Right and First Refusal Right shall be exercised by Hasbro in accordance with the terms and conditions contained in this agreement.

Agreement Between Lucasfilm Ltd. and Hasbro, Inc. dated October 14, 1997

2. TERM AND TERRITORY.

2.1. Term. The term of Hasbro's rights pursuant to this agreement with respect to the First Negotiation Right and First Refusal Right (the "Term") shall consist of the time period commencing as of the date hereof and ending on December 31, 2007.

2.2. Territory. The territory of Hasbro's rights hereunder (the "Territory") consists of the world excluding China.

3. EXERCISE OF FIRST NEGOTIATION RIGHT AND FIRST REFUSAL RIGHT.

The First Negotiation Right and in certain situations First Refusal Right as to each theatrical motion picture which is an element of the Property shall be exercisable by Hasbro in accordance with the following procedure:

3.1. If Lucasfilm desires to license the rights referenced in Subparagraphs 1.1 and 1.2 hereinabove with respect to any theatrical motion picture which is an element of the Property, then Lucasfilm shall notify Hasbro in writing. Lucasfilm shall concurrently make available to Hasbro at Lucasfilm's premises all materials then extant regarding such motion picture, including script, artwork, casting, to the extent available.

3.2. Hasbro shall thereafter have thirty (30) days from the date of such notice (the "First Negotiation Period") to negotiate and enter into a written agreement (the "Agreement"), which agreement shall incorporate no less than all of the terms and conditions of that certain license agreement between Hasbro and Lucas Licensing Ltd. dated as of October 14, 1997 (the "Toy Agreement") with the exception of Royalties (Paragraph 8), Advance (Paragraph 7), Term (Paragraph 2), [**] (Subparagraph 4.3), Minimum Sales Levels (Subparagraph 4.2), and the definition of Licensed Property (Subparagraph 24.68) (collectively the "Excluded Terms"); provided, however, that neither party shall be obligated to conclude an Agreement with respect to a particular theatrical motion picture which is an element of the Property. During the First Negotiation Period, the parties shall negotiate with respect to the Excluded Terms, provided that the Royalty Percentage shall be no less than ten percent (10%) of Net Sales and no more than the rates specified in Paragraph 8 of the Toy Agreement.

3.3. If the parties fail to enter into an Agreement with respect to such theatrical motion picture during the First Negotiation Period, then Lucasfilm shall be free to negotiate with and conclude an agreement with any third party with respect to the rights that are incorporated in the First Negotiation Right provided, that with respect to those theatrical motion pictures set forth in Subparagraphs 5.2(a)(i), (ii), (iii), and (iv) ("First Refusal Pictures"), Lucasfilm shall not conclude an agreement with a third party with respect to such rights on terms that are less favorable to Lucasfilm than those terms last offered by Hasbro without giving notice of such third party offer to Hasbro and providing Hasbro with a ten (10) day period (the "First Refusal Period") within which to enter into an Agreement with Lucasfilm on the same terms and conditions contained in the third party offer (the "First Refusal Right"). If Hasbro fails to execute such Agreement within such

Agreement Between Lucasfilm Ltd. and Hasbro, Inc. dated October 14, 1997

First Refusal Period with respect to a First Refusal Picture or within the First Negotiation Period with respect to all other theatrical motion pictures included within the Property, then Lucasfilm shall be free to enter into an agreement with such third party with respect to a First Refusal Picture or with any third party with respect to all other theatrical motion pictures subject to the First Negotiation Right and such theatrical motion picture shall be deleted from the definition of the Property hereunder.

3.4. Lucasfilm makes no representation or warranty that any rights which otherwise would be subject to the First Negotiation Right and First Refusal Right as to any theatrical motion picture produced by Lucasfilm following the date hereof and during the Term will be owned or controlled by Lucasfilm or that Lucasfilm will retain the right or ability to include such theatrical motion picture as an element of the Property, notwithstanding the fact that at any point in time, Lucasfilm may have owned or controlled such rights. In this connection, Hasbro acknowledges that Lucasfilm may enter into an arrangement with respect to a particular theatrical motion picture (other than a grant of a license for the Products alone for such theatrical motion picture) in which the grant of such rights to a third party may be necessary in Lucasfilm's sole judgment in order to finance, produce, distribute or exploit such theatrical motion picture or any underlying rights relating to such theatrical motion picture.

4. WARRANT.

Concurrently with the execution of this Agreement, Hasbro shall grant to Lucasfilm a warrant (the "Warrant") for the purchase of up to 2,600,000 fully paid and non-assessable shares of the common stock of Hasbro

following exercise of the Warrant at a per share exercise price equal to \$28.00, subject to adjustment as provided in the warrant dated as of the date hereof between Lucasfilm and Hasbro (the "Warrant").

5. DEFINITIONS.

5.1. "Products" means those products, goods and articles, within the enumerated categories in Schedule II of the Toy Agreement and which are based on or incorporating elements of the Property.

5.2. "Property" means, subject to the terms, conditions and restrictions contained in Lucasfilm's or any Lucasfilm Related Entity's agreements with persons, firms or entities rendering services or granting rights:

(a) the original titles, designs, character names and likenesses, dialogue, music and sound effects, words, symbols, logographics and the footage, photographs, artwork, visual representations of the props, costumes, sets, special effects and any other original creative elements which appear in, have become directly associated with, and as are depicted in, any theatrical motion picture produced by Lucasfilm prior to or during the Term, as to which Lucasfilm owns and controls the rights hereunder, subject to Section 3.4, including, but not limited to:

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Agreement Between Lucasfilm Ltd. and Hasbro, Inc. dated October 14, 1997

(i) any theatrical motion picture based on or related to the character "Indiana Jones," including without limitation: Raiders of the Lost Ark, Indiana Jones and the Temple of Doom, Indiana Jones and the Last Crusade, and any prequel or sequel theatrical motion picture based on the "Indiana Jones" character including the sequel theatrical motion picture currently in development and tentatively entitled "Indiana Jones IV" and intended to star Harrison Ford and be directed by Steven Spielberg;

(ii) the theatrical motion picture entitled "Willow" and any sequels, prequels or remakes thereof, including, without limitation, those based upon the "Shadow Wars" book series written by George Lucas and Chris Claremont;

(iii) any theatrical motion picture based upon the book series entitled "Lucasfilm's Alien Chronicles" published by Berkeley Books;

(iv) the theatrical motion pictures entitled "Tucker: The Man and His Dream" and any sequels, prequels or remakes thereof; and

(b) such original trademarks, tradenames, servicemarks and servicenames owned by Lucasfilm and arising out of and which become directly associated with any theatrical motion picture which is an element of the Property, to the extent of Lucasfilm's rights in each applicable country of the Territory under such country's applicable trademark laws.

Notwithstanding anything set forth above, Property shall not include any theatrical motion picture based on or related to "Star Wars", including without limitation:

(A) those certain previously released theatrical motion pictures (and the special editions thereof released theatrically in 1997) entitled "STAR WARS: EPISODE IV - A NEW HOPE," "STAR WARS: EPISODE V - THE EMPIRE STRIKES BACK" and "STAR WARS: EPISODE VI - RETURN OF THE JEDI" (the "Classic Trilogy"); and

(B) each of the first three succeeding prequel theatrical motion pictures to the Classic Trilogy tentatively entitled "Episode I," "Episode II" and "Episode III," respectively (each such prequel theatrical motion picture a "Prequel" herein).

In connection with such exclusion, the parties acknowledge that Hasbro has entered into the Toy Agreement with Lucas Licensing Ltd., the owner of the applicable rights related to Star Wars.

Agreement Between Lucasfilm Ltd. and Hasbro, Inc. dated October 14, 1997

6.1. Assignment. Subject to the other terms and conditions of this Subparagraph 6.1, this agreement will bind and inure to the benefit of each party and to their respective successors and assigns. Hasbro shall not voluntarily or by operation of law assign, sub-license, transfer, encumber or otherwise dispose of all or part of any right or privilege licensed to Hasbro in this agreement, including to a Hasbro Affiliate, without Lucasfilm's prior written approval to be given or withheld in Lucasfilm's absolute discretion. For purposes of this Subparagraph 6.1, any Change in Control of Hasbro (as defined in the Warrant), shall be deemed a purported assignment subject to Lucasfilm's prior written approval. Any attempted assignment, sublicense, transfer, encumbrance or other disposal without such approval will be null and void and constitute a material default and material breach of this agreement.

6.2. Governing Law. This agreement will be governed by and construed in accordance with the laws of the federal laws of the United States and the laws of the State of California applicable to agreements entered into, and to be performed entirely, within California between California residents (and excluding the United Nations Convention on Contracts for the International Sale of Goods) without regard to choice of law provisions and regardless of the place or places of its actual execution or performance. Any suit, action or proceeding between or among any of the parties hereto arising out of or related to this agreement will be brought solely in the federal or state courts in the Northern District of California, and Hasbro hereby submits to the personal jurisdiction thereof and agrees to such courts as the appropriate venue. Notwithstanding the foregoing, Hasbro agrees that, for purposes of collecting monies due pursuant to this agreement, Hasbro, at Lucasfilm's election, may be subject to whatever local laws and courts have jurisdiction in any country of the Territory over Hasbro. Process in any action or proceeding referenced to in this Subparagraph 6.2 may be served on Hasbro at the address for notices set forth in Subparagraph 6.4 hereinbelow.

6.3. Attorneys' Fees. In the event of any legal proceeding between the parties arising out of or related to this agreement, the prevailing party shall be entitled to recover, in addition to any other relief awarded or granted, its costs and expenses (whether or not in connection with litigation and including, without limitation, attorneys' fees and costs) incurred in connection with any such proceeding.

6.4. Notices. Any notice to be given or served under this agreement shall be in writing and shall be delivered to the parties addressed as set forth below, or to such other address as either party shall notify the other party of in writing, as follows: personally or sent by cable, telegram or teletype or by facsimile, telex, telecopy or other print out communication mechanism or by first class, prepaid, registered or certified mail (if available) post (air mail if posted to another country) to the party to be served at the address set forth below in this Subparagraph 6.4 or to such other address as either party may from time to time notify in writing to the other. Such notice shall be deemed to have been served: (a) immediately in the case of personal delivery; (b) in the case of a cable, telegram or teletype, on the first business day after the receipt by the relevant service of the order therefor; (c) in the case of facsimile, telex, telecopy or other print out mechanism, on the expiration of four (4) hours from the time of transmission subject in the

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case of telex or facsimile to proof by the sender that he/she holds an acknowledgment (whether in mechanical form or otherwise) confirming its receipt at its destination and subject in the case of facsimile or other print out transmission in the absence of an acknowledgment to the original notice being sent by post or by personal delivery in accordance with this Subparagraph 6.4 not later than the next business day after such transmission; and (d) in the case of postal delivery, on the second business day following the date of posting (the fifth business day if

posted to another country) or on acknowledgment of receipt if earlier.

If to Lucasfilm:

For notices to Lucasfilm: P. O. Box 2009, San Rafael, CA 94912,
Attention: President; with a copy to: General Counsel.

For wire transfers: pursuant to Lucasfilm's written wire
transfer instructions

For deliveries requiring Lucasfilm's street address: 5858 Lucas
Valley Road, Nicasio, CA 94946

If to Hasbro:

Hasbro, Inc.
1027 Newport Avenue
Pawtucket, RI 02862
Attn: General Counsel

6.5. No Waiver. No action taken by either party pursuant to this agreement, and no waiver by either party, whether express or implied, of any provision or right in this agreement or any breach thereof, and no failure of either party to exercise or enforce any of its rights under this agreement, will constitute a continuing waiver with respect to such provision or right or as a breach or waiver or any other provision or right, whether or not similar.

6.6. Independent Contractors. The parties to this agreement are and shall remain independent contractors. There is no relationship of partnership, employer, employee, principal, agent, joint venture, employment, franchise or agency between the parties. Except as expressly provided in this agreement, neither party will have the power to bind the other or incur obligations on the other's behalf without the other's prior written approval and shall not represent that it has such right.

6.7. Nonexclusive Remedy. The exercise by either party of any remedy under this agreement will be without prejudice to its other remedies under this agreement or otherwise.

6.8. Severability. This agreement is severable. If any provision of this agreement is found invalid or unenforceable in any jurisdiction, that provision, as to that jurisdiction, will be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the other remaining provisions of this agreement, which other

remaining provisions will not be affected and shall remain in force, to the maximum extent permissible.

6.9. Headings, Captions and Names. The name of this agreement, and all headings and captions herein contained, are for reference and convenience only and do not define, limit or expand the scope or intent of any provision hereof and shall not be relied upon in or in connection with the construction or interpretation of this agreement. The words "herein," "hereunder," "hereof" and similar terms refer to this entire agreement and shall not be limited to the specific paragraphs or subparagraphs in which they are used.

6.10. Capitalized Terms. All capitalized terms contained in this agreement shall have the same meaning as set forth in the Toy Agreement, except as otherwise expressly set forth herein.

6.11. Counterparts. This agreement may be executed in one or more counterparts, and by facsimile, telex, telecopy or other print out communication mechanism, each copy of which shall be deemed an original and all of which, when taken together, shall constitute one and the same instrument, but this agreement shall not be binding upon the parties until it has been signed by both parties. The parties hereto agree that facsimile signatures on a copy of this agreement shall be effective and enforceable as if they were original signatures.

6.12. Further Instruments. Except as otherwise expressly provided in this agreement, each party shall furnish to the other (and shall deliver and

cause to be executed, acknowledged and delivered to the other) any further instruments, which such other party may reasonably require or deem necessary from time to time to evidence, establish, protect, enforce, defend or secure to such other party any or all of its rights hereunder or to more effectuate or carry out the purposes, provisions or intent of this agreement.

6.13. Entire Agreement. This agreement together with the Warrant constitute the complete and entire agreement between the parties with respect to the subject matter hereof, superseding and replacing any and all prior agreements, negotiations, communications, and understandings (both written and oral) regarding such subject matter. This agreement may only be modified, or any rights under it waived, by a written document executed by both parties

Agreement Between Lucasfilm Ltd. and Hasbro, Inc. dated October 14, 1997

LUCASFILM LTD. ("Lucasfilm"),
a California Corporation

HASBRO, INC. ("Hasbro"),
a Rhode Island corporation

By: /s/ GORDON RADLEY

By: /s/ HAROLD P. GORDON

Title: President

Title: Vice Chairman

FIRST AMENDMENT TO AGREEMENT OF STRATEGIC RELATIONSHIP

Reference is made to the Agreement of Strategic Relationship (the "Strategic Agreement") made and entered into as of October 14, 1997, between Lucasfilm Ltd., a California corporation ("Lucasfilm"), located at P.O. Box 2009, San Rafael, CA 94912, on the one hand, and Hasbro, Inc., a Rhode Island corporation, located at 1027 Newport Ave., Pawtucket R.I. 02862-1059 ("Hasbro"), on the other hand.

For good and valuable consideration, the receipt and adequacy of which is hereby acknowledged by the parties, the parties hereby agree to amend the Strategic Agreement as follows:

1. Paragraph 3.2 of the Strategic Agreement shall be supplemented and amended so that the definition of the "Toy Agreement" in the Strategic Agreement shall refer to the Toy Agreement as amended pursuant to that certain First Amendment to Toy Agreement dated as of September 25, 1998 (the "First Toy License Amendment").

2. Paragraph 4 (Warrant) shall be supplemented and amended by adding a new Paragraph 4.A., as follows, after the end of the final sentence thereof:

"A. Concurrently with the closing of either: (i) the merger of Hasbro (or a wholly-owned subsidiary of Hasbro) with Galoob Toys, Inc., a Delaware corporation ("Galoob") or (ii) the acquisition by Hasbro (or a wholly-owned subsidiary of Hasbro) of Fifty Percent (50%) or more of the capital stock of Galoob or the acquisition of all or substantially all of the assets of Galoob (the "Galoob Acquisition"), Hasbro hereby agrees to issue to Lucasfilm a warrant in the form attached hereto as Exhibit A (the "Exchange Warrant") for the purchase of up to One Million Six Hundred Thousand (1,600,000) fully paid and non-assessable shares of the common stock of Hasbro following exercise of such warrant at a per share exercise price equal to thirty-five dollars (\$35.00), subject to adjustment as provided in the Exchange Warrant, in exchange for the fully unexercised warrant dated October 14, 1997 issued to Lucasfilm by Galoob."

3. The terms and conditions of this first amendment to the Strategic Agreement (the "First Strategic Amendment") shall become effective concurrently with the closing of the Galoob Acquisition; provided, however, that if the closing of the Galoob Acquisition has not occurred on or before March 31, 1999, then this First Strategic Amendment shall automatically terminate and be of no further force and effect.

In all respects other than those specifically enumerated above, the Strategic Agreement shall remain in full force and effect.

This First Strategic Amendment is entered into as of September 25, 1998.

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LUCASFILM LTD. ("Lucasfilm")

HASBRO, INC. ("Hasbro"), a Rhode
Island Corporation

By: /s/ HOWARD ROFFMAN

By: /s/ ALFRED J. VERRECCHIA

Title: Vice President

Title: Executive Vice President and
President-Global Operations

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EXHIBIT A

[Filed as a separate exhibit.]

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THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY STATE SECURITIES LAWS. NO SALE, TRANSFER, PLEDGE OR OTHER DISPOSITION OF SUCH SECURITIES MAY BE EFFECTED WITHOUT (A) (i) AN EFFECTIVE REGISTRATION STATEMENT RELATING THERETO, (ii) AN OPINION OF COUNSEL FOR THE HOLDER, REASONABLY SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATION IS NOT REQUIRED OR (iii) RECEIPT OF A NO-ACTION LETTER FROM THE SECURITIES AND EXCHANGE COMMISSION, AND (B) OTHERWISE COMPLYING WITH THE PROVISIONS OF ARTICLE III OF THIS WARRANT.

THIS WARRANT MAY NOT BE TRANSFERRED (i) OTHER THAN TO AN AFFILIATE (AS DEFINED UNDER THE SECURITIES ACT OF 1933, AS AMENDED), (ii) FOLLOWING A CHANGE IN CONTROL OR (iii) IN CONNECTION WITH THE SALE OF ALL OR SUBSTANTIALLY ALL OF THE ASSETS, BUSINESS OR CAPITAL STOCK OF HOLDER, AS PROVIDED HEREIN.

WARRANT
TO PURCHASE SHARES OF COMMON STOCK
AS HEREIN DESCRIBED

Dated October 14, 1997

This certifies that for value received:

LUCAS LICENSING LTD.

or registered assigns, is entitled, subject to the terms set forth herein, to purchase from Hasbro, Inc., a Rhode Island corporation (the "Company"), up to 3,900,000 fully paid and nonassessable shares of the Common Stock of the Company, at the exercise price of twenty-eight dollars (\$28.00) per share. The number of shares purchasable hereunder and the Exercise Price are subject to adjustment in certain events, all as more fully set forth under Article IV herein.

ARTICLE I.
DEFINITIONS

"Additional Stock" means any of Common Stock, Convertible Securities and Options.

"Change in Control" means:

A. The acquisition (or series of related acquisitions) 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, as amended (the "1934 Act") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 20% or more of either (x) the then outstanding shares of Common Stock (the "Outstanding Common Stock") or (y) the combined voting power of the then outstanding voting securities of the Company 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 (or series of related acquisitions) directly from the Company or any of its subsidiaries of shares that would constitute, after issuance, or any acquisition (or series of related acquisitions) consented to by the Board of Directors of the

Company of outstanding shares constituting, in the aggregate, less than 40% of the Outstanding Voting Securities, (ii) any acquisition by the Company or any of its subsidiaries, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company 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 (such holders described in clauses (ii) and (iii) and in this clause (iv), the "Permitted Acquirors") or (v) any acquisition by any corporation with respect to which, following such acquisition, (a) more than 50% 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, and (b) less than 40% of such outstanding shares of common stock of such corporation and of such combined voting power of such outstanding voting securities is then beneficially owned, directly or indirectly, by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the 1934 Act), other than the Permitted Acquirors; or

B. Any event in which individuals who as of the Closing Date constitute the Board of Directors of the Company (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 Closing Date, 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. A reorganization, merger or consolidation involving the Company (whether or not the Company is the surviving entity), in each case, with respect to which (i) 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 50% 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, and (ii) following such reorganization, merger or consolidation, no individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the 1934 Act), other than the Permitted Acquirors, beneficially owns, directly or indirectly, 40% or more of such outstanding shares of common stock of such surviving corporation and of such combined voting power of such outstanding voting securities; or

D. (i) A complete liquidation or dissolution of the Company or (ii) the sale or other disposition of all or substantially all of the assets of the Company (in one transaction or a series of related transactions), other than to a corporation, with respect to which following such sale or other disposition, (A) more than 50% of, respectively, the then outstanding shares of common stock of such corporation and

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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, and (B) less than 40% of such outstanding shares of common stock of such corporation and of such combined voting power of the outstanding voting securities of such corporation is then beneficially owned, directly or indirectly, by an individual entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the 1934 Act), other than the Permitted Acquirors; or

E. The acquisition (or series of related acquisitions) by a Competitor of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 20% or more of either (x) the Outstanding Common Stock or (y) the Outstanding Voting Securities unless such Competitor is approved by Holder as a passive investor in the Company, such approval not to be unreasonably withheld.

"Charter" means the certificate of incorporation of the Company, as filed with the Rhode Island Secretary of State.

"Closing Date" means October 14, 1997.

"Commission" means the Securities and Exchange Commission, or any other federal agency then administering the Securities Exchange Act of 1934 or the Securities Act.

"Common Stock" means the Company's Common Stock, par value \$.50 per share, any stock into which such stock shall have been changed or any stock

resulting from any reclassification of such stock, and any other capital stock of the Company of any class or series now or hereafter authorized having the right to share in distributions either of earnings or assets of the Company without limit as to amount or percentage.

"Company" means Hasbro, Inc., a Rhode Island corporation, and any successor corporation.

"Competitor" means a Person or group of Persons (within the meaning of Section 13(d)(3) or 14(d)(2) of the 1934 Act) engaged as a significant part of its or their business in the business of producing or distributing any entertainment properties including, without limitation, motion pictures, television production, and interactive educational and entertainment products.

"Convertible Securities" means evidences of indebtedness, shares of stock or other securities which are convertible into or exchangeable for, with or without payment of additional consideration, shares of Common Stock, either immediately or upon the arrival of a specified date or the happening of a specified event or both.

"Employee Securities" shall mean all securities of the Company issued or sold after October 14, 1997 to employees, consultants, officers or directors of the Company with the approval of, or pursuant to a plan approved by, the Board of Directors or any duly authorized committee thereof.

"Exercise Period" means the period commencing on the earlier of (i) the U.S. Release Date of Episode I and (ii) the occurrence of a Change in Control and terminating at 5:00 p.m. Pacific Time on the eleventh anniversary of the Closing Date.

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"Exercise Price" means the exercise price per share of Common Stock set forth in the Preamble to this Warrant, as such price may be adjusted pursuant to Article IV hereof.

"Fair Market Value" means with respect to a share of Common Stock at any date:

(i) If shares of Common Stock are being sold pursuant to a public offering under an effective registration statement under the Securities Act which has been declared effective by the Commission and Fair Market Value is being determined as of the closing of the public offering, the "per share price to public" specified for such shares in the final prospectus for such public offering;

(ii) If shares of Common Stock are then listed or admitted to trading on any national securities exchange or traded on any national market system and Fair Market Value is not being determined as of the date described in clause (i) of this definition, the average of the daily closing prices for the twenty trading days before such date. The closing price for each day shall be the last sale price on such date or, if no such sale takes place on such date, the average of the closing bid and asked prices on such date, in each case as officially reported on the principal national securities exchange or national market system on which such shares are then listed, admitted to trading or traded;

(iii) If no shares of Common Stock are then listed or admitted to trading on any national securities exchange or traded on any national market system or being offered to the public pursuant to a registration described in clause (i) of this definition, the average of the reported closing bid and asked prices thereof on such date in the over-the-counter market as shown by the Nasdaq Stock Market or, if such shares are not then quoted in such system, as published by the National Quotation Bureau, Incorporated or any similar successor organization, and in either case as reported by any member firm of the New York Stock Exchange selected by the Company and reasonably acceptable to the Holder;

(iv) If no shares of Common Stock are then listed or admitted to trading on any national exchange or traded on any national market system, if no closing bid and asked prices thereof are then so quoted or published in the over-the-counter market and if no such shares are being offered to the public pursuant to a registration described in clause (i) of this definition, the fair value of a share of Common Stock shall be as determined by an investment bank selected by Company with the approval of the Holder (which approval shall not be unreasonably withheld or delayed), the costs of such investment banker to be paid by the Company.

"Fiscal Year" means the fiscal year of the Company.

"Holder" means the person in whose name this Warrant is registered on the books of the Company maintained for such purpose and any transferee permitted under the terms of this Warrant of all or a portion of this Warrant.

"Option" means any right, warrant or option to subscribe for or purchase shares of Common Stock or Convertible Securities.

"Person" means and includes natural persons, corporations, limited partnerships, general partnerships, limited liability companies, joint stock companies, joint ventures, associations, companies, trusts, banks, trust companies, land trusts, business trusts, government entities and authorities and other organizations, whether or not legal entities.

"Principal Executive Office" means the Company's office at 1027 Newport Avenue, Pawtucket, Rhode Island 02862 or such other office as designated in writing to the Holder by the Company.

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"Register," "Registered" and "Registration" refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act, and the declaration or ordering of the effectiveness of such registration statement.

"Rule 144" means Rule 144 as promulgated by the Commission under the Securities Act, as such Rule may be amended from time to time, or any similar successor rule that the Commission may promulgate.

"Securities Act" means the Securities Act of 1933, as amended, or any successor federal statute, and the rules and regulations of the Commission promulgated thereunder, all as the same shall be in effect from time to time.

"Shareholder" means the person who was previously the Holder and has exercised all or a portion of this Warrant.

"U.S. Release Date of Episode I" means the initial theatrical release in the United States of the first prequel theatrical motion picture to the classic Star Wars trilogy.

"Warrant" means the warrant dated as of Closing Date issued to the Holder and all warrants issued upon the partial exercise, transfer or division of or in substitution for any Warrant.

"Warrant Shares" means the shares of Common Stock issued or issuable upon the exercise of this Warrant provided that if under the terms hereof there shall be a change such that the securities purchasable hereunder shall be issued by an entity other than the Company or there shall be a change in the type or class of securities purchasable hereunder, then the term shall mean the securities issued or issuable upon the exercise of the rights granted hereunder.

ARTICLE II. EXERCISE

2.1. Exercise Right; Manner of Exercise. The purchase rights represented by this Warrant may be exercised by the Holder, in whole or in part, at any time and from time to time during the Exercise Period upon (i) surrender of this Warrant, together with an executed notice of exercise, substantially in the form of Exhibit "D-1" ("Notice of Exercise") attached hereto, at the Principal Executive Office, and (ii) payment to the Company of the aggregate Exercise Price for the number of Warrant Shares specified in the Notice of Exercise (such aggregate Exercise Price, the "Total Exercise Price"). The Total Exercise Price shall be paid by check; provided, however, that if the Warrant Shares are acquired in conjunction with a Registration of such Warrant Shares, then the Holder may arrange for the aggregate Exercise Price for such Warrant Shares to be paid to the Company from the proceeds of the sale of such Warrant Shares pursuant to such Registration. The Person or Person(s) in whose name(s) any certificate(s) representing the Warrant Shares which are issuable upon exercise of this Warrant shall be deemed to become the Holder(s) of, and shall be treated for all purposes as the record holder(s) of, such Warrant Shares, and such Warrant Shares shall be deemed to have been issued, immediately prior to the close of business on the date on which this Warrant and Notice of Exercise are presented and payment made for such Warrant Shares, notwithstanding that the stock transfer books of the Company shall then be closed or that certificates representing such Warrant Shares shall not then be actually delivered to such Person or Person(s). Certificates for the Warrant Shares so purchased shall be delivered to the Holder within two business days after this Warrant is exercised. If this Warrant is exercised in part only, the Company shall, upon surrender of this Warrant for cancellation, deliver a new Warrant evidencing the rights of the Holder to purchase the balance of the Warrant Shares which the Holder is entitled to purchase hereunder. The issuance of Warrant Shares upon

exercise of this Warrant shall be made without charge to the Holder for

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any issuance tax with respect thereto or any other cost incurred by the Company in connection with the exercise of this Warrant and the related issuance of Warrant Shares.

2.2. Conversion of Warrant.

(a) Right to Convert. In addition to, and without limiting, the other rights of the Holder hereunder, the Holder shall have the right (the "Conversion Right") to convert this Warrant or any part hereof into Warrant Shares at any time and from time to time during the term hereof. Upon exercise of the Conversion Right, the Company shall deliver to the Holder, without payment by the Holder of any Exercise Price or any cash or other consideration, that number of Warrant Shares computed using the following formula:

$$\frac{X = Y (A - B)}{A}$$

Where: X= The number of Warrant Shares to be issued to the Holder

Y= The number of Warrant Shares purchasable pursuant to this Warrant or such lesser number of Warrant Shares as may be selected by the Holder

A= The Fair Market Value of one Warrant Share as of the Conversion Date

B= The Exercise Price

(b) Method of Exercise. The Conversion Right may be exercised by the Holder by the surrender of this Warrant at the Principal Executive Office, together with a written statement (the "Conversion Statement") specifying that the Holder intends to exercise the Conversion Right and indicating the number of Warrant Shares to be acquired upon exercise of the Conversion Right. Such conversion shall be effective upon the Company's receipt of this Warrant, together with the Conversion Statement, or on such later date as is specified in the Conversion Statement (the "Conversion Date") and, at the Holder's election, may be made contingent upon the closing of the consummation of the sale of Common Stock pursuant to a Registration. Certificates for the Warrant Shares so acquired shall be delivered to the Holder within a reasonable time, not exceeding two business days after the Conversion Date. If applicable, the Company shall, upon surrender of this Warrant for cancellation, deliver a new Warrant evidencing the rights of the Holder to purchase the balance of the Warrant Shares which Holder is entitled to purchase hereunder. The issuance of Warrant Shares upon exercise of this Warrant shall be made without charge to the Holder for any issuance tax with respect thereto or any other cost incurred by the Company in connection with the conversion of this Warrant and the related issuance of Warrant Shares; provided that the Holder will be responsible for any transfer taxes in respect of the issuance of Warrant Shares to a Person other than the Holder.

2.3. Fractional Shares. The Company shall not issue fractional shares of Common Stock upon any exercise or conversion of this Warrant. As to any fractional share of Common Stock which the Holder would otherwise be entitled to purchase from the Company upon such exercise or conversion, the Company shall purchase from the Holder such fractional share at a price equal to an amount calculated by multiplying such fractional share (calculated to the nearest 1/100th of a share) by the Fair Market Value of a share of Common Stock on the date of the Notice of Exercise or the Conversion Date, as applicable. Payment of such amount shall be made in cash or by check payable to the order of the Holder at the time of delivery of any certificate or certificates arising upon such exercise or conversion.

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2.4. Continued Validity. A Shareholder shall be entitled to all rights which a Holder of this Warrant is entitled pursuant to the provisions of this Warrant, except rights which by their terms apply only to a Warrant.

ARTICLE III. TRANSFER, EXCHANGE AND REPLACEMENT

3.1. Maintenance of Registration Books. The Company shall keep at the Principal Executive Office a register in which, subject to such reasonable regulations as it may prescribe, it shall provide for the registration, transfer

and exchange of this Warrant. The Company and any Company agent may treat the Person in whose name this Warrant is registered as the owner of this Warrant for all purposes whatsoever, and neither the Company nor any Company agent shall be affected by any notice to the contrary.

3.2. Restrictions on Transfers.

(a) Compliance with Securities Act. The Holder, by acceptance hereof hereby makes the representations set forth in Exhibit D-2 with respect to its acquisition of this Warrant and agrees that this Warrant and the Common Stock to be issued to the Holder upon exercise hereof are being acquired for investment, solely for the Holder's own account and not as a nominee for any other Person, and that the Holder will not offer, sell or otherwise dispose of this Warrant or any such shares of Common Stock except under circumstances which will not result in a violation of the Securities Act or this Agreement. Unless registered under the Securities Act, upon exercise of this Warrant (other than through conversion of the Warrant on or after two years from the date hereof), the Holder shall confirm in writing, by executing the form attached as Exhibit "D-2" hereto, that the shares of Common Stock purchased thereby are being acquired for investment, solely for the Holder's own account and not as a nominee for any other Person, and not with a view toward distribution or resale.

(b) Certificate Legends. This Warrant and all Warrant Shares issued upon exercise of this Warrant (unless Registered under the Securities Act) shall be stamped or imprinted with legends in substantially the following form (in addition to any legends required by applicable state securities laws):

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY STATE SECURITIES LAWS. NO SALE, TRANSFER, PLEDGE OR OTHER DISPOSITION OF SUCH SECURITIES MAY BE EFFECTED WITHOUT (A) (i) AN EFFECTIVE REGISTRATION STATEMENT RELATING THERETO, (ii) AN OPINION OF COUNSEL FOR THE HOLDER, REASONABLY SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATION IS NOT REQUIRED OR (iii) RECEIPT OF A NO-ACTION LETTER FROM THE SECURITIES AND EXCHANGE COMMISSION AND (B) OTHERWISE COMPLYING WITH THE PROVISIONS OF ARTICLE III OF THE WARRANT UNDER WHICH THIS SECURITY WAS ISSUED.

In addition, the Warrant shall be stamped or imprinted with a legend in substantially the following form:

THIS WARRANT MAY NOT BE TRANSFERRED (i) OTHER THAN TO AN AFFILIATE (AS DEFINED UNDER THE SECURITIES ACT OF 1933, AS AMENDED) (ii) FOLLOWING A CHANGE IN CONTROL OR (iii) IN

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CONNECTION WITH THE SALE OF ALL OR SUBSTANTIALLY ALL OF THE ASSETS, BUSINESS OR CAPITAL STOCK OF HOLDER, ALL AS PROVIDED HEREIN.

(c) Additional Restriction on Transfer. The Holder shall not sell, assign or otherwise transfer, pledge or hypothecate all or part of this Warrant prior to a Change in Control without the prior written consent of the Company, which consent may be withheld in the Company's sole discretion; provided that (x) any such sale, assignment or other transfer by the Holder of the Warrant in its entirety to an entity owned or controlled by the Holder (but only for so long as it remains so owned or controlled and such entity agrees (i) to be bound by the terms and conditions of this Warrant pursuant to an agreement reasonably acceptable to the Company ("Assumption Agreement") and (ii) to transfer this Warrant back to the Holder if it ceases to be owned or controlled by the Holder), (y) any such sale, assignment or other transfer by the Holder of the Warrant in connection with (i) the merger, consolidation or reorganization of the Holder, (ii) the sale, assignment, transfer or other disposition of all or substantially all of the Holder's assets or business in one or more related transactions or (iii) the sale, assignment, transfer or other disposition of all or substantially all of the Holder's capital stock, provided that any transferee described in this clause (y) executes an Assumption Agreement, (z) a bona fide pledge or hypothecation (so long as any sale, assignment or other transfer in connection with any attempted foreclosure of such a pledge or hypothecation would require such consent from the Company), and (zz) any transfer to a Person directly or indirectly controlling the Holder, provided such Person executes an Assumption Agreement, may be effected without any such consent.

(d) Disposition of Warrant Shares. With respect to any offer, sale or other disposition of any Warrant Shares issued upon exercise of this Warrant prior to Registration of such shares, the Shareholder agrees to give written notice to the Company prior thereto, describing briefly the manner thereof, together with a written opinion of the Shareholder's counsel, if reasonably requested by the Company, to the effect that such offer, sale or other disposition may be effected without Registration under the Securities Act or qualification under any applicable state securities laws of such Warrant

Shares and indicating whether or not under the Securities Act certificates for such Warrant Shares to be sold or otherwise disposed of, require any restrictive legend as to applicable restrictions on transferability in order to insure compliance with the Securities Act and any other applicable securities laws, such opinion to be in form and substance reasonably satisfactory to the Company. Promptly upon receiving such written notice and reasonably satisfactory opinion, if so requested, the Company, as promptly as practicable, shall notify the Shareholder that it may sell or otherwise dispose of such Warrant Shares all in accordance with the terms of the notice delivered to the Company. If a determination has been made pursuant to this subsection (d) that the opinion of counsel for the Shareholder is not reasonably satisfactory to the Company, the Company shall so notify the Shareholder promptly after such determination has been made and shall specify the legal analysis supporting any such conclusion. Notwithstanding the foregoing, such Warrant Shares may be offered, sold or otherwise disposed of in accordance with Rule 144, provided that the Company shall have been furnished with such information as the Company may reasonably request to provide reasonable assurance that the provisions of Rule 144 have been satisfied. Each certificate representing the Warrant Shares thus transferred in accordance with this subsection (d) (except a transfer pursuant to Rule 144) shall bear a legend as to the applicable restrictions on transferability in order to insure compliance with the Securities Act, unless in the aforesaid reasonably satisfactory opinion of counsel for the Shareholder such legend is not necessary in order to insure compliance with the Securities Act. The Company may issue stop transfer instructions to its transfer agent in connection with such restrictions.

(e) Termination of Restrictions. The restrictions imposed under this Section 3.2 upon the transferability of the Warrant (other than those in Section 3.2(c)) and the shares of Common Stock acquired upon the exercise of this Warrant shall cease when (i) a registration statement covering the

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applicable securities becomes effective under the Securities Act, (ii) the Company is presented with an opinion of counsel reasonably satisfactory to the Company that such restrictions are no longer required in order to insure compliance with the Securities Act or with a Commission "no-action" letter stating that future transfers of such securities by the transferor or the contemplated transferee would be exempt from registration under the Securities Act, or (iii) such securities may be transferred in accordance with Rule 144(k). Subject to Section 3.2(c), if applicable, when such restrictions terminate, the Company shall, or shall instruct its transfer agent to, promptly, and without expense to the Shareholder issue new securities in the name of the Shareholder not bearing the legends required under subsection (b) of this Section 3.2.

3.3. Exchange. At the Holder's option, this Warrant may be exchanged for other Warrants representing the right to purchase a like aggregate number of shares of Common Stock upon surrender of this Warrant at the Principal Executive Office. Whenever this Warrant is so surrendered to the Company at the Principal Executive Office for exchange, the Company shall execute and deliver the Warrants which the Holder is entitled to receive. All Warrants issued upon any registration of transfer or exchange of Warrants shall be the valid obligations of the Company, evidencing the same rights, and entitled to the same benefits, as the Warrants surrendered upon such registration of transfer or exchange. No service charge shall be made for any exchange of this Warrant.

3.4. Replacement. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and (i) in the case of any such loss, theft or destruction, upon delivery of indemnity reasonably satisfactory to the Company in form and amount or (ii) in the case of any such mutilation, upon surrender of such Warrant for cancellation at the Principal Executive Office, the Company, at its expense, shall execute and deliver, in lieu thereof, a new Warrant.

ARTICLE IV. ANTIDILUTION PROVISIONS

4.1. Reorganization, Reclassification or Recapitalization of the Company. In case of (1) a capital reorganization, reclassification or recapitalization of the Company's capital stock (other than in the cases referred to in Section 4.2 hereof), (2) the Company's consolidation or merger with or into another corporation in which the Company is not the surviving entity, or a reverse triangular merger in which the Company is the surviving entity but the shares of the Company's capital stock outstanding immediately prior to the merger are converted, by virtue of the merger, into other property, whether in the form of securities, cash or otherwise, or (3) the sale or transfer of the Company's property as an entirety or substantially as an entirety, then, as part of such reorganization, reclassification, recapitalization, merger, consolidation, sale or transfer, lawful provision shall be made so that there shall thereafter be deliverable upon the exercise of

this Warrant or any portion thereof (in lieu of or in addition to the number of shares of Common Stock theretofore deliverable, as appropriate), and without payment of any additional consideration, the number of shares of stock or other securities or property to which the holder of the number of shares of Common Stock which would otherwise have been deliverable upon the exercise of this Warrant or any portion thereof at the time of such reorganization, reclassification, recapitalization, consolidation, merger, sale or transfer would have been entitled to receive in such reorganization, reclassification, recapitalization, consolidation, merger, sale or transfer. This Section 4.1 shall apply to successive reorganizations, reclassifications, recapitalizations, consolidations, mergers, sales and transfers and to the stock or securities of any other corporation that are at the time receivable upon the exercise of this Warrant.

4.2. Reclassifications. If the Company changes any of the securities as to which purchase rights under this Warrant exist into the same or a different number of securities of any other class or classes, this Warrant shall thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities that were subject to the

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purchase rights under this Warrant immediately prior to such reclassification or other change and the Exercise Price therefor shall be appropriately adjusted.

4.3. Splits and Combinations. If the Company at any time subdivides any of its outstanding shares of Common Stock into a greater number of shares, the Exercise Price in effect immediately prior to such subdivision shall be proportionately reduced, and, conversely if the outstanding shares of Common Stock are combined into a smaller number of shares, the Exercise Price in effect immediately prior to such combination shall be proportionately increased. Upon any adjustment of the Exercise Price under this Section 4.3, the number of shares of Common Stock issuable upon exercise of this Warrant shall equal the number of shares determined by dividing (i) the aggregate Exercise Price payable for the purchase of all shares issuable upon exercise of this Warrant immediately prior to such adjustment by (ii) the Exercise Price per share in effect immediately after such adjustment.

4.4. Dividends and Distributions. If the Company declares a dividend or other distribution on the Common Stock (other than a cash dividend or distribution), then, as part of such dividend or distribution, lawful provision shall be made so that there shall thereafter be deliverable upon the exercise of this Warrant or any portion thereof, in addition to the number of shares of Common Stock receivable thereupon and without payment of any additional consideration, the amount of the dividend or other distribution to which the holder of the number of shares of Common Stock obtained upon exercise hereof would have been entitled to receive had the exercise occurred as of the record date for such dividend or distribution.

4.5. Liquidation; Dissolution. If the Company shall dissolve, liquidate or wind up its affairs, the Holder shall have the right, but not the obligation, to exercise this Warrant effective as of the date of such dissolution, liquidation or winding up. If any such dissolution, liquidation or winding up results in any cash distribution to the Holder in excess of the aggregate Exercise Price for the shares of Common Stock for which this Warrant is exercised, then the Holder may, at its option, exercise this Warrant without making payment of such aggregate Exercise Price and, in such case, the Company shall, upon distribution to the Holder, consider such aggregate Exercise Price to have been paid in full, and in making such settlement to the Holder, shall deduct an amount equal to such aggregate Exercise Price from the amount payable to the Holder.

4.6. Antidilution Provisions.

4.6.1. Definitions. For purposes of this Section 4.6 the following definitions shall apply:

"Common Stock Equivalents" shall mean Convertible Securities and rights entitling the holder thereof to receive directly, or indirectly, additional shares of Common Stock without the payment of any consideration by such holder for such additional shares of Common Stock or Common Stock Equivalents.

"Common Stock Outstanding" shall mean the aggregate of all Common Stock outstanding and all Common Stock issuable upon conversion of all outstanding Convertible Securities and exercise of all Options other than Employee Securities issued after October 14, 1997, unless such Employee Securities arise from exercise of Options granted prior to October 14, 1997.

"Current Exercise Price" shall mean the Exercise Price immediately before the occurrence of any event, which, pursuant to Section 4.6, causes an adjustment to the Exercise Price.

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4.6.2. Adjustments to Exercise Price. The Exercise Price in effect from time to time shall be subject to adjustment in certain cases as follows:

4.6.2.1. Issuance of Securities. Subject to Section 4.6.3, in case the Company shall at any time after October 14, 1997 issue or sell any Common Stock or Common Stock Equivalent without consideration, or for a consideration per share less than the Fair Market Value, then, and thereafter successively upon each such issuance or sale, the Current Exercise Price shall simultaneously with such issuance or sale be adjusted to an Exercise Price (calculated to the nearest cent) determined by multiplying the Current Exercise Price in effect immediately prior to such issuance or sale by a fraction, the numerator of which shall be the number of shares of Common Stock Outstanding on such date of sale or issuance plus the number of shares of Common Stock which the aggregate consideration received for the issuance or sale of such additional shares would purchase at the Fair Market Value and the denominator of which shall be the number of shares of Common Stock Outstanding immediately after the issuance or sale.

For the purposes of this subsection 4.6.2.1, the following provisions shall also be applicable:

4.6.2.1.1. Cash Consideration. In case of the issuance or sale of additional Common Stock or Common Stock Equivalents for cash, the consideration received by the Company therefor shall be deemed to be the amount of cash received by this corporation for such shares (or, if such shares are offered by the corporation for subscription, the subscription price, or, if such shares are sold to underwriters or dealers for public offering without a subscription offering, the initial public offering price), without deducting therefrom any compensation or discount paid or allowed to underwriters or dealers or others performing similar services or for any expenses incurred in connection therewith.

4.6.2.1.2. Non-Cash Consideration. In case of the issuance (otherwise than upon conversion or exchange of Convertible Securities) or sale of additional Common Stock, Options or Convertible Securities for a consideration other than cash or a consideration, a part of which shall be other than cash, the fair value of such consideration as determined by the board of directors of the Company in the good faith exercise of its business judgment, irrespective of the accounting treatment thereof, shall be deemed to be the value, for purposes of this Section 4.6.2, of the consideration other than cash received by the Company for such securities.

4.6.2.1.3. Options and Convertible Securities. In case the Company shall in any manner issue or grant any Options or any Convertible Securities, the total maximum number of shares of Common Stock issuable upon the exercise of such Options or upon conversion or exchange of the total maximum amount of such Convertible Securities at the time such Convertible Securities first become convertible or exchangeable shall (as of the date of issue or grant of such Options or, in the case of the issue or sale of Convertible Securities other than where the same are issuable upon the exercise of Options, as of the date of such issue or sale) be deemed to be issued and to be outstanding for the purpose of this Section 4.6.2. and to have been issued for the sum of the amount (if any) paid for such Options or Convertible Securities and the minimum amount (if any) payable upon the exercise of such Options or upon conversion or exchange of such Convertible Securities at the time such Convertible Securities first become convertible or exchangeable; provided that, subject to the provisions of Section 4.6.2.1.4, no adjustment or further adjustment of the Exercise Price shall be made upon the actual issuance of (a) any such Common Stock or Convertible Securities or upon the conversion or exchange of any such Convertible Securities or the exercise of such Options or (b) any Common Stock issued or sold pursuant to conversion of any Convertible Securities or exercise of any Options to the extent outstanding on October 14, 1997.

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4.6.2.1.4. Change in Option Price or Conversion Rate. If the exercise price provided for in any Option referred to in subsection 4.6.2.1.3, or the rate at which any Convertible Securities referred to in subsection 4.6.2.1.3 are convertible into or exchangeable for shares of Common Stock shall change at any time (other than under or by reason of provisions designed to protect against dilution), the Current Exercise Price in effect at

the time of such event shall forthwith be readjusted to the Exercise Price that would have been in effect at such time had such Options or Convertible Securities still outstanding provided for such changed exercise price, additional consideration or conversion rate, as the case may be, at the time initially granted, issued or sold. If the exercise price provided for in any such Option referred to in subsection 4.6.2.1.3, or the additional consideration (if any) payable upon the conversion or exchange of any Convertible Securities referred to in subsection 4.6.2.1.3, or the rate at which any Convertible Securities referred to in subsection 4.6.2.1.3 are convertible into or exchangeable for shares of Common Stock, shall be reduced at any time under or by reason of provisions with respect thereto designed to protect against dilution and such reduction would trigger an adjustment under Subsection 4.6.2.1, then in case of the delivery of shares of Common Stock upon the exercise of any such Option or upon conversion or exchange of any such Convertible Security, the Current Exercise Price then in effect hereunder shall, upon issuance of such shares of Common Stock, be adjusted to such amount as would have obtained had such Option or Convertible Security never been issued and had adjustments been made only upon the issuance of the shares of Common Stock actually delivered and for the consideration actually received for such Option or Convertible Security and the Common Stock.

4.6.2.1.5. Termination of Option or Conversion Rights. In the event of the termination or expiration of any right to purchase Common Stock under any Option or of any right to convert or exchange Convertible Securities, the Current Exercise Price shall, upon such termination, be changed to the Exercise Price that would have been in effect at the time of such expiration or termination had such Option or Convertible Security, to the extent outstanding immediately prior to such expiration or termination, never been issued, and the shares of Common Stock issuable thereunder shall no longer be deemed to be Common Stock Outstanding.

4.6.3. Employee Securities. Notwithstanding anything in this Article IV to the contrary, the Exercise Price shall not be adjusted by virtue of the issuance or sale of Employee Securities and no Employee Securities shall be included in any manner in the computation from time to time of the Exercise Price under subsection 4.6.2 or in Common Stock Outstanding for purposes of such computation except that Employee Securities constituting Common Stock arising from exercise of Options granted prior to October 14, 1997 shall be included in Common Stock Outstanding.

4.7. Maximum Exercise Price. At no time shall the Exercise Price exceed the amount set forth in the Preamble to this Warrant, unless the Exercise Price is adjusted pursuant to Section 4.3 hereof.

4.8. Other Dilutive Events. If any event occurs as to which the other provisions of this Article IV are not strictly applicable but the failure to make any adjustment would not fairly protect the purchase rights represented by this Warrant in accordance with the essential intent and principles hereof, then, in each such case, the Company shall appoint a firm of independent public accountants of recognized national standing (which may be the Company's regular auditors) which shall give their opinion upon the adjustment, if any, on a basis consistent with the essential intent and principles established in this Article IV, necessary to preserve, without dilution, the purchase rights represented by this Warrant; provided, that no adjustments shall be made in connection with the issuance of Common Stock upon exercise, conversion or exchange of Options or Convertible Securities to the extent that adjustment has previously been made upon issuance of such Options or Convertible Securities and each lowering of the effective purchase price of Common Stock pursuant to such Option or Convertible Securities. Upon receipt of such opinion, the

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Company shall promptly mail a copy thereof to the Holder and shall make the adjustments described therein.

4.9. Certificates and Notices.

(a) Adjustment Certificates. Upon any adjustment of the Exercise Price and/or the number of shares of Common Stock purchasable upon exercise of this Warrant, a certificate, signed by (i) the Company's President or Chief Financial Officer, or (ii) any independent firm of certified public accountants of recognized national standing the Company selects at its own expense, setting forth in reasonable detail the events requiring the adjustment and the method by which such adjustment was calculated, shall be mailed to the Holder and shall specify the adjusted Exercise Price and the number of shares of Common Stock purchasable upon exercise of the Warrant after giving effect to the adjustment.

(b) Extraordinary Corporate Events. If the Company, after the date hereof, proposes to effect (i) any transaction described in Sections 4.1 or

4.2 hereof, or (ii) a liquidation, dissolution or winding up of the Company described in Section 4.5 hereof or (iii) any payment of a dividend or distribution with respect to the Common Stock (other than a cash dividend or distribution), then, in each such case, the Company shall mail to the Holder a notice describing such proposed action and specifying the date on which the Company's books shall close, or a record shall be taken, for determining the holders of Common Stock entitled to participate in such action, or the date on which such reorganization, reclassification, consolidation, merger, sale, transfer, liquidation, dissolution or winding up shall take place or commence, as the case may be, and the date as of which it is expected that holders of Common Stock of record shall be entitled to receive securities and/or other property deliverable upon such action, if any such date is to be fixed. Such notice shall be mailed to the Holder at least twenty days prior to the record date for such action in the case of any action described in clause (i) above at least ten days prior to the record date for such action in the case of any action described in clause (iii) above, and in the case of any action described in clause (ii) above, at least twenty days prior to the date on which the action described is to take place and at least twenty days prior to the record date for determining holders of Common Stock entitled to receive securities and/or other property in connection with such action. The failure to give notice required by this Section 4.9(b) or any defect therein shall be a breach of this Warrant but shall not affect the legality or validity of the action taken by the Company or the vote upon any such action. Unless specifically required by this Article IV, the Exercise Price, the number of shares covered by each Warrant and the number of Warrants outstanding shall not be subject to adjustment as a result of the Company being required to give notice pursuant to this Section 4.9(b).

4.10. No Impairment. The Company shall not, by amendment of the Charter or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issuance or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but shall at all times in good faith assist in the carrying out of all the provisions of this Article IV and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Holder against impairment.

4.11. Application. Except as otherwise provide herein, all sections of this Article IV are intended to operate independently of one another. If an event occurs that requires the application of more than one section, all applicable sections shall be given independent effect.

ARTICLE V. REGISTRATION RIGHTS

5.1. Registration on Form S-3.

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5.1.1. Filing of Registration Statement. The Company shall use its best efforts to secure effectiveness of, as soon as practicable, and shall file no later than 10 days after the commencement of the Exercise Period, a registration statement in form and substance satisfactory to the Holder on Form S-3 (the "Registration Statement") with the Commission under the Securities Act to register the issuance of Warrant Shares upon exercise of the Warrant and the transfer of such Warrant Shares (the Warrant Shares constituting the "Registrable Securities"); provided however, that in the event the Company fails to file reports in a timely manner or otherwise fails (due to an action or inaction of the Company) to be eligible to file a registration statement on Form S-3, the Company shall file a registration statement on Form S-1.

5.1.2. Registrable Expenses. The Company shall pay all Registration Expenses (as defined below) in connection with any registration, qualification or compliance hereunder, and each Holder shall pay all Selling Expenses (as defined below) and other expenses that are not Registration Expenses relating to the Registrable Securities resold by such Holder. "Registration Expenses" shall mean all expenses, except for Selling Expenses, incurred by the Company in complying with the registration provisions herein described, including, without limitation, all registration, qualification and filing fees, printing expenses, fees and disbursements of counsel for the Company, blue sky fees and expenses and the expense of any special audits incident to or required by any such registration. "Selling Expenses" shall mean all selling commissions, underwriting fees and stock transfer taxes applicable to the Registrable Securities and all fees and disbursements of counsel for any Holder.

5.1.3. Additional Company Obligations. In the case of any registration effected by the Company pursuant to these registration provisions, the Company will use its best efforts to: keep such registration effective until such date as all of the Registrable Securities have been sold or could immediately be sold pursuant to Rule 144(k) promulgated by the Commission; (ii)

prepare and file with the Commission such amendments and supplements to the Registration Statement and the prospectus used in connection with the Registration Statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of the Registrable Securities; (iii) furnish such number of prospectuses and other documents incident thereto, including any amendment of or supplement to the prospectus, as a Holder from time to time may reasonably request; (iv) cause all such Registrable Securities registered as described herein to be listed on each securities exchange and quoted on each quotation system on which similar securities issued by the Company are then listed or quoted; (v) provide a transfer agent and registrar for all Registrable Securities registered pursuant to the Registration Statement and a CUSIP number for all such Registrable Securities; (vi) use its best efforts to comply with all applicable rules and regulations of the Commission, and make available to its securityholders, to the extent required, as soon as reasonably practicable, an earnings statement covering the period of at least twelve months, but not more than eighteen months, beginning with the first month after the effective date of the Registration Statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act; and (vii) file the documents required of the Company and otherwise use its best efforts to maintain requisite blue sky clearance in (A) all jurisdictions in which any of the Warrant Shares are originally sold and (B) all other states specified in writing by a Holder as may reasonably be required to sell such Holder's Warrant Shares, provided, however, that the Company shall not be required to qualify to do business, subject itself to taxation, or consent to service of process in any state in which it is not now so qualified or subject to taxation or has not so consented.

5.1.4. Conditions and Limitations

(a) Cooperation by Holder. It shall be a condition precedent to the obligation of the Company to take any action pursuant to this Article V in respect of the Registrable Securities that the Holder shall furnish to the Company such information regarding such Registrable Securities and the

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intended method of disposition thereof and such other information as the Company shall reasonably request and as shall be required in connection with the action taken by the Company.

(b) Notification Prior to Sale. If any Holder shall propose to sell any Registrable Securities pursuant to the Registration Statement, it shall notify the Company of its intent to do so at least three full business days prior to such sale, and the provision of such notice to the Company shall be deemed to establish an agreement by such Holder to comply with the registration provisions contained herein. Such notice shall be deemed to constitute a representation that any information previously supplied by such Holder is accurate as of the date of such notice. At any time within such three business day period, the Company may refuse to permit the Holder to resell any Registrable Securities pursuant to the Registration Statement; provided, however, that in order to exercise this right, the Company must deliver a certificate in writing to the Holder to the effect that a delay in such sale is necessary because, in the good faith judgment of the Company, a sale pursuant to the Registration Statement would require the public disclosure of information that would not otherwise be required to be disclosed (which disclosure would be likely, in the good faith judgment of the Company, to be materially harmful to the Company) or could in other respects constitute a violation of the federal securities laws. In such an event, the Company shall use its best efforts to amend the Registration Statement to the extent required to comply with Section 5.1.4 and to take all other actions necessary to allow such sale under the federal securities laws, and shall notify the Holders promptly after it has determined that such circumstances no longer exist. Notwithstanding the foregoing, the Company shall not under any circumstances be entitled to refuse to permit the Holder to resell any Registrable Securities more than twice in any twelve-month period, and any individual period during which the Company refuses to permit the Holder to resell any Registrable Securities shall not exceed sixty days.

The Company will promptly notify each holder of any Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event or existence of any fact as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances in which they are made, and, as promptly as is practicable, prepare and furnish to such holder a reasonable number of copies of any required supplement to or amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such securities, such prospectus shall not include an untrue statement of a material

fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances in which they are made. By acquisition of Registrable Securities, each holder of such Registrable Securities shall be deemed to have agreed that upon receipt of any notice from the Company of the happening of any event of the kind described in the preceding sentence, such holder will promptly discontinue such holder's disposition of Registrable Securities pursuant to the registration statement covering such Registrable Securities until such holder's receipt of the copies of any required supplemented or amended prospectus contemplated by this Section. If so directed by the Company, each holder of Registrable Securities will deliver to the Company (at the Company's expense) all copies, other than permanent file copies, in such holder's possession of the prospectus covering such Registrable Securities at the time of receipt of such notice. Subject to the foregoing, when a Holder is entitled to sell and gives notice of its intent to sell pursuant to the Registration Statement, the Company shall furnish to such Holder a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such shares, such prospectus shall not include an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances in which they are made.

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5.2. Indemnification and Contribution.

5.2.1. Indemnification by the Company. The Company agrees to indemnify and hold harmless each Holder from and against any losses, claims, damages or liabilities (or actions or proceedings in respect thereof) to which such Holder may become subject (under the Securities Act or otherwise) insofar as such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) arise out of, or are based upon, any claim by a third party asserting any untrue statement of a material fact contained in the Registration Statement or omission of a material fact therefrom necessary to make the statements therein not misleading, on the effective date thereof, or arise out of any failure by the Company to fulfill any undertaking included in the Registration Statement, and the Company will, as incurred, reimburse such Holder for any legal or other expenses reasonably incurred in investigating, defending or preparing to defend any such action, proceeding or claim; provided, however, that the Company shall not be liable in any such case to the extent that such loss, claim, damages or liability arises out of, or is based upon (i) an untrue statement made in such Registration Statement in reliance upon and in conformity with written information furnished to the Company by or on behalf of such Holder specifically for use in preparation of the Registration Statement or (ii) any untrue statement in any prospectus that is corrected in any subsequent prospectus that was delivered to the Holder prior to the pertinent sale or sales by the Holder.

5.2.2. Indemnification by Holder. Each Holder, severally and not jointly, agrees to indemnify and hold harmless the Company from and against any losses, claims, damages or liabilities (or actions or proceedings in respect thereof) to which the Company may become subject (under the Securities Act or otherwise) insofar as such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) arise out of, or are based upon any claim by a third party asserting (i) an untrue statement made in such Registration Statement in reliance upon and in conformity with written information furnished to the Company by or on behalf of such Holder specifically for use in preparation of the Registration Statement, provided, however, that no Holder shall be liable in any such case for any untrue statement included in any prospectus which statement has been corrected, in writing, by such Holder and delivered to the Company at least three business days before the sale from which such loss occurred or (ii) any untrue statement in any prospectus that is corrected in any subsequent prospectus that was delivered by the Holder to the purchaser prior to the pertinent sale or sales by the Holder, and each Holder, severally and not jointly, will, as incurred, reimburse the Company for any legal or other expenses reasonably incurred in investigating, defending or preparing to defend any such action, proceeding or claim.

5.2.3. Indemnification Procedures. Promptly after receipt by any indemnified person of a notice of a claim or the beginning of any action in respect of which indemnity is to be sought against an indemnifying person pursuant to this Section 5.2, such indemnified person shall notify the indemnifying person in writing of such claim or of the commencement of such action, and, subject to the provisions hereinafter stated, in case any such action shall be brought against an indemnified person and the indemnifying person shall have been notified thereof, the indemnifying person shall be entitled to participate therein, and, to the extent that it shall wish, to assume the defense thereof, with counsel reasonably satisfactory to the indemnified person. After notice from the indemnifying person to such indemnified person of the indemnifying person's election to assume the defense

thereof, the indemnifying person shall not be liable to such indemnified person for any legal expenses subsequently incurred by such indemnified person in connection with the defense thereof; provided, however, that if there exists or shall exist a conflict of interest that would make it inappropriate in the reasonable opinion of counsel for the indemnified person for the same counsel to represent both the indemnified person and such indemnifying person or any affiliate or associate thereof, the indemnified person shall be entitled to retain its own counsel at the expense of such indemnifying person; provided, however, that in the case of the immediately preceding proviso the indemnifying person shall not be responsible for the legal expenses of more than one counsel for all indemnified persons.

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5.2.4. Contribution in Lieu of Indemnity. If the indemnification provided for in this Section 5.2 is unavailable to or insufficient to hold harmless an indemnified party under Section 5.2.1 or 5.2.2 above in respect of any losses, claims, damages or liabilities (or actions or proceedings in respect thereof) referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative benefit and relative fault of the respective parties as well as any other relevant equitable considerations. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or a Holder on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Holders agree that it would not be just and equitable if contribution pursuant to this Section 5.2.4 were determined by pro rata allocation (even if the Holders were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 5.2.4. The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this Section 5.2.4 shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 5.2.4, no Holder shall be required to contribute any amount in excess of the net amount received by the Holder from the sale of the Registrable Securities to which such loss relates. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Holders' obligations in this Section 5.2.4 to contribute are several in proportion to their respective sales of Registrable Securities to which such loss relates and not joint.

5.2.5. Controlling Persons Indemnified. The obligations of the Company and the Holders under this Section 5.2 shall be in addition to any liability which the Company and the respective Holders may otherwise have and shall extend, upon the same terms and conditions, to each person, if any, who controls or may be deemed to control the Company or any Holder within the meaning of the Securities Act including, without limitation, the directors and officers of the Company and the Holder, as the case may be.

5.3. Transfer Of Registration Rights. The right to sell Registrable Securities pursuant to the Registration Statement described herein will automatically be assigned to each transferee of the Warrant or Warrant Shares permitted under the terms of this Warrant. In the event that it is necessary, in order to permit a Holder to sell Registrable Securities pursuant to the Registration Statement, to amend the Registration Statement to name such Holder, such Holder shall upon written notice to the Company, be entitled to have the Company make such amendment as soon as reasonably practicable.

ARTICLE VI.

REPRESENTATIONS, WARRANTIES AND COVENANTS OF COMPANY

6.1. Representations and Warranties. The Company represents and warrants that as of the date hereof:

(a) Legal Status; Qualification. The Company is a corporation duly organized, validly existing and in good standing under the laws of Rhode Island and is qualified or licensed to do business in all other countries, states and provinces in which the laws thereof require the Company to

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qualify and/or belicensed, except where failure to qualify or be licensed would

not have a material adverse effect on the business or assets of the Company taken as a whole;

(b) Capitalization. The Company's authorized capital stock consists of: 300,000,000 shares of Common Stock, of which 126,352,563 shares are issued and outstanding;

(c) Options. Except as described in Exhibit "D-3" hereto there are no Options, warrants or similar rights to acquire from the Company, or agreements or other obligations by the Company, absolute or contingent, to issue or sell Common Stock, whether on conversion or exchange of Convertible Securities or otherwise;

(d) Preemptive Rights. No shareholder of the Company has any preemptive rights to subscribe for shares of Common Stock;

(e) Authority. The Company has the right and power, and is duly authorized and empowered, to enter into, execute, deliver and perform its obligations under this Warrant;

(f) Binding Effect. This Warrant has been duly authorized, executed and delivered and constitutes a valid and binding obligation of the Company enforceable in accordance with its terms, except to the extent that enforceability may be limited by (i) bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and (ii) general principles of equity;

(g) No Conflict. The execution, delivery and/or performance by the Company of this Warrant shall not, by the lapse of time, the giving of notice or otherwise, constitute a violation of any applicable law or a breach of any provision contained in the Company's Charter or Bylaws or contained in any agreement, instrument or document to which the Company is a party or by which it is bound;

(h) Consents. Except as contemplated by Article V and Section 6.2(b), no consent, approval, authorization or other order of any court, regulatory body, administrative agency or other governmental body is required for the valid issuance of the Warrant or for the performance of any of the Company's obligations hereunder, except in connection with listing of the Warrant Shares on the American Stock Exchange, which listing will be effected in accordance with the rules and regulations of the American Stock Exchange;

(i) Offering. Neither the Company nor any agent acting on its behalf has, either directly or indirectly, sold, offered for sale or disposed of, or attempted or offered to dispose of, this Warrant or any part hereof, or any similar obligation of the Company, to, or has solicited any offers to buy any thereof from, any Person or Persons other than the Holder. Neither the Company nor any agent acting on its behalf will sell or offer for sale or dispose of, or attempt or offer to dispose of, this Warrant or any part thereof to, or solicit any offers to buy any warrant of like tenor from, or otherwise approach or negotiate in respect thereof, with, any Person or Persons so as thereby to bring the issuance of this Warrant within the provisions of Section 5 of the Securities Act;

(j) Registration. Assuming the accuracy of the Holder's representations made herein, it is not necessary in connection with the issuance and sale of this Warrant to the Holder pursuant to this Agreement to Register this Warrant under the Securities Act; and

6.2. Covenants. The Company covenants that:

(a) Authorized Shares. The Company will at all times have authorized, and reserved for the purpose of issuance or transfer upon exercise of the rights evidenced by this Warrant, a sufficient number of shares of Common Stock to provide for the exercise of the rights represented by this Warrant

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(for purposes of determining compliance with this covenant, the shares of Common Stock issuable upon exercise of all other Options and warrants to acquire Common Stock and upon conversion of all instruments convertible into Common Stock shall be deemed issued and outstanding);

(b) Proper Issuance. The Company, at its expense, will take all such action as may be necessary to assure that the Common Stock issuable upon the exercise of this Warrant may be so issued without violation of any applicable law or regulation, or of any requirements of any domestic securities exchange or automated quotation system upon which any capital stock of the Company may be listed or quoted, as the case may be, provided that the Holder, at its sole expense, will take all such action as may be necessary under the

Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, in connection with its acquisition of securities of the Company. Such action by the Company may include, but not be limited to, causing such shares to be duly registered or approved, listed or quoted on relevant domestic securities exchanges or automated quotation systems; and

(c) Fully Paid Shares. The Company will take all actions necessary or appropriate to validly and legally issue fully paid and nonassessable shares of Common Stock upon exercise of this Warrant. All such shares will be free from all taxes, liens and charges with respect to the issuance thereof, other than any stock transfer taxes in respect to any transfer occurring contemporaneously with such issuance.

ARTICLE VII.
MISCELLANEOUS

7.1. Certain Expenses. The Company shall pay all expenses in connection with, and all taxes (other than stock transfer and income taxes) and other governmental charges that may be imposed in respect of, the issuance, sale and delivery of the Warrant and the Warrant Shares to the Holder.

7.2. Holder Not a Shareholder. Prior to the exercise of this Warrant as hereinbefore provided, the Holder shall not be entitled to any of the rights of a shareholder of the Company including, without limitation, the right as a shareholder (i) to vote on or consent to any proposed action of the Company or (ii) except as provided herein, to receive (a) dividends or any other distributions made to shareholders, (b) notice of or attend any meetings of shareholders of the Company or (c) notice of any other proceedings of the Company.

7.3. Like Tenor. All Warrants shall at all times be substantially identical except as to the Preamble.

7.4. Remedies. The Company stipulates that the remedies at law of the Holder in the event of any default or threatened default by the Company in the performance of or compliance with any of the terms of this Warrant are not and will not be adequate to the fullest extent permitted by law, and that such terms may be specifically enforced by a decree for the specific performance of any agreement contained herein or by an injunction against a violation of any of the terms hereof or otherwise.

7.5. Enforcement Costs. If the Holder, a Shareholder or the Company seeks to enforce its rights hereunder by legal proceedings or otherwise, then the non-prevailing party shall pay all reasonable costs and expenses incurred by the prevailing party, including, without limitation, all reasonable attorneys' fees (including the allocable costs of in-house counsel).

7.6. Nonwaiver; Cumulative Remedies. No course of dealing or any delay or failure to exercise any right hereunder on the part of the Holder and/or any Shareholder shall operate as a waiver of such right or otherwise prejudice the rights, powers or remedies of the Holder or such Shareholder. No

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single or partial waiver by the Holder and/or any Shareholder of any provision of this Warrant or of any breach or default hereunder or of any right or remedy shall operate as a waiver of any other provision, breach, default right or remedy or of the same provision, breach, default, right or remedy on a future occasion. The rights and remedies provided in this Warrant are cumulative and are in addition to all rights and remedies which the Holder and each Shareholder may have in law or in equity or by statute or otherwise.

7.7. Notices. Any notice, demand or delivery to be made pursuant to this Warrant will be sufficiently given or made if sent by certified or registered mail, postage prepaid, nationally recognized overnight delivery service or facsimile transmission, addressed to (a) the Holder and the Shareholders at their last known addresses appearing on the books of the Company maintained for such purpose or (b) the Company at its Principal Executive Office. The Holder, the Shareholders and the Company may each designate a different address by notice to the other pursuant to this Section 7.7. A notice shall be deemed effective upon receipt.

7.8. Successors and Assigns. This Warrant shall be binding upon, the Company and any Person succeeding the Company by merger, consolidation or acquisition of all or substantially all of the Company's assets, and all of the obligations of the Company with respect to the shares of Common Stock issuable upon exercise of this Warrant shall survive the exercise, expiration or termination of this Warrant and all of the covenants and agreements of the Company shall inure to the benefit of the Holder, each Shareholder and their respective successors and assigns. The Company shall, at the time of exercise of

this Warrant, in whole or in part, upon request of the Holder or any Shareholder but at the Company's expense, acknowledge in writing its continuing obligations hereunder with respect to rights of the Holder or such Shareholder to which it shall continue to be entitled after such exercise in accordance with the terms hereof; provided that the failure of the Holder or any Shareholder to make any such request shall not affect the continuing obligation of the Company to the Holder or such Shareholder in respect of such rights.

7.9. Modification; Severability.

(a) If, in any action before any court or agency legally empowered to enforce any term, any term is found to be unenforceable, then such term shall be deemed modified to the extent necessary to make it enforceable by such court or agency.

(b) If any term is not curable as set forth in subsection (a) above, the unenforceability of such term shall not affect the other provisions of this Warrant but this Warrant shall be construed as if such unenforceable term had never been contained herein.

7.10. Integration. This Warrant replaces all prior and contemporaneous agreements and supersedes all prior and contemporaneous negotiations between the parties with respect to the transactions contemplated herein and constitutes the entire agreement of the parties with respect to the transactions contemplated herein.

7.11. Survival of Representations and Warranties. The representations and warranties of any party in this Warrant shall survive the execution and delivery of this Warrant and the consummation of the transactions contemplated hereby, notwithstanding any investigation by the such party or its agents.

7.12. Amendment. This Warrant may not be modified or amended except by written agreement of the Company, the Holder and the Shareholder(s), if any, holding a majority of the Warrant Shares.

7.13. Headings. The headings of the Articles and Sections of this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

7.14. Meanings. Whenever used in this Warrant, any noun or pronoun shall be deemed to include both the singular and plural and to cover all genders; and the words "herein," "hereof" and "hereunder" and words of similar import shall refer to this instrument as a whole, including any amendments hereto.

7.15. Governing Law. This Warrant shall be governed by, and construed in accordance with, the laws of the State of California applicable to contracts entered into and to be performed wholly within California by California residents.

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its duly authorized officer this October 14, 1997.

LUCAS LICENSING LTD. ("Holder")

HASBRO, INC. ("Company")

By: /s/ GORDON RADLEY

By: /s/ HAROLD P. GORDON

Title: President

Title: Vice Chairman

SCHEDULE OF EXHIBITS

EXHIBIT "D-1"-Notice of Exercise (Section 2.1)

EXHIBIT "D-2"-Investment Representation Certificate (Section 3.2(a))

EXHIBIT "D-3"-Assignment Form (Section 3.2(d))

EXHIBIT "D-1"

NOTICE OF EXERCISE FORM

(To be executed only upon partial or full
exercise of the within Warrant)

The undersigned registered Holder of the within Warrant hereby irrevocably exercises the within Warrant for and purchases shares of Common Stock of Hasbro, Inc. and herewith makes payment therefor in the amount of \$ _____, all at the price and on the terms and conditions specified in the within Warrant and requests that a certificate (or _____ certificates in denominations of _____ shares) for the shares of Common Stock of Hasbro, Inc. hereby purchased be issued in the name of and delivered to (choose one) (a) the undersigned or (b) [NAME], whose address is and, if such shares of Common Stock shall not include all the shares of Common Stock issuable as provided in the within Warrant, that a new Warrant of like tenor for the number of shares of Common Stock of Hasbro, Inc. not being purchased hereunder be issued in the name of and delivered to (choose one) (a) the undersigned or (b) [NAME], whose address is _____.

Dated: _____

NOTICE: The signature to this Notice of Exercise must correspond with the name as written upon the face of the within Warrant in every particular, without alteration or enlargement or any change whatever.

EXHIBIT "D-2"

INVESTMENT REPRESENTATION CERTIFICATE

Purchaser:

Company: Hasbro, Inc.

Security: Common Stock

Amount:

Date:

(a) In connection with the purchase of the above-listed securities (the "Securities"), the undersigned (the "Purchaser") represents to the Company as follows:

(b) The Purchaser is aware of the Company's business affairs and financial condition, and has acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Securities. The Purchaser is purchasing the Securities for its own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof for purposes of the Securities Act of 1933, as amended (the "Securities Act");

(c) The Purchaser understands that the Securities have not been registered under the Securities Act in reliance upon a specific exemption therefor, which exemption depends upon, among other things, the bona fide nature of the Purchaser's investment intent as expressed herein;

(d) The Purchaser further understands that the Securities must be held indefinitely unless subsequently registered under the Securities Act or unless an exemption from registration is otherwise available. In addition, the Purchaser understands that the certificate evidencing the Securities will be imprinted with the legend referred to in the Warrant under which the Securities are being purchased; and

(e) The Purchaser is aware of the provisions of Rule 144, promulgated under the Securities Act, which, in substance, permit limited public resale of "restricted securities" acquired, directly or indirectly, from the issuer thereof (or from an affiliate of such issuer), in a non-public offering subject to the satisfaction of certain conditions, if applicable, including, among other

things: (i) the availability of certain public information about the Company; (ii) the resale occurring not less than one year after the party has purchased and paid for the securities to be sold; (iii) the sale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934) and the amount of securities being sold during any three-month period not exceeding the specified limitations stated therein.

The Purchaser represents that it is an "accredited investor" as that term is defined in Rule 501 of Regulation D under the Securities Act or any successor regulation thereunder.

Date: _____ PURCHASER: _____

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EXHIBIT "D-3"

OUTSTANDING OPTIONS

ASSIGNMENT FORM

(To be executed only upon the assignment of the within Warrant)

FOR VALUE RECEIVED, the undersigned registered Holder of the within Warrant hereby sells, assigns and transfers unto _____, whose address is _____ all of the rights of the undersigned under the within Warrant, with respect to shares of Common Stock of Hasbro, Inc. and, if such shares of Common Stock shall not include all the shares of Common Stock issuable as provided in the within Warrant, that a new Warrant of like tenor for the number of shares of Common Stock of Hasbro, Inc. not being transferred hereunder be issued in the name of and delivered to the undersigned, and does hereby irrevocably constitute and appoint _____ attorney to register such transfer on the books of Hasbro, Inc. maintained for the purpose, with full power of substitution in the premises.

Dated: _____

By: _____
(Signature of Registered Holder)

Title: _____

NOTICE: The signature to this Assignment must correspond with the name upon the face of the within Warrant in every particular, without alteration or enlargement or any change whatever.

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EXHIBIT "D-4"

OUTSTANDING OPTIONS AND CONVERTIBLE SECURITIES

(Sections 6.1(c))

1. Options granted under employee and non-employee director stock option plans for 10,515,835 shares of Common Stock.
2. 6% Convertible Subordinated Notes due 1998 convertible into 7,607,723 shares of Common Stock.
3. Warrants granted to DreamWorks LLC for shares of Common Stock.

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THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY STATE SECURITIES LAWS. NO SALE, TRANSFER, PLEDGE OR OTHER DISPOSITION OF SUCH SECURITIES MAY BE EFFECTED WITHOUT (A) (i) AN EFFECTIVE REGISTRATION STATEMENT RELATING THERETO, (ii) AN OPINION OF COUNSEL FOR THE HOLDER, REASONABLY SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATION IS NOT REQUIRED OR (iii) RECEIPT OF A NO-ACTION LETTER FROM THE SECURITIES AND EXCHANGE COMMISSION, AND (B) OTHERWISE COMPLYING WITH THE PROVISIONS OF ARTICLE III OF THIS WARRANT.

THIS WARRANT MAY NOT BE TRANSFERRED (i) OTHER THAN TO AN AFFILIATE (AS DEFINED UNDER THE SECURITIES ACT OF 1933, AS AMENDED), (ii) FOLLOWING A CHANGE IN CONTROL OR (iii) IN CONNECTION WITH THE SALE OF ALL OR SUBSTANTIALLY ALL OF THE ASSETS, BUSINESS OR CAPITAL STOCK OF HOLDER, AS PROVIDED HEREIN.

WARRANT
TO PURCHASE SHARES OF COMMON STOCK
AS HEREIN DESCRIBED

Dated October 14, 1997

This certifies that for value received:

LUCASFILM LTD.

or registered assigns, is entitled, subject to the terms set forth herein, to purchase from Hasbro, Inc., a Rhode Island corporation (the "Company"), up to 2,600,000 fully paid and nonassessable shares of the Common Stock of the Company, at the exercise price of twenty-eight dollars (\$28.00) per share. The number of shares purchasable hereunder and the Exercise Price are subject to adjustment in certain events, all as more fully set forth under Article IV herein.

ARTICLE I.
DEFINITIONS

"Additional Stock" means any of Common Stock, Convertible Securities and Options.

"Change in Control" means:

A. The acquisition (or series of related acquisitions) 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, as amended (the "1934 Act") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 20% or more of either (x) the then outstanding shares of Common Stock (the "Outstanding Common Stock") or (y) the combined voting power of the then outstanding voting securities of the Company 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 (or series of related acquisitions) directly from the Company or any of its subsidiaries of shares that would constitute, after

issuance, or any acquisition (or series of related acquisitions) consented to by the Board of Directors of the Company of outstanding shares constituting, in the aggregate, less than 40% of the Outstanding Voting Securities, (ii) any acquisition by the Company or any of its subsidiaries, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company 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 (such holders described in clauses (ii) and (iii) and in this clause (iv), the "Permitted Acquirors") or (v) any acquisition by any corporation with respect to which, following such acquisition, (a) more than 50% 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, and (b) less than 40% of such outstanding shares of common stock of such corporation and of such combined voting power of such outstanding voting securities is then beneficially owned, directly or indirectly, by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the 1934 Act), other than the Permitted Acquirors; or

B. Any event in which individuals who as of the Closing Date constitute the Board of Directors of the Company (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 Closing Date, 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. A reorganization, merger or consolidation involving the Company (whether or not the Company is the surviving entity), in each case, with respect to which (i) 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 50% 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, and (ii) following such reorganization, merger or consolidation, no individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the 1934 Act), other than the Permitted Acquirors, beneficially owns, directly or indirectly, 40% or more of such outstanding shares of common stock of such surviving corporation and of such combined voting power of such outstanding voting securities; or

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D. (i) A complete liquidation or dissolution of the Company or (ii) the sale or other disposition of all or substantially all of the assets of the Company (in one transaction or a series of related transactions), other than to a corporation, with respect to which following such sale or other disposition, (A) more than 50% 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, and (B) less than 40% of such outstanding shares of common stock of such corporation and of such combined voting power of the outstanding voting securities of such corporation is then beneficially owned, directly or indirectly, by an individual entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the 1934 Act), other than the Permitted Acquirors; or

E. The acquisition (or series of related acquisitions) by a Competitor of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 20% or more of either (x) the Outstanding Common Stock or (y) the Outstanding Voting Securities unless such Competitor is approved by Holder as a passive investor in the Company, such approval not to be unreasonably withheld.

"Charter" means the certificate of incorporation of the Company, as filed with the Rhode Island Secretary of State.

"Closing Date" means October 14, 1997.

"Commission" means the Securities and Exchange Commission, or any other federal agency then administering the Securities Exchange Act of 1934 or the Securities Act.

"Common Stock" means the Company's Common Stock, par value \$.50 per share, any stock into which such stock shall have been changed or any stock resulting from any reclassification of such stock, and any other capital stock of the Company of any class or series now or hereafter authorized having the

right to share in distributions either of earnings or assets of the Company without limit as to amount or percentage.

"Company" means Hasbro, Inc., a Rhode Island corporation, and any successor corporation.

"Competitor" means a Person or group of Persons (within the meaning of Section 13(d)(3) or 14(d)(2) of the 1934 Act) engaged as a significant part of its or their business in the business of producing or distributing any entertainment properties including, without limitation, motion pictures, television production, and interactive educational and entertainment products.

"Convertible Securities" means evidences of indebtedness, shares of stock or other securities which are convertible into or exchangeable for, with or without payment of additional consideration, shares of Common Stock, either immediately or upon the arrival of a specified date or the happening of a specified event or both.

"Employee Securities" shall mean all securities of the Company issued or sold after October 14, 1997 to employees, consultants, officers or directors of the Company with the approval of, or pursuant to a plan approved by, the Board of Directors or any duly authorized committee thereof.

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"Exercise Period" means the period commencing on the earlier of (i) the U.S. Release Date of Episode I and (ii) the occurrence of a Change in Control and terminating at 5:00 p.m. Pacific Time on the twelfth anniversary of the Closing Date.

"Exercise Price" means the exercise price per share of Common Stock set forth in the Preamble to this Warrant, as such price may be adjusted pursuant to Article IV hereof.

"Fair Market Value" means with respect to a share of Common Stock at any date:

(i) If shares of Common Stock are being sold pursuant to a public offering under an effective registration statement under the Securities Act which has been declared effective by the Commission and Fair Market Value is being determined as of the closing of the public offering, the "per share price to public" specified for such shares in the final prospectus for such public offering;

(ii) If shares of Common Stock are then listed or admitted to trading on any national securities exchange or traded on any national market system and Fair Market Value is not being determined as of the date described in clause (i) of this definition, the average of the daily closing prices for the twenty trading days before such date. The closing price for each day shall be the last sale price on such date or, if no such sale takes place on such date, the average of the closing bid and asked prices on such date, in each case as officially reported on the principal national securities exchange or national market system on which such shares are then listed, admitted to trading or traded;

(iii) If no shares of Common Stock are then listed or admitted to trading on any national securities exchange or traded on any national market system or being offered to the public pursuant to a registration described in clause (i) of this definition, the average of the reported closing bid and asked prices thereof on such date in the over-the-counter market as shown by the Nasdaq Stock Market or, if such shares are not then quoted in such system, as published by the National Quotation Bureau, Incorporated or any similar successor organization, and in either case as reported by any member firm of the New York Stock Exchange selected by the Company and reasonably acceptable to the Holder;

(iv) If no shares of Common Stock are then listed or admitted to trading on any national exchange or traded on any national market system, if no closing bid and asked prices thereof are then so quoted or published in the over-the-counter market and if no such shares are being offered to the public pursuant to a registration described in clause (i) of this definition, the fair value of a share of Common Stock shall be as determined by an investment bank selected by Company with the approval of the Holder (which approval shall not be unreasonably withheld or delayed), the costs of such investment banker to be paid by the Company.

"Fiscal Year" means the fiscal year of the Company.

"Holder" means the person in whose name this Warrant is registered on the books of the Company maintained for such purpose and any transferee

permitted under the terms of this Warrant of all or a portion of this Warrant.

"Option" means any right, warrant or option to subscribe for or purchase shares of Common Stock or Convertible Securities.

"Person" means and includes natural persons, corporations, limited partnerships, general partnerships, limited liability companies, joint stock companies, joint ventures, associations, companies,

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trusts, banks, trust companies, land trusts, business trusts, government entities and authorities and other organizations, whether or not legal entities.

"Principal Executive Office" means the Company's office at 1027 Newport Avenue, Pawtucket, Rhode Island 02862 or such other office as designated in writing to the Holder by the Company.

"Register," "Registered" and "Registration" refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act, and the declaration or ordering of the effectiveness of such registration statement.

"Rule 144" means Rule 144 as promulgated by the Commission under the Securities Act, as such Rule may be amended from time to time, or any similar successor rule that the Commission may promulgate.

"Securities Act" means the Securities Act of 1933, as amended, or any successor federal statute, and the rules and regulations of the Commission promulgated thereunder, all as the same shall be in effect from time to time.

"Shareholder" means the person who was previously the Holder and has exercised all or a portion of this Warrant.

"U.S. Release Date of Episode I" means the initial theatrical release in the United States of the first prequel theatrical motion picture to the classic Star Wars trilogy.

"Warrant" means the warrant dated as of Closing Date issued to the Holder and all warrants issued upon the partial exercise, transfer or division of or in substitution for any Warrant.

"Warrant Shares" means the shares of Common Stock issued or issuable upon the exercise of this Warrant provided that if under the terms hereof there shall be a change such that the securities purchasable hereunder shall be issued by an entity other than the Company or there shall be a change in the type or class of securities purchasable hereunder, then the term shall mean the securities issued or issuable upon the exercise of the rights granted hereunder.

ARTICLE II. EXERCISE

2.1. Exercise Right; Manner of Exercise. The purchase rights represented by this Warrant may be exercised by the Holder, in whole or in part, at any time and from time to time during the Exercise Period upon (i) surrender of this Warrant, together with an executed notice of exercise, substantially in the form of Exhibit "D-1" ("Notice of Exercise") attached hereto, at the Principal Executive Office, and (ii) payment to the Company of the aggregate Exercise Price for the number of Warrant Shares specified in the Notice of Exercise (such aggregate Exercise Price, the "Total Exercise Price"). The Total Exercise Price shall be paid by check; provided, however, that if the Warrant Shares are acquired in conjunction with a Registration of such Warrant Shares, then the Holder may arrange for the aggregate Exercise Price for such Warrant Shares to be paid to the Company from the proceeds of the sale of such Warrant Shares pursuant to such Registration. The Person or Person(s) in whose name(s) any certificate(s) representing the Warrant Shares which are issuable upon exercise of this Warrant shall be deemed to become the Holder(s) of, and shall be treated for all purposes as the record holder(s) of, such Warrant Shares, and such Warrant Shares shall be deemed to have been issued, immediately prior to the close of business on the date on which this Warrant and Notice of Exercise are presented and payment made for such Warrant Shares,

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notwithstanding that the stock transfer books of the Company shall then be closed or that certificates representing such Warrant Shares shall not then be actually delivered to such Person or Person(s). Certificates for the Warrant Shares so purchased shall be delivered to the Holder within two business days after this Warrant is exercised. If this Warrant is exercised in part only, the

Company shall, upon surrender of this Warrant for cancellation, deliver a new Warrant evidencing the rights of the Holder to purchase the balance of the Warrant Shares which the Holder is entitled to purchase hereunder. The issuance of Warrant Shares upon exercise of this Warrant shall be made without charge to the Holder for any issuance tax with respect thereto or any other cost incurred by the Company in connection with the exercise of this Warrant and the related issuance of Warrant Shares.

2.2. Conversion of Warrant.

(a) Right to Convert. In addition to, and without limiting, the other rights of the Holder hereunder, the Holder shall have the right (the "Conversion Right") to convert this Warrant or any part hereof into Warrant Shares at any time and from time to time during the term hereof. Upon exercise of the Conversion Right, the Company shall deliver to the Holder, without payment by the Holder of any Exercise Price or any cash or other consideration, that number of Warrant Shares computed using the following formula:

$$X = \frac{Y (A - B)}{A}$$

Where: X= The number of Warrant Shares to be issued to the Holder

Y= The number of Warrant Shares purchasable pursuant to this Warrant or such lesser number of Warrant Shares as may be selected by the Holder

A= The Fair Market Value of one Warrant Share as of the Conversion Date

B= The Exercise Price

(b) Method of Exercise. The Conversion Right may be exercised by the Holder by the surrender of this Warrant at the Principal Executive Office, together with a written statement (the "Conversion Statement") specifying that the Holder intends to exercise the Conversion Right and indicating the number of Warrant Shares to be acquired upon exercise of the Conversion Right. Such conversion shall be effective upon the Company's receipt of this Warrant, together with the Conversion Statement, or on such later date as is specified in the Conversion Statement (the "Conversion Date") and, at the Holder's election, may be made contingent upon the closing of the consummation of the sale of Common Stock pursuant to a Registration. Certificates for the Warrant Shares so acquired shall be delivered to the Holder within a reasonable time, not exceeding two business days after the Conversion Date. If applicable, the Company shall, upon surrender of this Warrant for cancellation, deliver a new Warrant evidencing the rights of the Holder to purchase the balance of the Warrant Shares which Holder is entitled to purchase hereunder. The issuance of Warrant Shares upon exercise of this Warrant shall be made without charge to the Holder for any issuance tax with respect thereto or any other cost incurred by the Company in connection with the conversion of this Warrant and the related issuance of Warrant Shares; provided that the Holder will be responsible for any transfer taxes in respect of the issuance of Warrant Shares to a Person other than the Holder.

2.3. Fractional Shares. The Company shall not issue fractional shares of Common Stock upon any exercise or conversion of this Warrant. As to any fractional share of Common Stock which the Holder

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would otherwise be entitled to purchase from the Company upon such exercise or conversion, the Company shall purchase from the Holder such fractional share at a price equal to an amount calculated by multiplying such fractional share (calculated to the nearest 1/100th of a share) by the Fair Market Value of a share of Common Stock on the date of the Notice of Exercise or the Conversion Date, as applicable. Payment of such amount shall be made in cash or by check payable to the order of the Holder at the time of delivery of any certificate or certificates arising upon such exercise or conversion.

2.4. Continued Validity. A Shareholder shall be entitled to all rights which a Holder of this Warrant is entitled pursuant to the provisions of this Warrant, except rights which by their terms apply only to a Warrant.

ARTICLE III. TRANSFER, EXCHANGE AND REPLACEMENT

3.1. Maintenance of Registration Books. The Company shall keep at the Principal Executive Office a register in which, subject to such reasonable regulations as it may prescribe, it shall provide for the registration, transfer

and exchange of this Warrant. The Company and any Company agent may treat the Person in whose name this Warrant is registered as the owner of this Warrant for all purposes whatsoever, and neither the Company nor any Company agent shall be affected by any notice to the contrary.

3.2. Restrictions on Transfers.

(a) Compliance with Securities Act. The Holder, by acceptance hereof hereby makes the representations set forth in Exhibit D-2 with respect to its acquisition of this Warrant and agrees that this Warrant and the Common Stock to be issued to the Holder upon exercise hereof are being acquired for investment, solely for the Holder's own account and not as a nominee for any other Person, and that the Holder will not offer, sell or otherwise dispose of this Warrant or any such shares of Common Stock except under circumstances which will not result in a violation of the Securities Act or this Agreement. Unless registered under the Securities Act, upon exercise of this Warrant (other than through conversion of the Warrant on or after two years from the date hereof), the Holder shall confirm in writing, by executing the form attached as Exhibit "D-2" hereto, that the shares of Common Stock purchased thereby are being acquired for investment, solely for the Holder's own account and not as a nominee for any other Person, and not with a view toward distribution or resale.

(b) Certificate Legends. This Warrant and all Warrant Shares issued upon exercise of this Warrant (unless Registered under the Securities Act) shall be stamped or imprinted with legends in substantially the following form (in addition to any legends required by applicable state securities laws):

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY STATE SECURITIES LAWS. NO SALE, TRANSFER, PLEDGE OR OTHER DISPOSITION OF SUCH SECURITIES MAY BE EFFECTED WITHOUT (A) (i) AN EFFECTIVE REGISTRATION STATEMENT RELATING THERETO, (ii) AN OPINION OF COUNSEL FOR THE HOLDER, REASONABLY SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATION IS NOT REQUIRED OR (iii) RECEIPT OF A NO-ACTION LETTER FROM THE SECURITIES AND EXCHANGE COMMISSION AND (B) OTHERWISE COMPLYING WITH THE

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PROVISIONS OF ARTICLE III OF THE WARRANT UNDER WHICH THIS SECURITY WAS ISSUED.

In addition, the Warrant shall be stamped or imprinted with a legend in substantially the following form:

THIS WARRANT MAY NOT BE TRANSFERRED (i) OTHER THAN TO AN AFFILIATE (AS DEFINED UNDER THE SECURITIES ACT OF 1933, AS AMENDED) (ii) FOLLOWING A CHANGE IN CONTROL OR (iii) IN CONNECTION WITH THE SALE OF ALL OR SUBSTANTIALLY ALL OF THE ASSETS, BUSINESS OR CAPITAL STOCK OF HOLDER, ALL AS PROVIDED HEREIN.

(c) Additional Restriction on Transfer. The Holder shall not sell, assign or otherwise transfer, pledge or hypothecate all or part of this Warrant prior to a Change in Control without the prior written consent of the Company, which consent may be withheld in the Company's sole discretion; provided that (x) any such sale, assignment or other transfer by the Holder of the Warrant in its entirety to an entity owned or controlled by the Holder (but only for so long as it remains so owned or controlled and such entity agrees (i) to be bound by the terms and conditions of this Warrant pursuant to an agreement reasonably acceptable to the Company ("Assumption Agreement") and (ii) to transfer this Warrant back to the Holder if it ceases to be owned or controlled by the Holder), (y) any such sale, assignment or other transfer by the Holder of the Warrant in connection with (i) the merger, consolidation or reorganization of the Holder, (ii) the sale, assignment, transfer or other disposition of all or substantially all of the Holder's assets or business in one or more related transactions or (iii) the sale, assignment, transfer or other disposition of all or substantially all of the Holder's capital stock, provided that any transferee described in this clause (y) executes an Assumption Agreement, (z) a bona fide pledge or hypothecation (so long as any sale, assignment or other transfer in connection with any attempted foreclosure of such a pledge or hypothecation would require such consent from the Company), and (zz) any transfer to a Person directly or indirectly controlling the Holder, provided such Person executes an Assumption Agreement, may be effected without any such consent.

(d) Disposition of Warrant Shares. With respect to any offer, sale or other disposition of any Warrant Shares issued upon exercise of this Warrant prior to Registration of such shares, the Shareholder agrees to give written notice to the Company prior thereto, describing briefly the manner thereof, together with a written opinion of the Shareholder's counsel, if reasonably requested by the Company, to the effect that such offer, sale or other disposition may be effected without Registration under the Securities Act

or qualification under any applicable state securities laws of such Warrant Shares and indicating whether or not under the Securities Act certificates for such Warrant Shares to be sold or otherwise disposed of, require any restrictive legend as to applicable restrictions on transferability in order to insure compliance with the Securities Act and any other applicable securities laws, such opinion to be in form and substance reasonably satisfactory to the Company. Promptly upon receiving such written notice and reasonably satisfactory opinion, if so requested, the Company, as promptly as practicable, shall notify the Shareholder that it may sell or otherwise dispose of such Warrant Shares all in accordance with the terms of the notice delivered to the Company. If a determination has been made pursuant to this subsection (d) that the opinion of counsel for the Shareholder is not reasonably satisfactory to the Company, the Company shall so notify the Shareholder promptly after such determination has been made and shall specify the legal analysis supporting any such conclusion. Notwithstanding the foregoing, such Warrant Shares may be offered, sold or otherwise disposed of in accordance with Rule 144, provided that the Company shall have been furnished with such information as the Company may reasonably request to provide reasonable assurance that the provisions of Rule 144 have been satisfied. Each certificate

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representing the Warrant Shares thus transferred in accordance with this subsection (d) (except a transfer pursuant to Rule 144) shall bear a legend as to the applicable restrictions on transferability in order to insure compliance with the Securities Act, unless in the aforesaid reasonably satisfactory opinion of counsel for the Shareholder such legend is not necessary in order to insure compliance with the Securities Act. The Company may issue stop transfer instructions to its transfer agent in connection with such restrictions.

(e) Termination of Restrictions. The restrictions imposed under this Section 3.2 upon the transferability of the Warrant (other than those in Section 3.2(c)) and the shares of Common Stock acquired upon the exercise of this Warrant shall cease when (i) a registration statement covering the applicable securities becomes effective under the Securities Act, (ii) the Company is presented with an opinion of counsel reasonably satisfactory to the Company that such restrictions are no longer required in order to insure compliance with the Securities Act or with a Commission "no-action" letter stating that future transfers of such securities by the transferor or the contemplated transferee would be exempt from registration under the Securities Act, or (iii) such securities may be transferred in accordance with Rule 144(k). Subject to Section 3.2(c), if applicable, when such restrictions terminate, the Company shall, or shall instruct its transfer agent to, promptly, and without expense to the Shareholder issue new securities in the name of the Shareholder not bearing the legends required under subsection (b) of this Section 3.2.

3.3. Exchange. At the Holder's option, this Warrant may be exchanged for other Warrants representing the right to purchase a like aggregate number of shares of Common Stock upon surrender of this Warrant at the Principal Executive Office. Whenever this Warrant is so surrendered to the Company at the Principal Executive Office for exchange, the Company shall execute and deliver the Warrants which the Holder is entitled to receive. All Warrants issued upon any registration of transfer or exchange of Warrants shall be the valid obligations of the Company, evidencing the same rights, and entitled to the same benefits, as the Warrants surrendered upon such registration of transfer or exchange. No service charge shall be made for any exchange of this Warrant.

3.4. Replacement. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and (i) in the case of any such loss, theft or destruction, upon delivery of indemnity reasonably satisfactory to the Company in form and amount or (ii) in the case of any such mutilation, upon surrender of such Warrant for cancellation at the Principal Executive Office, the Company, at its expense, shall execute and deliver, in lieu thereof, a new Warrant.

ARTICLE IV. ANTIDILUTION PROVISIONS

4.1. Reorganization, Reclassification or Recapitalization of the Company. In case of (1) a capital reorganization, reclassification or recapitalization of the Company's capital stock (other than in the cases referred to in Section 4.2 hereof), (2) the Company's consolidation or merger with or into another corporation in which the Company is not the surviving entity, or a reverse triangular merger in which the Company is the surviving entity but the shares of the Company's capital stock outstanding immediately prior to the merger are converted, by virtue of the merger, into other property, whether in the form of securities, cash or otherwise, or (3) the sale or transfer of the Company's property as an entirety or substantially as an entirety, then, as part of such reorganization, reclassification, recapitalization, merger, consolidation, sale or transfer, lawful provision

shall be made so that there shall thereafter be deliverable upon the exercise of this Warrant or any portion thereof (in lieu of or in addition to the number of shares of Common Stock theretofore deliverable, as appropriate), and without payment of any additional consideration, the number of shares of stock or other securities or property to which the holder of the number of shares of Common Stock which would otherwise have been deliverable upon the exercise of this

Warrant or any portion thereof at the time of such reorganization, reclassification, recapitalization, consolidation, merger, sale or transfer would have been entitled to receive in such reorganization, reclassification, recapitalization, consolidation, merger, sale or transfer. This Section 4.1 shall apply to successive reorganizations, reclassifications, recapitalizations, consolidations, mergers, sales and transfers and to the stock or securities of any other corporation that are at the time receivable upon the exercise of this Warrant.

4.2. Reclassifications. If the Company changes any of the securities as to which purchase rights under this Warrant exist into the same or a different number of securities of any other class or classes, this Warrant shall thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities that were subject to the purchase rights under this Warrant immediately prior to such reclassification or other change and the Exercise Price therefor shall be appropriately adjusted.

4.3. Splits and Combinations. If the Company at any time subdivides any of its outstanding shares of Common Stock into a greater number of shares, the Exercise Price in effect immediately prior to such subdivision shall be proportionately reduced, and, conversely if the outstanding shares of Common Stock are combined into a smaller number of shares, the Exercise Price in effect immediately prior to such combination shall be proportionately increased. Upon any adjustment of the Exercise Price under this Section 4.3, the number of shares of Common Stock issuable upon exercise of this Warrant shall equal the number of shares determined by dividing (i) the aggregate Exercise Price payable for the purchase of all shares issuable upon exercise of this Warrant immediately prior to such adjustment by (ii) the Exercise Price per share in effect immediately after such adjustment.

4.4. Dividends and Distributions. If the Company declares a dividend or other distribution on the Common Stock (other than a cash dividend or distribution), then, as part of such dividend or distribution, lawful provision shall be made so that there shall thereafter be deliverable upon the exercise of this Warrant or any portion thereof, in addition to the number of shares of Common Stock receivable thereupon and without payment of any additional consideration, the amount of the dividend or other distribution to which the holder of the number of shares of Common Stock obtained upon exercise hereof would have been entitled to receive had the exercise occurred as of the record date for such dividend or distribution.

4.5. Liquidation; Dissolution. If the Company shall dissolve, liquidate or wind up its affairs, the Holder shall have the right, but not the obligation, to exercise this Warrant effective as of the date of such dissolution, liquidation or winding up. If any such dissolution, liquidation or winding up results in any cash distribution to the Holder in excess of the aggregate Exercise Price for the shares of Common Stock for which this Warrant is exercised, then the Holder may, at its option, exercise this Warrant without making payment of such aggregate Exercise Price and, in such case, the Company shall, upon distribution to the Holder, consider such aggregate Exercise Price to have been paid in full, and in making such settlement to the Holder, shall deduct an amount equal to such aggregate Exercise Price from the amount payable to the Holder.

4.6. Antidilution Provisions.

4.6.1. Definitions. For purposes of this Section 4.6 the following definitions shall apply:

"Common Stock Equivalents" shall mean Convertible Securities and rights entitling the holder thereof to receive directly, or indirectly, additional shares of Common Stock without the payment of

any consideration by such holder for such additional shares of Common Stock or Common Stock Equivalents.

"Common Stock Outstanding" shall mean the aggregate of all

Common Stock outstanding and all Common Stock issuable upon conversion of all outstanding Convertible Securities and exercise of all Options other than Employee Securities issued after October 14, 1997, unless such Employee Securities arise from exercise of Options granted prior to October 14, 1997.

"Current Exercise Price" shall mean the Exercise Price immediately before the occurrence of any event, which, pursuant to Section 4.6, causes an adjustment to the Exercise Price.

4.6.2. Adjustments to Exercise Price. The Exercise Price in effect from time to time shall be subject to adjustment in certain cases as follows:

4.6.2.1. Issuance of Securities. Subject to Section 4.6.3, in case the Company shall at any time after October 14, 1997 issue or sell any Common Stock or Common Stock Equivalent without consideration, or for a consideration per share less than the Fair Market Value, then, and thereafter successively upon each such issuance or sale, the Current Exercise Price shall simultaneously with such issuance or sale be adjusted to an Exercise Price (calculated to the nearest cent) determined by multiplying the Current Exercise Price in effect immediately prior to such issuance or sale by a fraction, the numerator of which shall be the number of shares of Common Stock Outstanding on such date of sale or issuance plus the number of shares of Common Stock which the aggregate consideration received for the issuance or sale of such additional shares would purchase at the Fair Market Value and the denominator of which shall be the number of shares of Common Stock Outstanding immediately after the issuance or sale.

For the purposes of this subsection 4.6.2.1, the following provisions shall also be applicable:

4.6.2.1.1. Cash Consideration. In case of the issuance or sale of additional Common Stock or Common Stock Equivalents for cash, the consideration received by the Company therefor shall be deemed to be the amount of cash received by this corporation for such shares (or, if such shares are offered by the corporation for subscription, the subscription price, or, if such shares are sold to underwriters or dealers for public offering without a subscription offering, the initial public offering price), without deducting therefrom any compensation or discount paid or allowed to underwriters or dealers or others performing similar services or for any expenses incurred in connection therewith.

4.6.2.1.2. Non-Cash Consideration. In case of the issuance (otherwise than upon conversion or exchange of Convertible Securities) or sale of additional Common Stock, Options or Convertible Securities for a consideration other than cash or a consideration, a part of which shall be other than cash, the fair value of such consideration as determined by the board of directors of the Company in the good faith exercise of its business judgment, irrespective of the accounting treatment thereof, shall be deemed to be the value, for purposes of this Section 4.6.2, of the consideration other than cash received by the Company for such securities.

4.6.2.1.3. Options and Convertible Securities. In case the Company shall in any manner issue or grant any Options or any Convertible Securities, the total maximum number of shares of Common Stock issuable upon the exercise of such Options or upon conversion or exchange of the total maximum amount of such Convertible Securities at the time such Convertible Securities first become

convertible or exchangeable shall (as of the date of issue or grant of such Options or, in the case of the issue or sale of Convertible Securities other than where the same are issuable upon the exercise of Options, as of the date of such issue or sale) be deemed to be issued and to be outstanding for the purpose of this Section 4.6.2. and to have been issued for the sum of the amount (if any) paid for such Options or Convertible Securities and the minimum amount (if any) payable upon the exercise of such Options or upon conversion or exchange of such Convertible Securities at the time such Convertible Securities first become convertible or exchangeable; provided that, subject to the provisions of Section 4.6.2.1.4, no adjustment or further adjustment of the Exercise Price shall be made upon the actual issuance of (a) any such Common Stock or Convertible Securities or upon the conversion or exchange of any such Convertible Securities or the exercise of such Options or (b) any Common Stock issued or sold pursuant to conversion of any Convertible Securities or exercise of any Options to the extent outstanding on October 14, 1997.

4.6.2.1.4. Change in Option Price or Conversion Rate. If the exercise price provided for in any Option referred to in subsection 4.6.2.1.3, or the rate at which any Convertible Securities referred to in

subsection 4.6.2.1.3 are convertible into or exchangeable for shares of Common Stock shall change at any time (other than under or by reason of provisions designed to protect against dilution), the Current Exercise Price in effect at the time of such event shall forthwith be readjusted to the Exercise Price that would have been in effect at such time had such Options or Convertible Securities still outstanding provided for such changed exercise price, additional consideration or conversion rate, as the case may be, at the time initially granted, issued or sold. If the exercise price provided for in any such Option referred to in subsection 4.6.2.1.3, or the additional consideration (if any) payable upon the conversion or exchange of any Convertible Securities referred to in subsection 4.6.2.1.3, or the rate at which any Convertible Securities referred to in subsection 4.6.2.1.3 are convertible into or exchangeable for shares of Common Stock, shall be reduced at any time under or by reason of provisions with respect thereto designed to protect against dilution and such reduction would trigger an adjustment under Subsection 4.6.2.1, then in case of the delivery of shares of Common Stock upon the exercise of any such Option or upon conversion or exchange of any such Convertible Security, the Current Exercise Price then in effect hereunder shall, upon issuance of such shares of Common Stock, be adjusted to such amount as would have obtained had such Option or Convertible Security never been issued and had adjustments been made only upon the issuance of the shares of Common Stock actually delivered and for the consideration actually received for such Option or Convertible Security and the Common Stock.

4.6.2.1.5. Termination of Option or Conversion Rights. In the event of the termination or expiration of any right to purchase Common Stock under any Option or of any right to convert or exchange Convertible Securities, the Current Exercise Price shall, upon such termination, be changed to the Exercise Price that would have been in effect at the time of such expiration or termination had such Option or Convertible Security, to the extent outstanding immediately prior to such expiration or termination, never been issued, and the shares of Common Stock issuable thereunder shall no longer be deemed to be Common Stock Outstanding.

4.6.3. Employee Securities. Notwithstanding anything in this Article IV to the contrary, the Exercise Price shall not be adjusted by virtue of the issuance or sale of Employee Securities and no Employee Securities shall be included in any manner in the computation from time to time of the Exercise Price under subsection 4.6.2 or in Common Stock Outstanding for purposes of such computation except that Employee Securities constituting Common Stock arising from exercise of Options granted prior to October 14, 1997 shall be included in Common Stock Outstanding.

4.7. Maximum Exercise Price. At no time shall the Exercise Price exceed the amount set forth in the Preamble to this Warrant, unless the Exercise Price is adjusted pursuant to Section 4.3 hereof.

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4.8. Other Dilutive Events. If any event occurs as to which the other provisions of this Article IV are not strictly applicable but the failure to make any adjustment would not fairly protect the purchase rights represented by this Warrant in accordance with the essential intent and principles hereof, then, in each such case, the Company shall appoint a firm of independent public accountants of recognized national standing (which may be the Company's regular auditors) which shall give their opinion upon the adjustment, if any, on a basis consistent with the essential intent and principles established in this Article IV, necessary to preserve, without dilution, the purchase rights represented by this Warrant; provided, that no adjustments shall be made in connection with the issuance of Common Stock upon exercise, conversion or exchange of Options or Convertible Securities to the extent that adjustment has previously been made upon issuance of such Options or Convertible Securities and each lowering of the effective purchase price of Common Stock pursuant to such Option or Convertible Securities. Upon receipt of such opinion, the Company shall promptly mail a copy thereof to the Holder and shall make the adjustments described therein.

4.9. Certificates and Notices.

(a) Adjustment Certificates. Upon any adjustment of the Exercise Price and/or the number of shares of Common Stock purchasable upon exercise of this Warrant, a certificate, signed by (i) the Company's President or Chief Financial Officer, or (ii) any independent firm of certified public accountants of recognized national standing the Company selects at its own expense, setting forth in reasonable detail the events requiring the adjustment and the method by which such adjustment was calculated, shall be mailed to the Holder and shall specify the adjusted Exercise Price and the number of shares of Common Stock purchasable upon exercise of the Warrant after giving effect to the adjustment.

(b) Extraordinary Corporate Events. If the Company, after the

date hereof, proposes to effect (i) any transaction described in Sections 4.1 or 4.2 hereof, or (ii) a liquidation, dissolution or winding up of the Company described in Section 4.5 hereof or (iii) any payment of a dividend or distribution with respect to the Common Stock (other than a cash dividend or distribution), then, in each such case, the Company shall mail to the Holder a notice describing such proposed action and specifying the date on which the Company's books shall close, or a record shall be taken, for determining the holders of Common Stock entitled to participate in such action, or the date on which such reorganization, reclassification, consolidation, merger, sale, transfer, liquidation, dissolution or winding up shall take place or commence, as the case may be, and the date as of which it is expected that holders of Common Stock of record shall be entitled to receive securities and/or other property deliverable upon such action, if any such date is to be fixed. Such notice shall be mailed to the Holder at least twenty days prior to the record date for such action in the case of any action described in clause (i) above at least ten days prior to the record date for such action in the case of any action described in clause (iii) above, and in the case of any action described in clause (ii) above, at least twenty days prior to the date on which the action described is to take place and at least twenty days prior to the record date for determining holders of Common Stock entitled to receive securities and/or other property in connection with such action. The failure to give notice required by this Section 4.9(b) or any defect therein shall be a breach of this Warrant but shall not affect the legality or validity of the action taken by the Company or the vote upon any such action. Unless specifically required by this Article IV, the Exercise Price, the number of shares covered by each Warrant and the number of Warrants outstanding shall not be subject to adjustment as a result of the Company being required to give notice pursuant to this Section 4.9(b).

4.10. No Impairment. The Company shall not, by amendment of the Charter or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issuance or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but shall at all times in good faith assist in

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the carrying out of all the provisions of this Article IV and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Holder against impairment.

4.11. Application. Except as otherwise provide herein, all sections of this Article IV are intended to operate independently of one another. If an event occurs that requires the application of more than one section, all applicable sections shall be given independent effect.

ARTICLE V. REGISTRATION RIGHTS

5.1. Registration on Form S-3.

5.1.1. Filing of Registration Statement. The Company shall use its best efforts to secure effectiveness of, as soon as practicable, and shall file no later than 10 days after the commencement of the Exercise Period, a registration statement in form and substance satisfactory to the Holder on Form S-3 (the "Registration Statement") with the Commission under the Securities Act to register the issuance of Warrant Shares upon exercise of the Warrant and the transfer of such Warrant Shares (the Warrant Shares constituting the "Registrable Securities"); provided however, that in the event the Company fails to file reports in a timely manner or otherwise fails (due to an action or inaction of the Company) to be eligible to file a registration statement on Form S-3, the Company shall file a registration statement on Form S-1.

5.1.2. Registrable Expenses. The Company shall pay all Registration Expenses (as defined below) in connection with any registration, qualification or compliance hereunder, and each Holder shall pay all Selling Expenses (as defined below) and other expenses that are not Registration Expenses relating to the Registrable Securities resold by such Holder. "Registration Expenses" shall mean all expenses, except for Selling Expenses, incurred by the Company in complying with the registration provisions herein described, including, without limitation, all registration, qualification and filing fees, printing expenses, fees and disbursements of counsel for the Company, blue sky fees and expenses and the expense of any special audits incident to or required by any such registration. "Selling Expenses" shall mean all selling commissions, underwriting fees and stock transfer taxes applicable to the Registrable Securities and all fees and disbursements of counsel for any Holder.

5.1.3. Additional Company Obligations. In the case of any registration effected by the Company pursuant to these registration provisions,

the Company will use its best efforts to: keep such registration effective until such date as all of the Registrable Securities have been sold or could immediately be sold pursuant to Rule 144(k) promulgated by the Commission; (ii) prepare and file with the Commission such amendments and supplements to the Registration Statement and the prospectus used in connection with the Registration Statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of the Registrable Securities; (iii) furnish such number of prospectuses and other documents incident thereto, including any amendment of or supplement to the prospectus, as a Holder from time to time may reasonably request; (iv) cause all such Registrable Securities registered as described herein to be listed on each securities exchange and quoted on each quotation system on which similar securities issued by the Company are then listed or quoted; (v) provide a transfer agent and registrar for all Registrable Securities registered pursuant to the Registration Statement and a CUSIP number for all such Registrable Securities; (vi) use its best efforts to comply with all applicable rules and regulations of the Commission, and make available to its securityholders, to the extent required, as soon as reasonably practicable, an earnings statement covering the period of at least twelve months, but not more than eighteen months, beginning with the first month after the effective date of the Registration Statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act; and (vii) file the documents required of the Company and otherwise use its best efforts to maintain requisite blue sky clearance in

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(A) all jurisdictions in which any of the Warrant Shares are originally sold and (B) all other states specified in writing by a Holder as may reasonably be required to sell such Holder's Warrant Shares, provided, however, that the Company shall not be required to qualify to do business, subject itself to taxation, or consent to service of process in any state in which it is not now so qualified or subject to taxation or has not so consented.

5.1.4. Conditions and Limitations

(a) Cooperation by Holder. It shall be a condition precedent to the obligation of the Company to take any action pursuant to this Article V in respect of the Registrable Securities that the Holder shall furnish to the Company such information regarding such Registrable Securities and the intended method of disposition thereof and such other information as the Company shall reasonably request and as shall be required in connection with the action taken by the Company.

(b) Notification Prior to Sale. If any Holder shall propose to sell any Registrable Securities pursuant to the Registration Statement, it shall notify the Company of its intent to do so at least three full business days prior to such sale, and the provision of such notice to the Company shall be deemed to establish an agreement by such Holder to comply with the registration provisions contained herein. Such notice shall be deemed to constitute a representation that any information previously supplied by such Holder is accurate as of the date of such notice. At any time within such three business day period, the Company may refuse to permit the Holder to resell any Registrable Securities pursuant to the Registration Statement; provided, however, that in order to exercise this right, the Company must deliver a certificate in writing to the Holder to the effect that a delay in such sale is necessary because, in the good faith judgment of the Company, a sale pursuant to the Registration Statement would require the public disclosure of information that would not otherwise be required to be disclosed (which disclosure would be likely, in the good faith judgment of the Company, to be materially harmful to the Company) or could in other respects constitute a violation of the federal securities laws. In such an event, the Company shall use its best efforts to amend the Registration Statement to the extent required to comply with Section 5.1.4 and to take all other actions necessary to allow such sale under the federal securities laws, and shall notify the Holders promptly after it has determined that such circumstances no longer exist. Notwithstanding the foregoing, the Company shall not under any circumstances be entitled to refuse to permit the Holder to resell any Registrable Securities more than twice in any twelve-month period, and any individual period during which the Company refuses to permit the Holder to resell any Registrable Securities shall not exceed sixty days.

The Company will promptly notify each holder of any Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event or existence of any fact as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances in which they are made, and, as promptly as is practicable, prepare and furnish to such holder a reasonable

number of copies of any required supplement to or amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances in which they are made. By acquisition of Registrable Securities, each holder of such Registrable Securities shall be deemed to have agreed that upon receipt of any notice from the Company of the happening of any event of the kind described in the preceding sentence, such holder will promptly discontinue such holder's disposition of Registrable Securities pursuant to the registration statement covering such Registrable Securities until such holder's receipt of the copies of any required supplemented

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or amended prospectus contemplated by this Section. If so directed by the Company, each holder of Registrable Securities will deliver to the Company (at the Company's expense) all copies, other than permanent file copies, in such holder's possession of the prospectus covering such Registrable Securities at the time of receipt of such notice. Subject to the foregoing, when a Holder is entitled to sell and gives notice of its intent to sell pursuant to the Registration Statement, the Company shall furnish to such Holder a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such shares, such prospectus shall not include an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances in which they are made.

5.2. Indemnification and Contribution.

5.2.1. Indemnification by the Company. The Company agrees to indemnify and hold harmless each Holder from and against any losses, claims, damages or liabilities (or actions or proceedings in respect thereof) to which such Holder may become subject (under the Securities Act or otherwise) insofar as such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) arise out of, or are based upon, any claim by a third party asserting any untrue statement of a material fact contained in the Registration Statement or omission of a material fact therefrom necessary to make the statements therein not misleading, on the effective date thereof, or arise out of any failure by the Company to fulfill any undertaking included in the Registration Statement, and the Company will, as incurred, reimburse such Holder for any legal or other expenses reasonably incurred in investigating, defending or preparing to defend any such action, proceeding or claim; provided, however, that the Company shall not be liable in any such case to the extent that such loss, claim, damages or liability arises out of, or is based upon (i) an untrue statement made in such Registration Statement in reliance upon and in conformity with written information furnished to the Company by or on behalf of such Holder specifically for use in preparation of the Registration Statement or (ii) any untrue statement in any prospectus that is corrected in any subsequent prospectus that was delivered to the Holder prior to the pertinent sale or sales by the Holder.

5.2.2. Indemnification by Holder. Each Holder, severally and not jointly, agrees to indemnify and hold harmless the Company from and against any losses, claims, damages or liabilities (or actions or proceedings in respect thereof) to which the Company may become subject (under the Securities Act or otherwise) insofar as such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) arise out of, or are based upon any claim by a third party asserting (i) an untrue statement made in such Registration Statement in reliance upon and in conformity with written information furnished to the Company by or on behalf of such Holder specifically for use in preparation of the Registration Statement, provided, however, that no Holder shall be liable in any such case for any untrue statement included in any prospectus which statement has been corrected, in writing, by such Holder and delivered to the Company at least three business days before the sale from which such loss occurred or (ii) any untrue statement in any prospectus that is corrected in any subsequent prospectus that was delivered by the Holder to the purchaser prior to the pertinent sale or sales by the Holder, and each Holder, severally and not jointly, will, as incurred, reimburse the Company for any legal or other expenses reasonably incurred in investigating, defending or preparing to defend any such action, proceeding or claim.

5.2.3. Indemnification Procedures. Promptly after receipt by any indemnified person of a notice of a claim or the beginning of any action in respect of which indemnity is to be sought against an indemnifying person pursuant to this Section 5.2, such indemnified person shall notify the indemnifying person in writing of such claim or of the commencement of such action, and, subject to the provisions hereinafter stated, in case any such action shall be brought against an indemnified person and the indemnifying

person shall have been notified thereof, the indemnifying person shall be entitled to participate

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therein, and, to the extent that it shall wish, to assume the defense thereof, with counsel reasonably satisfactory to the indemnified person. After notice from the indemnifying person to such indemnified person of the indemnifying person's election to assume the defense thereof, the indemnifying person shall not be liable to such indemnified person for any legal expenses subsequently incurred by such indemnified person in connection with the defense thereof; provided, however, that if there exists or shall exist a conflict of interest that would make it inappropriate in the reasonable opinion of counsel for the indemnified person for the same counsel to represent both the indemnified person and such indemnifying person or any affiliate or associate thereof, the indemnified person shall be entitled to retain its own counsel at the expense of such indemnifying person; provided, however, that in the case of the immediately preceding proviso the indemnifying person shall not be responsible for the legal expenses of more than one counsel for all indemnified persons.

5.2.4. Contribution in Lieu of Indemnity. If the indemnification provided for in this Section 5.2 is unavailable to or insufficient to hold harmless an indemnified party under Section 5.2.1 or 5.2.2 above in respect of any losses, claims, damages or liabilities (or actions or proceedings in respect thereof) referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative benefit and relative fault of the respective parties as well as any other relevant equitable considerations. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or a Holder on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Holders agree that it would not be just and equitable if contribution pursuant to this Section 5.2.4 were determined by pro rata allocation (even if the Holders were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 5.2.4. The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this Section 5.2.4 shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 5.2.4, no Holder shall be required to contribute any amount in excess of the net amount received by the Holder from the sale of the Registrable Securities to which such loss relates. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Holders' obligations in this Section 5.2.4 to contribute are several in proportion to their respective sales of Registrable Securities to which such loss relates and not joint.

5.2.5. Controlling Persons Indemnified. The obligations of the Company and the Holders under this Section 5.2 shall be in addition to any liability which the Company and the respective Holders may otherwise have and shall extend, upon the same terms and conditions, to each person, if any, who controls or may be deemed to control the Company or any Holder within the meaning of the Securities Act including, without limitation, the directors and officers of the Company and the Holder, as the case may be.

5.3. Transfer Of Registration Rights. The right to sell Registrable Securities pursuant to the Registration Statement described herein will automatically be assigned to each transferee of the Warrant or Warrant Shares permitted under the terms of this Warrant. In the event that it is necessary, in order to permit a Holder to sell Registrable Securities pursuant to the Registration Statement, to amend the

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Registration Statement to name such Holder, such Holder shall upon written notice to the Company, be entitled to have the Company make such amendment as soon as reasonably practicable.

ARTICLE VI.
REPRESENTATIONS, WARRANTIES AND COVENANTS OF COMPANY

6.1. Representations and Warranties. The Company represents and

warrants that as of the date hereof:

(a) Legal Status; Qualification. The Company is a corporation duly organized, validly existing and in good standing under the laws of Rhode Island and is qualified or licensed to do business in all other countries, states and provinces in which the laws thereof require the Company to qualify and/or be licensed, except where failure to qualify or be licensed would not have a material adverse effect on the business or assets of the Company taken as a whole;

(b) Capitalization. The Company's authorized capital stock consists of: 300,000,000 shares of Common Stock, of which 126,352,563 shares are issued and outstanding;

(c) Options. Except as described in Exhibit "D-3" hereto there are no Options, warrants or similar rights to acquire from the Company, or agreements or other obligations by the Company, absolute or contingent, to issue or sell Common Stock, whether on conversion or exchange of Convertible Securities or otherwise;

(d) Preemptive Rights. No shareholder of the Company has any preemptive rights to subscribe for shares of Common Stock;

(e) Authority. The Company has the right and power, and is duly authorized and empowered, to enter into, execute, deliver and perform its obligations under this Warrant;

(f) Binding Effect. This Warrant has been duly authorized, executed and delivered and constitutes a valid and binding obligation of the Company enforceable in accordance with its terms, except to the extent that enforceability may be limited by (i) bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and (ii) general principles of equity;

(g) No Conflict. The execution, delivery and/or performance by the Company of this Warrant shall not, by the lapse of time, the giving of notice or otherwise, constitute a violation of any applicable law or a breach of any provision contained in the Company's Charter or Bylaws or contained in any agreement, instrument or document to which the Company is a party or by which it is bound;

(h) Consents. Except as contemplated by Article V and Section 6.2(b), no consent, approval, authorization or other order of any court, regulatory body, administrative agency or other governmental body is required for the valid issuance of the Warrant or for the performance of any of the Company's obligations hereunder, except in connection with listing of the Warrant Shares on the American Stock Exchange, which listing will be effected in accordance with the rules and regulations of the American Stock Exchange;

(i) Offering. Neither the Company nor any agent acting on its behalf has, either directly or indirectly, sold, offered for sale or disposed of, or attempted or offered to dispose of, this Warrant or any part hereof, or any similar obligation of the Company, to, or has solicited any offers to buy

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any thereof from, any Person or Persons other than the Holder. Neither the Company nor any agent acting on its behalf will sell or offer for sale or dispose of, or attempt or offer to dispose of, this Warrant or any part thereof to, or solicit any offers to buy any warrant of like tenor from, or otherwise approach or negotiate in respect thereof, with, any Person or Persons so as thereby to bring the issuance of this Warrant within the provisions of Section 5 of the Securities Act;

(j) Registration. Assuming the accuracy of the Holder's representations made herein, it is not necessary in connection with the issuance and sale of this Warrant to the Holder pursuant to this Agreement to Register this Warrant under the Securities Act; and

6.2. Covenants. The Company covenants that:

(a) Authorized Shares. The Company will at all times have authorized, and reserved for the purpose of issuance or transfer upon exercise of the rights evidenced by this Warrant, a sufficient number of shares of Common Stock to provide for the exercise of the rights represented by this Warrant (for purposes of determining compliance with this covenant, the shares of Common Stock issuable upon exercise of all other Options and warrants to acquire Common Stock and upon conversion of all instruments convertible into Common Stock shall be deemed issued and outstanding);

(b) Proper Issuance. The Company, at its expense, will take all such action as may be necessary to assure that the Common Stock issuable upon the exercise of this Warrant may be so issued without violation of any applicable law or regulation, or of any requirements of any domestic securities exchange or automated quotation system upon which any capital stock of the Company may be listed or quoted, as the case may be, provided that the Holder, at its sole expense, will take all such action as may be necessary under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, in connection with its acquisition of securities of the Company. Such action by the Company may include, but not be limited to, causing such shares to be duly registered or approved, listed or quoted on relevant domestic securities exchanges or automated quotation systems; and

(c) Fully Paid Shares. The Company will take all actions necessary or appropriate to validly and legally issue fully paid and nonassessable shares of Common Stock upon exercise of this Warrant. All such shares will be free from all taxes, liens and charges with respect to the issuance thereof, other than any stock transfer taxes in respect to any transfer occurring contemporaneously with such issuance.

ARTICLE VII.
MISCELLANEOUS

7.1. Certain Expenses. The Company shall pay all expenses in connection with, and all taxes (other than stock transfer and income taxes) and other governmental charges that may be imposed in respect of, the issuance, sale and delivery of the Warrant and the Warrant Shares to the Holder.

7.2. Holder Not a Shareholder. Prior to the exercise of this Warrant as hereinbefore provided, the Holder shall not be entitled to any of the rights of a shareholder of the Company including, without limitation, the right as a shareholder (i) to vote on or consent to any proposed action of the Company or (ii) except as provided herein, to receive (a) dividends or any other distributions made to shareholders, (b) notice of or attend any meetings of shareholders of the Company or (c) notice of any other proceedings of the Company.

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7.3. Like Tenor. All Warrants shall at all times be substantially identical except as to the Preamble.

7.4. Remedies. The Company stipulates that the remedies at law of the Holder in the event of any default or threatened default by the Company in the performance of or compliance with any of the terms of this Warrant are not and will not be adequate to the fullest extent permitted by law, and that such terms may be specifically enforced by a decree for the specific performance of any agreement contained herein or by an injunction against a violation of any of the terms hereof or otherwise.

7.5. Enforcement Costs. If the Holder, a Shareholder or the Company seeks to enforce its rights hereunder by legal proceedings or otherwise, then the non-prevailing party shall pay all reasonable costs and expenses incurred by the prevailing party, including, without limitation, all reasonable attorneys' fees (including the allocable costs of in-house counsel).

7.6. Nonwaiver; Cumulative Remedies. No course of dealing or any delay or failure to exercise any right hereunder on the part of the Holder and/or any Shareholder shall operate as a waiver of such right or otherwise prejudice the rights, powers or remedies of the Holder or such Shareholder. No single or partial waiver by the Holder and/or any Shareholder of any provision of this Warrant or of any breach or default hereunder or of any right or remedy shall operate as a waiver of any other provision, breach, default right or remedy or of the same provision, breach, default, right or remedy on a future occasion. The rights and remedies provided in this Warrant are cumulative and are in addition to all rights and remedies which the Holder and each Shareholder may have in law or in equity or by statute or otherwise.

7.7. Notices. Any notice, demand or delivery to be made pursuant to this Warrant will be sufficiently given or made if sent by certified or registered mail, postage prepaid, nationally recognized overnight delivery service or facsimile transmission, addressed to (a) the Holder and the Shareholders at their last known addresses appearing on the books of the Company maintained for such purpose or (b) the Company at its Principal Executive Office. The Holder, the Shareholders and the Company may each designate a different address by notice to the other pursuant to this Section 7.7. A notice shall be deemed effective upon receipt.

7.8. Successors and Assigns. This Warrant shall be binding upon, the Company and any Person succeeding the Company by merger, consolidation or

acquisition of all or substantially all of the Company's assets, and all of the obligations of the Company with respect to the shares of Common Stock issuable upon exercise of this Warrant shall survive the exercise, expiration or termination of this Warrant and all of the covenants and agreements of the Company shall inure to the benefit of the Holder, each Shareholder and their respective successors and assigns. The Company shall, at the time of exercise of this Warrant, in whole or in part, upon request of the Holder or any Shareholder but at the Company's expense, acknowledge in writing its continuing obligations hereunder with respect to rights of the Holder or such Shareholder to which it shall continue to be entitled after such exercise in accordance with the terms hereof; provided that the failure of the Holder or any Shareholder to make any such request shall not affect the continuing obligation of the Company to the Holder or such Shareholder in respect of such rights.

7.9. Modification; Severability.

(a) If, in any action before any court or agency legally empowered to enforce any term, any term is found to be unenforceable, then such term shall be deemed modified to the extent necessary to make it enforceable by such court or agency.

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(b) If any term is not curable as set forth in subsection (a) above, the unenforceability of such term shall not affect the other provisions of this Warrant but this Warrant shall be construed as if such unenforceable term had never been contained herein.

7.10. Integration. This Warrant replaces all prior and contemporaneous agreements and supersedes all prior and contemporaneous negotiations between the parties with respect to the transactions contemplated herein and constitutes the entire agreement of the parties with respect to the transactions contemplated herein.

7.11. Survival of Representations and Warranties. The representations and warranties of any party in this Warrant shall survive the execution and delivery of this Warrant and the consummation of the transactions contemplated hereby, notwithstanding any investigation by the such party or its agents.

7.12. Amendment. This Warrant may not be modified or amended except by written agreement of the Company, the Holder and the Shareholder(s), if any, holding a majority of the Warrant Shares.

7.13. Headings. The headings of the Articles and Sections of this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

7.14. Meanings. Whenever used in this Warrant, any noun or pronoun shall be deemed to include both the singular and plural and to cover all genders; and the words "herein," "hereof" and "hereunder" and words of similar import shall refer to this instrument as a whole, including any amendments hereto.

7.15. Governing Law. This Warrant shall be governed by, and construed in accordance with, the laws of the State of California applicable to contracts entered into and to be performed wholly within California by California residents.

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IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its duly authorized officer this October 14, 1997.

LUCASFILM LTD. ("Holder")

HASBRO, INC. ("Company")

By: /s/ GORDON RADLEY

By: /s/ HAROLD P. GORDON

Title: President

Title: Vice Chairman

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SCHEDULE OF EXHIBITS

EXHIBIT "D-1" -- Notice of Exercise (Section 2.1)

EXHIBIT "D-2" -- Investment Representation Certificate (Section 3.2(a))

EXHIBIT "D-3" -- Assignment Form (Section 3.2(d))

EXHIBIT "D-4" -- Schedule of Outstanding Options and Convertible Securities
(Sections 6.1(c))

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EXHIBIT "D-1"

NOTICE OF EXERCISE FORM

(To be executed only upon partial or full
exercise of the within Warrant)

The undersigned registered Holder of the within Warrant hereby irrevocably exercises the within Warrant for and purchases shares of Common Stock of Hasbro, Inc. and herewith makes payment therefor in the amount of \$_____, all at the price and on the terms and conditions specified in the within Warrant and requests that a certificate (or certificates in denominations of _____ shares) for the shares of Common Stock of Hasbro, Inc. hereby purchased be issued in the name of and delivered to (choose one) (a) the undersigned or (b) [NAME], whose address is and, if such shares of Common Stock shall not include all the shares of Common Stock issuable as provided in the within Warrant, that a new Warrant of like tenor for the number of shares of Common Stock of Hasbro, Inc. not being purchased hereunder be issued in the name of and delivered to (choose one) (a) the undersigned or (b) [NAME], whose address is _____.

Dated: _____

NOTICE: The signature to this Notice of Exercise must correspond with the name as written upon the face of the within Warrant in every particular, without alteration or enlargement or any change whatever.

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EXHIBIT "D-2"

INVESTMENT REPRESENTATION CERTIFICATE

Purchaser:

Company: Hasbro, Inc.

Security: Common Stock

Amount:

Date:

(a) In connection with the purchase of the above-listed securities (the "Securities"), the undersigned (the "Purchaser") represents to the Company as follows:

(b) The Purchaser is aware of the Company's business affairs and financial condition, and has acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Securities. The Purchaser is purchasing the Securities for its own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof for purposes of the Securities Act of 1933, as amended (the "Securities Act");

(c) The Purchaser understands that the Securities have not been registered under the Securities Act in reliance upon a specific exemption therefor, which exemption depends upon, among other things, the bona fide nature of the Purchaser's investment intent as expressed herein;

(d) The Purchaser further understands that the Securities must be held indefinitely unless subsequently registered under the Securities Act or unless an exemption from registration is otherwise available. In addition, the Purchaser understands that the certificate evidencing the Securities will be imprinted with the legend referred to in the Warrant under which the Securities are being purchased; and

(e) The Purchaser is aware of the provisions of Rule 144, promulgated

under the Securities Act, which, in substance, permit limited public resale of "restricted securities" acquired, directly or indirectly, from the issuer thereof (or from an affiliate of such issuer), in a non-public offering subject to the satisfaction of certain conditions, if applicable, including, among other things: (i) the availability of certain public information about the Company; (ii) the resale occurring not less than one year after the party has purchased and paid for the securities to be sold; (iii) the sale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934) and the amount of securities being sold during any three-month period not exceeding the specified limitations stated therein.

The Purchaser represents that it is an "accredited investor" as that term is defined in Rule 501 of Regulation D under the Securities Act or any successor regulation thereunder.

Date: _____ PURCHASER: _____

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EXHIBIT "D-3"

OUTSTANDING OPTIONS

ASSIGNMENT FORM

(To be executed only upon the assignment of the within Warrant)

FOR VALUE RECEIVED, the undersigned registered Holder of the within Warrant hereby sells, assigns and transfers unto _____, whose address is _____ all of the rights of the undersigned under the within Warrant, with respect to shares of Common Stock of Hasbro, Inc. and, if such shares of Common Stock shall not include all the shares of Common Stock issuable as provided in the within Warrant, that a new Warrant of like tenor for the number of shares of Common Stock of Hasbro, Inc. not being transferred hereunder be issued in the name of and delivered to the undersigned, and does hereby irrevocably constitute and appoint _____ attorney to register such transfer on the books of Hasbro, Inc. maintained for the purpose, with full power of substitution in the premises.

Dated: _____

By: _____
(Signature of Registered Holder)

Title: _____

NOTICE: The signature to this Assignment must correspond with the name upon the face of the within Warrant in every particular, without alteration or enlargement or any change whatever.

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EXHIBIT "D-4"

OUTSTANDING OPTIONS AND CONVERTIBLE SECURITIES

(Sections 6.1(c))

1. Options granted under employee and non-employee director stock option plans for 10,515,835 shares of Common Stock.
2. 6% Convertible Subordinated Notes due 1998 convertible into 7,607,723 shares of Common Stock.
3. Warrants granted to DreamWorks LLC for shares of Common Stock.

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THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY STATE SECURITIES LAWS. NO SALE, TRANSFER, PLEDGE OR OTHER DISPOSITION OF SUCH SECURITIES MAY BE EFFECTED WITHOUT (A) (i) AN EFFECTIVE REGISTRATION STATEMENT RELATING THERETO, (ii) AN OPINION OF COUNSEL FOR THE HOLDER, REASONABLY SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATION IS NOT REQUIRED OR (iii) RECEIPT OF A NO-ACTION LETTER FROM THE SECURITIES AND EXCHANGE COMMISSION, AND (B) OTHERWISE COMPLYING WITH THE PROVISIONS OF ARTICLE III OF THIS WARRANT.

THIS WARRANT MAY NOT BE TRANSFERRED (i) OTHER THAN TO AN AFFILIATE (AS DEFINED UNDER THE SECURITIES ACT OF 1933, AS AMENDED), (ii) FOLLOWING A CHANGE IN CONTROL OR (iii) IN CONNECTION WITH THE SALE OF ALL OR SUBSTANTIALLY ALL OF THE ASSETS, BUSINESS OR CAPITAL STOCK OF HOLDER, AS PROVIDED HEREIN.

WARRANT
TO PURCHASE SHARES OF COMMON STOCK
AS HEREIN DESCRIBED

Dated October 30, 1998

This certifies that for value received:

LUCAS LICENSING LTD.

or registered assigns, is entitled, subject to the terms set forth herein, to purchase from Hasbro, Inc., a Rhode Island corporation (the "Company"), up to 2,400,000 fully paid and nonassessable shares of the Common Stock of the Company, at the exercise price of thirty-five dollars (\$35.00) per share. The number of shares purchasable hereunder and the Exercise Price are subject to adjustment in certain events, all as more fully set forth under Article IV herein.

ARTICLE I.
DEFINITIONS

"Additional Stock" means any of Common Stock, Convertible Securities and Options.

"Change in Control" means:

A. The acquisition (or series of related acquisitions) 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, as amended (the "1934 Act") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 20% or more of either (x) the then outstanding shares of Common Stock (the "Outstanding Common Stock") or (y) the combined voting power of the then outstanding voting securities of the Company 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 (or series of related acquisitions) directly from the Company or any of its subsidiaries of shares that would constitute, after issuance, or any acquisition (or series of related acquisitions) consented to by the Board of Directors of the Company of outstanding shares constituting, in the aggregate, less than 40% of the Outstanding Voting Securities, (ii) any acquisition by the Company or any of its subsidiaries, (iii) any acquisition by any

employee benefit plan (or related trust) sponsored or maintained by the Company 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 (such holders described in clauses (ii) and (iii) and in this clause (iv), the "Permitted Acquirors") or (v) any acquisition by any corporation with respect to which, following such acquisition, (a) more than 50% 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, and (b) less than 40% of such outstanding shares of common stock of such corporation and of such combined voting power of such outstanding voting securities is then beneficially owned, directly or indirectly, by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the 1934 Act), other than the Permitted Acquirors; or

B. Any event in which individuals who as of the Closing Date constitute the Board of Directors of the Company (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 Closing Date, 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. A reorganization, merger or consolidation involving the Company (whether or not the Company is the surviving entity), in each case, with respect to which (i) 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 50% 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 (ii) following such reorganization, merger or consolidation, any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the 1934 Act), other than the Permitted Acquirors, beneficially owns, directly or indirectly, 40% or more of such outstanding shares of common stock of such surviving corporation and of such combined voting power of such outstanding voting securities; or

D. (i) A complete liquidation or dissolution of the Company or (ii) the sale or other disposition of all or substantially all of the assets of the Company (in one transaction or a series of related transactions), other than to a corporation, with respect to which following such sale or other disposition, (A) more than 50% 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

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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, and (B) less than 40% of such outstanding shares of common stock of such corporation and of such combined voting power of the outstanding voting securities of such corporation is then beneficially owned, directly or indirectly, by an individual entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the 1934 Act), other than the Permitted Acquirors; or

E. The acquisition (or series of related acquisitions) by a Competitor of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 20% or more of either (x) the Outstanding Common Stock or (y) the Outstanding Voting Securities unless such Competitor is approved by Holder as a passive investor in the Company, such approval not to be unreasonably withheld.

"Charter" means the certificate of incorporation of the Company, as filed with the Rhode Island Secretary of State.

"Closing Date" means October 30, 1998.

"Commission" means the Securities and Exchange Commission, or any other federal agency then administering the Securities Exchange Act of 1934 or the Securities Act.

"Common Stock" means the Company's Common Stock, par value \$.50 per share, any stock into which such stock shall have been changed or any stock

resulting from any reclassification of such stock, and any other capital stock of the Company of any class or series now or hereafter authorized having the right to share in distributions either of earnings or assets of the Company without limit as to amount or percentage.

"Company" means Hasbro, Inc., a Rhode Island corporation, and any successor corporation.

"Competitor" means a Person or group of Persons (within the meaning of Section 13(d)(3) or 14(d)(2) of the 1934 Act) engaged as a significant part of its or their business in the business of producing or distributing any entertainment properties including, without limitation, motion pictures, television production, and interactive educational and entertainment products.

"Convertible Securities" means evidences of indebtedness, shares of stock or other securities which are convertible into or exchangeable for, with or without payment of additional consideration, shares of Common Stock, either immediately or upon the arrival of a specified date or the happening of a specified event or both.

"Employee Securities" shall mean all securities of the Company issued or sold after October 30, 1998 to employees, consultants, officers or directors of the Company with the approval of, or pursuant to a plan approved by, the Board of Directors or any duly authorized committee thereof.

"Exercise Period" means the period commencing on the earlier of (i) the U.S. Release Date of Episode I and (ii) the occurrence of a Change in Control and terminating at 5:00 p.m. Pacific Time on the eleventh anniversary of the Closing Date.

"Exercise Price" means the exercise price per share of Common Stock set forth in the Preamble to this Warrant, as such price may be adjusted pursuant to Article IV hereof.

"Fair Market Value" means with respect to a share of Common Stock at any date:

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(i) If shares of Common Stock are being sold pursuant to a public offering under an effective registration statement under the Securities Act which has been declared effective by the Commission and Fair Market Value is being determined as of the closing of the public offering, the "per share price to public" specified for such shares in the final prospectus for such public offering;

(ii) If shares of Common Stock are then listed or admitted to trading on any national securities exchange or traded on any national market system and Fair Market Value is not being determined as of the date described in clause (i) of this definition, the average of the daily closing prices for the twenty trading days before such date. The closing price for each day shall be the last sale price on such date or, if no such sale takes place on such date, the average of the closing bid and asked prices on such date, in each case as officially reported on the principal national securities exchange or national market system on which such shares are then listed, admitted to trading or traded;

(iii) If no shares of Common Stock are then listed or admitted to trading on any national securities exchange or traded on any national market system or being offered to the public pursuant to a registration described in clause (i) of this definition, the average of the reported closing bid and asked prices thereof on such date in the over-the-counter market as shown by the Nasdaq Stock Market or, if such shares are not then quoted in such system, as published by the National Quotation Bureau, Incorporated or any similar successor organization, and in either case as reported by any member firm of the New York Stock Exchange selected by the Company and reasonably acceptable to the Holder;

(iv) If no shares of Common Stock are then listed or admitted to trading on any national exchange or traded on any national market system, if no closing bid and asked prices thereof are then so quoted or published in the over-the-counter market and if no such shares are being offered to the public pursuant to a registration described in clause (i) of this definition, the fair value of a share of Common Stock shall be as determined by an investment bank selected by Company with the approval of the Holder (which approval shall not be unreasonably withheld or delayed), the costs of such investment banker to be paid by the Company.

"Fiscal Year" means the fiscal year of the Company.

"Holder" means the person in whose name this Warrant is registered on the books of the Company maintained for such purpose and any transferee permitted under the terms of this Warrant of all or a portion of this Warrant.

"Option" means any right, warrant or option to subscribe for or purchase shares of Common Stock or Convertible Securities.

"Person" means and includes natural persons, corporations, limited partnerships, general partnerships, limited liability companies, joint stock companies, joint ventures, associations, companies, trusts, banks, trust companies, land trusts, business trusts, government entities and authorities and other organizations, whether or not legal entities.

"Principal Executive Office" means the Company's office at 1027 Newport Avenue, Pawtucket, Rhode Island 02862 or such other office as designated in writing to the Holder by the Company.

"Register," "Registered" and "Registration" refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act, and the declaration or ordering of the effectiveness of such registration statement.

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"Rule 144" means Rule 144 as promulgated by the Commission under the Securities Act, as such Rule may be amended from time to time, or any similar successor rule that the Commission may promulgate.

"Securities Act" means the Securities Act of 1933, as amended, or any successor federal statute, and the rules and regulations of the Commission promulgated thereunder, all as the same shall be in effect from time to time.

"Shareholder" means the person who was previously the Holder and has exercised all or a portion of this Warrant.

"U.S. Release Date of Episode I" means the initial theatrical release in the United States of the first prequel theatrical motion picture to the classic Star Wars trilogy.

"Warrant" means the warrant dated as of Closing Date issued to the Holder and all warrants issued upon the partial exercise, transfer or division of or in substitution for any Warrant.

"Warrant Shares" means the shares of Common Stock issued or issuable upon the exercise of this Warrant provided that if under the terms hereof there shall be a change such that the securities purchasable hereunder shall be issued by an entity other than the Company or there shall be a change in the type or class of securities purchasable hereunder, then the term shall mean the securities issued or issuable upon the exercise of the rights granted hereunder.

ARTICLE II. EXERCISE

2.1. Exercise Right; Manner of Exercise. The purchase rights represented by this Warrant may be exercised by the Holder, in whole or in part, at any time and from time to time during the Exercise Period upon (i) surrender of this Warrant, together with an executed notice of exercise, substantially in the form of Exhibit "D-1" ("Notice of Exercise") attached hereto, at the Principal Executive Office, and (ii) payment to the Company of the aggregate Exercise Price for the number of Warrant Shares specified in the Notice of Exercise (such aggregate Exercise Price, the "Total Exercise Price"). The Total Exercise Price shall be paid by check; provided, however, that if the Warrant Shares are acquired in conjunction with a Registration of such Warrant Shares, then the Holder may arrange for the aggregate Exercise Price for such Warrant Shares to be paid to the Company from the proceeds of the sale of such Warrant Shares pursuant to such Registration. The Person or Person(s) in whose name(s) any certificate(s) representing the Warrant Shares which are issuable upon exercise of this Warrant shall be deemed to become the Holder(s) of, and shall be treated for all purposes as the record holder(s) of, such Warrant Shares, and such Warrant Shares shall be deemed to have been issued, immediately prior to the close of business on the date on which this Warrant and Notice of Exercise are presented and payment made for such Warrant Shares, notwithstanding that the stock transfer books of the Company shall then be closed or that certificates representing such Warrant Shares shall not then be actually delivered to such Person or Person(s). Certificates for the Warrant Shares so purchased shall be delivered to the Holder within two business days after this Warrant is exercised. If this Warrant is exercised in part only, the Company shall, upon surrender of this Warrant for cancellation, deliver a new Warrant evidencing the rights of the Holder to purchase the balance of the Warrant Shares which the Holder is entitled to purchase hereunder. The issuance of Warrant Shares upon

exercise of this Warrant shall be made without charge to the Holder for any issuance tax with respect thereto or any other cost incurred by the Company in connection with the exercise of this Warrant and the related issuance of Warrant Shares.

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2.2. Conversion of Warrant.

(a) Right to Convert. In addition to, and without limiting, the other rights of the Holder hereunder, the Holder shall have the right (the "Conversion Right") to convert this Warrant or any part hereof into Warrant Shares at any time and from time to time during the term hereof. Upon exercise of the Conversion Right, the Company shall deliver to the Holder, without payment by the Holder of any Exercise Price or any cash or other consideration, that number of Warrant Shares computed using the following formula:

$$X = \frac{Y (A - B)}{A}$$

Where: X= The number of Warrant Shares to be issued to the Holder

Y= The number of Warrant Shares purchasable pursuant to this Warrant or such lesser number of Warrant Shares as may be selected by the Holder

A= The Fair Market Value of one Warrant Share as of the Conversion Date

B= The Exercise Price

(b) Method of Exercise. The Conversion Right may be exercised by the Holder by the surrender of this Warrant at the Principal Executive Office, together with a written statement (the "Conversion Statement") specifying that the Holder intends to exercise the Conversion Right and indicating the number of Warrant Shares to be acquired upon exercise of the Conversion Right. Such conversion shall be effective upon the Company's receipt of this Warrant, together with the Conversion Statement, or on such later date as is specified in the Conversion Statement (the "Conversion Date") and, at the Holder's election, may be made contingent upon the closing of the consummation of the sale of Common Stock pursuant to a Registration. Certificates for the Warrant Shares so acquired shall be delivered to the Holder within a reasonable time, not exceeding two business days after the Conversion Date. If applicable, the Company shall, upon surrender of this Warrant for cancellation, deliver a new Warrant evidencing the rights of the Holder to purchase the balance of the Warrant Shares which Holder is entitled to purchase hereunder. The issuance of Warrant Shares upon exercise of this Warrant shall be made without charge to the Holder for any issuance tax with respect thereto or any other cost incurred by the Company in connection with the conversion of this Warrant and the related issuance of Warrant Shares; provided that the Holder will be responsible for any transfer taxes in respect of the issuance of Warrant Shares to a Person other than the Holder.

2.3. Fractional Shares. The Company shall not issue fractional shares of Common Stock upon any exercise or conversion of this Warrant. As to any fractional share of Common Stock which the Holder would otherwise be entitled to purchase from the Company upon such exercise or conversion, the Company shall purchase from the Holder such fractional share at a price equal to an amount calculated by multiplying such fractional share (calculated to the nearest 1/100th of a share) by the Fair Market Value of a share of Common Stock on the date of the Notice of Exercise or the Conversion Date, as applicable. Payment of such amount shall be made in cash or by check payable to the order of the Holder at the time of delivery of any certificate or certificates arising upon such exercise or conversion.

2.4. Continued Validity. A Shareholder shall be entitled to all rights which a Holder of this Warrant is entitled pursuant to the provisions of this Warrant, except rights which by their terms apply only to a Warrant.

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ARTICLE III. TRANSFER, EXCHANGE AND REPLACEMENT

3.1. Maintenance of Registration Books. The Company shall keep at the Principal Executive Office a register in which, subject to such reasonable regulations as it may prescribe, it shall provide for the registration, transfer and exchange of this Warrant. The Company and any Company agent may treat the

Person in whose name this Warrant is registered as the owner of this Warrant for all purposes whatsoever, and neither the Company nor any Company agent shall be affected by any notice to the contrary.

3.2. Restrictions on Transfers.

(a) Compliance with Securities Act. The Holder, by acceptance hereof hereby makes the representations set forth in Exhibit D-2 with respect to its acquisition of this Warrant and agrees that this Warrant and the Common Stock to be issued to the Holder upon exercise hereof are being acquired for investment, solely for the Holder's own account and not as a nominee for any other Person, and that the Holder will not offer, sell or otherwise dispose of this Warrant or any such shares of Common Stock except under circumstances which will not result in a violation of the Securities Act or this Agreement. Unless registered under the Securities Act, upon exercise of this Warrant (other than through conversion of the Warrant on or after two years from the date hereof), the Holder shall confirm in writing, by executing the form attached as Exhibit "D-2" hereto, that the shares of Common Stock purchased thereby are being acquired for investment, solely for the Holder's own account and not as a nominee for any other Person, and not with a view toward distribution or resale.

(b) Certificate Legends. This Warrant and all Warrant Shares issued upon exercise of this Warrant (unless Registered under the Securities Act) shall be stamped or imprinted with legends in substantially the following form (in addition to any legends required by applicable state securities laws):

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY STATE SECURITIES LAWS. NO SALE, TRANSFER, PLEDGE OR OTHER DISPOSITION OF SUCH SECURITIES MAY BE EFFECTED WITHOUT (A) (i) AN EFFECTIVE REGISTRATION STATEMENT RELATING THERETO, (ii) AN OPINION OF COUNSEL FOR THE HOLDER, REASONABLY SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATION IS NOT REQUIRED OR (iii) RECEIPT OF A NO-ACTION LETTER FROM THE SECURITIES AND EXCHANGE COMMISSION AND (B) OTHERWISE COMPLYING WITH THE PROVISIONS OF ARTICLE III OF THE WARRANT UNDER WHICH THIS SECURITY WAS ISSUED.

In addition, the Warrant shall be stamped or imprinted with a legend in substantially the following form:

THIS WARRANT MAY NOT BE TRANSFERRED (i) OTHER THAN TO AN AFFILIATE (AS DEFINED UNDER THE SECURITIES ACT OF 1933, AS AMENDED) (ii) FOLLOWING A CHANGE IN CONTROL OR (iii) IN CONNECTION WITH THE SALE OF ALL OR SUBSTANTIALLY ALL OF THE ASSETS, BUSINESS OR CAPITAL STOCK OF HOLDER, ALL AS PROVIDED HEREIN.

(c) Additional Restriction on Transfer. The Holder shall not sell, assign or otherwise transfer, pledge or hypothecate all or part of this Warrant prior to a Change in Control without the prior

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written consent of the Company, which consent may be withheld in the Company's sole discretion; provided that (x) any such sale, assignment or other transfer by the Holder of the Warrant in its entirety to an entity owned or controlled by the Holder (but only for so long as it remains so owned or controlled and such entity agrees (i) to be bound by the terms and conditions of this Warrant pursuant to an agreement reasonably acceptable to the Company ("Assumption Agreement") and (ii) to transfer this Warrant back to the Holder if it ceases to be owned or controlled by the Holder), (y) any such sale, assignment or other transfer by the Holder of the Warrant in connection with (i) the merger, consolidation or reorganization of the Holder, (ii) the sale, assignment, transfer or other disposition of all or substantially all of the Holder's assets or business in one or more related transactions or (iii) the sale, assignment, transfer or other disposition of all or substantially all of the Holder's capital stock, provided that any transferee described in this clause (y) executes an Assumption Agreement, (z) a bona fide pledge or hypothecation (so long as any sale, assignment or other transfer in connection with any attempted foreclosure of such a pledge or hypothecation would require such consent from the Company), and (zz) any transfer to a Person directly or indirectly controlling the Holder, provided such Person executes an Assumption Agreement, may be effected without any such consent.

(d) Disposition of Warrant Shares. With respect to any offer, sale or other disposition of any Warrant Shares issued upon exercise of this Warrant prior to Registration of such shares, the Shareholder agrees to give written notice to the Company prior thereto, describing briefly the manner thereof, together with a written opinion of the Shareholder's counsel, if reasonably requested by the Company, to the effect that such offer, sale or other disposition may be effected without Registration under the Securities Act or

qualification under any applicable state securities laws of such Warrant Shares and indicating whether or not under the Securities Act certificates for such Warrant Shares to be sold or otherwise disposed of, require any restrictive legend as to applicable restrictions on transferability in order to insure compliance with the Securities Act and any other applicable securities laws, such opinion to be in form and substance reasonably satisfactory to the Company. Promptly upon receiving such written notice and reasonably satisfactory opinion, if so requested, the Company, as promptly as practicable, shall notify the Shareholder that it may sell or otherwise dispose of such Warrant Shares all in accordance with the terms of the notice delivered to the Company. If a determination has been made pursuant to this subsection (d) that the opinion of counsel for the Shareholder is not reasonably satisfactory to the Company, the Company shall so notify the Shareholder promptly after such determination has been made and shall specify the legal analysis supporting any such conclusion. Notwithstanding the foregoing, such Warrant Shares may be offered, sold or otherwise disposed of in accordance with Rule 144, provided that the Company shall have been furnished with such information as the Company may reasonably request to provide reasonable assurance that the provisions of Rule 144 have been satisfied. Each certificate representing the Warrant Shares thus transferred in accordance with this subsection (d) (except a transfer pursuant to Rule 144) shall bear a legend as to the applicable restrictions on transferability in order to insure compliance with the Securities Act, unless in the aforesaid reasonably satisfactory opinion of counsel for the Shareholder such legend is not necessary in order to insure compliance with the Securities Act. The Company may issue stop transfer instructions to its transfer agent in connection with such restrictions.

(e) Termination of Restrictions. The restrictions imposed under this Section 3.2 upon the transferability of the Warrant (other than those in Section 3.2(c)) and the shares of Common Stock acquired upon the exercise of this Warrant shall cease when (i) a registration statement covering the applicable securities becomes effective under the Securities Act, (ii) the Company is presented with an opinion of counsel reasonably satisfactory to the Company that such restrictions are no longer required in order to insure compliance with the Securities Act or with a Commission "no-action" letter stating that future transfers of such securities by the transferor or the contemplated transferee would be exempt from registration under the Securities Act, or (iii) such securities may be transferred in accordance with Rule 144(k). Subject to Section 3.2(c), if applicable, when such restrictions terminate, the Company shall, or

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shall instruct its transfer agent to, promptly, and without expense to the Shareholder issue new securities in the name of the Shareholder not bearing the legends required under subsection (b) of this Section 3.2.

3.3. Exchange. At the Holder's option, this Warrant may be exchanged for other Warrants representing the right to purchase a like aggregate number of shares of Common Stock upon surrender of this Warrant at the Principal Executive Office. Whenever this Warrant is so surrendered to the Company at the Principal Executive Office for exchange, the Company shall execute and deliver the Warrants which the Holder is entitled to receive. All Warrants issued upon any registration of transfer or exchange of Warrants shall be the valid obligations of the Company, evidencing the same rights, and entitled to the same benefits, as the Warrants surrendered upon such registration of transfer or exchange. No service charge shall be made for any exchange of this Warrant.

3.4. Replacement. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and (i) in the case of any such loss, theft or destruction, upon delivery of indemnity reasonably satisfactory to the Company in form and amount or (ii) in the case of any such mutilation, upon surrender of such Warrant for cancellation at the Principal Executive Office, the Company, at its expense, shall execute and deliver, in lieu thereof, a new Warrant.

ARTICLE IV. ANTIDILUTION PROVISIONS

4.1. Reorganization, Reclassification or Recapitalization of the Company. In case of (1) a capital reorganization, reclassification or recapitalization of the Company's capital stock (other than in the cases referred to in Section 4.2 hereof), (2) the Company's consolidation or merger with or into another corporation in which the Company is not the surviving entity, or a reverse triangular merger in which the Company is the surviving entity but the shares of the Company's capital stock outstanding immediately prior to the merger are converted, by virtue of the merger, into other property, whether in the form of securities, cash or otherwise, or (3) the sale or transfer of the Company's property as an entirety or substantially as an entirety, then, as part of such reorganization, reclassification, recapitalization, merger, consolidation, sale

or transfer, lawful provision shall be made so that there shall thereafter be deliverable upon the exercise of this Warrant or any portion thereof (in lieu of or in addition to the number of shares of Common Stock theretofore deliverable, as appropriate), and without payment of any additional consideration, the number of shares of stock or other securities or property to which the holder of the number of shares of Common Stock which would otherwise have been deliverable upon the exercise of this Warrant or any portion thereof at the time of such reorganization, reclassification, recapitalization, consolidation, merger, sale or transfer would have been entitled to receive in such reorganization, reclassification, recapitalization, consolidation, merger, sale or transfer. This Section 4.1 shall apply to successive reorganizations, reclassifications, recapitalizations, consolidations, mergers, sales and transfers and to the stock or securities of any other corporation that are at the time receivable upon the exercise of this Warrant.

4.2. Reclassifications. If the Company changes any of the securities as to which purchase rights under this Warrant exist into the same or a different number of securities of any other class or classes, this Warrant shall thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities that were subject to the purchase rights under this Warrant immediately prior to such reclassification or other change and the Exercise Price therefor shall be appropriately adjusted.

4.3. Splits and Combinations. If the Company at any time subdivides any of its outstanding shares of Common Stock into a greater number of shares, the Exercise Price in effect immediately prior to such subdivision shall be proportionately reduced, and, conversely if the outstanding shares of Common Stock are combined into a smaller number of shares, the Exercise Price in effect immediately prior to such combination shall be proportionately increased. Upon any adjustment of the Exercise Price under this

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Section 4.3, the number of shares of Common Stock issuable upon exercise of this Warrant shall equal the number of shares determined by dividing (i) the aggregate Exercise Price payable for the purchase of all shares issuable upon exercise of this Warrant immediately prior to such adjustment by (ii) the Exercise Price per share in effect immediately after such adjustment.

4.4. Dividends and Distributions. If the Company declares a dividend or other distribution on the Common Stock (other than a cash dividend or distribution), then, as part of such dividend or distribution, lawful provision shall be made so that there shall thereafter be deliverable upon the exercise of this Warrant or any portion thereof, in addition to the number of shares of Common Stock receivable thereupon and without payment of any additional consideration, the amount of the dividend or other distribution to which the holder of the number of shares of Common Stock obtained upon exercise hereof would have been entitled to receive had the exercise occurred as of the record date for such dividend or distribution.

4.5. Liquidation; Dissolution. If the Company shall dissolve, liquidate or wind up its affairs, the Holder shall have the right, but not the obligation, to exercise this Warrant effective as of the date of such dissolution, liquidation or winding up. If any such dissolution, liquidation or winding up results in any cash distribution to the Holder in excess of the aggregate Exercise Price for the shares of Common Stock for which this Warrant is exercised, then the Holder may, at its option, exercise this Warrant without making payment of such aggregate Exercise Price and, in such case, the Company shall, upon distribution to the Holder, consider such aggregate Exercise Price to have been paid in full, and in making such settlement to the Holder, shall deduct an amount equal to such aggregate Exercise Price from the amount payable to the Holder.

4.6. Antidilution Provisions.

4.6.1. Definitions. For purposes of this Section 4.6 the following definitions shall apply:

"Common Stock Equivalents" shall mean Convertible Securities and rights entitling the holder thereof to receive directly, or indirectly, additional shares of Common Stock without the payment of any consideration by such holder for such additional shares of Common Stock or Common Stock Equivalents.

"Common Stock Outstanding" shall mean the aggregate of all Common Stock outstanding and all Common Stock issuable upon conversion of all outstanding Convertible Securities and exercise of all Options other than Employee Securities issued after October 30, 1998, unless such Employee Securities arise from exercise of Options granted prior to October 30, 1998.

"Current Exercise Price" shall mean the Exercise Price immediately before the occurrence of any event, which, pursuant to Section 4.6, causes an adjustment to the Exercise Price.

4.6.2. Adjustments to Exercise Price. The Exercise Price in effect from time to time shall be subject to adjustment in certain cases as follows:

4.6.2.1. Issuance of Securities. Subject to Section 4.6.3, in case the Company shall at any time after October 30, 1998 issue or sell any Common Stock or Common Stock Equivalent without consideration, or for a consideration per share less than the Fair Market Value, then, and thereafter successively upon each such issuance or sale, the Current Exercise Price shall simultaneously with such issuance or sale be adjusted to an Exercise Price (calculated to the nearest cent) determined by multiplying the Current Exercise Price in effect immediately prior to such issuance or sale by a fraction, the numerator of which shall be the number of shares of Common Stock Outstanding on such date of sale or issuance plus the number of shares of Common Stock which the aggregate consideration received for the issuance or sale

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of such additional shares would purchase at the Fair Market Value and the denominator of which shall be the number of shares of Common Stock Outstanding immediately after the issuance or sale.

For the purposes of this subsection 4.6.2.1, the following provisions shall also be applicable:

4.6.2.1.1. Cash Consideration. In case of the issuance or sale of additional Common Stock or Common Stock Equivalents for cash, the consideration received by the Company therefor shall be deemed to be the amount of cash received by this corporation for such shares (or, if such shares are offered by the corporation for subscription, the subscription price, or, if such shares are sold to underwriters or dealers for public offering without a subscription offering, the initial public offering price), without deducting therefrom any compensation or discount paid or allowed to underwriters or dealers or others performing similar services or for any expenses incurred in connection therewith.

4.6.2.1.2. Non-Cash Consideration. In case of the issuance (otherwise than upon conversion or exchange of Convertible Securities) or sale of additional Common Stock, Options or Convertible Securities for a consideration other than cash or a consideration, a part of which shall be other than cash, the fair value of such consideration as determined by the board of directors of the Company in the good faith exercise of its business judgment, irrespective of the accounting treatment thereof, shall be deemed to be the value, for purposes of this Section 4.6.2, of the consideration other than cash received by the Company for such securities.

4.6.2.1.3. Options and Convertible Securities. In case the Company shall in any manner issue or grant any Options or any Convertible Securities, the total maximum number of shares of Common Stock issuable upon the exercise of such Options or upon conversion or exchange of the total maximum amount of such Convertible Securities at the time such Convertible Securities first become convertible or exchangeable shall (as of the date of issue or grant of such Options or, in the case of the issue or sale of Convertible Securities other than where the same are issuable upon the exercise of Options, as of the date of such issue or sale) be deemed to be issued and to be outstanding for the purpose of this Section 4.6.2. and to have been issued for the sum of the amount (if any) paid for such Options or Convertible Securities and the minimum amount (if any) payable upon the exercise of such Options or upon conversion or exchange of such Convertible Securities at the time such Convertible Securities first become convertible or exchangeable; provided that, subject to the provisions of Section 4.6.2.1.4, no adjustment or further adjustment of the Exercise Price shall be made upon the actual issuance of (a) any such Common Stock or Convertible Securities or upon the conversion or exchange of any such Convertible Securities or the exercise of such Options or (b) any Common Stock issued or sold pursuant to conversion of any Convertible Securities or exercise of any Options to the extent outstanding on October 30, 1998.

4.6.2.1.4. Change in Option Price or Conversion Rate. If the exercise price provided for in any Option referred to in subsection 4.6.2.1.3, or the rate at which any Convertible Securities referred to in subsection 4.6.2.1.3 are convertible into or exchangeable for shares of Common Stock shall change at any time (other than under or by reason of provisions designed to protect against dilution), the Current Exercise Price in effect at the time of such event shall forthwith be readjusted to the Exercise Price that would have been in effect at such time had such Options or Convertible Securities still

outstanding provided for such changed exercise price, additional consideration or conversion rate, as the case may be, at the time initially granted, issued or sold. If the exercise price provided for in any such Option referred to in subsection 4.6.2.1.3, or the additional consideration (if any) payable upon the conversion or exchange of any Convertible Securities referred to in subsection 4.6.2.1.3, or the rate at which any Convertible Securities referred to in subsection 4.6.2.1.3 are convertible into or exchangeable for shares of Common Stock, shall be reduced at any time under or by reason of provisions with respect thereto designed to protect against dilution and such reduction would trigger an adjustment under Subsection 4.6.2.1, then in case of the delivery of shares of Common Stock upon the exercise of any such Option or upon conversion or exchange of any such Convertible Security, the Current Exercise Price then

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in effect hereunder shall, upon issuance of such shares of Common Stock, be adjusted to such amount as would have obtained had such Option or Convertible Security never been issued and had adjustments been made only upon the issuance of the shares of Common Stock actually delivered and for the consideration actually received for such Option or Convertible Security and the Common Stock.

4.6.2.1.5. Termination of Option or Conversion Rights. In the event of the termination or expiration of any right to purchase Common Stock under any Option or of any right to convert or exchange Convertible Securities, the Current Exercise Price shall, upon such termination, be changed to the Exercise Price that would have been in effect at the time of such expiration or termination had such Option or Convertible Security, to the extent outstanding immediately prior to such expiration or termination, never been issued, and the shares of Common Stock issuable thereunder shall no longer be deemed to be Common Stock Outstanding.

4.6.3. Employee Securities. Notwithstanding anything in this Article IV to the contrary, the Exercise Price shall not be adjusted by virtue of the issuance or sale of Employee Securities and no Employee Securities shall be included in any manner in the computation from time to time of the Exercise Price under subsection 4.6.2 or in Common Stock Outstanding for purposes of such computation except that Employee Securities constituting Common Stock arising from exercise of Options granted prior to October 30, 1998 shall be included in Common Stock Outstanding.

4.7. Maximum Exercise Price. At no time shall the Exercise Price exceed the amount set forth in the Preamble to this Warrant, unless the Exercise Price is adjusted pursuant to Section 4.3 hereof.

4.8. Other Dilutive Events. If any event occurs as to which the other provisions of this Article IV are not strictly applicable but the failure to make any adjustment would not fairly protect the purchase rights represented by this Warrant in accordance with the essential intent and principles hereof, then, in each such case, the Company shall appoint a firm of independent public accountants of recognized national standing (which may be the Company's regular auditors) which shall give their opinion upon the adjustment, if any, on a basis consistent with the essential intent and principles established in this Article IV, necessary to preserve, without dilution, the purchase rights represented by this Warrant; provided, that no adjustments shall be made in connection with the issuance of Common Stock upon exercise, conversion or exchange of Options or Convertible Securities to the extent that adjustment has previously been made upon issuance of such Options or Convertible Securities and each lowering of the effective purchase price of Common Stock pursuant to such Option or Convertible Securities. Upon receipt of such opinion, the Company shall promptly mail a copy thereof to the Holder and shall make the adjustments described therein.

4.9. Certificates and Notices.

(a) Adjustment Certificates. Upon any adjustment of the Exercise Price and/or the number of shares of Common Stock purchasable upon exercise of this Warrant, a certificate, signed by (i) the Company's President or Chief Financial Officer, or (ii) any independent firm of certified public accountants of recognized national standing the Company selects at its own expense, setting forth in reasonable detail the events requiring the adjustment and the method by which such adjustment was calculated, shall be mailed to the Holder and shall specify the adjusted Exercise Price and the number of shares of Common Stock purchasable upon exercise of the Warrant after giving effect to the adjustment.

(b) Extraordinary Corporate Events. If the Company, after the date hereof, proposes to effect (i) any transaction described in Sections 4.1 or 4.2 hereof, or (ii) a liquidation, dissolution or winding up of the Company described in Section 4.5 hereof or (iii) any payment of a dividend or distribution with respect to the Common Stock (other than a cash dividend or distribution), then, in each such case, the Company shall mail to the Holder a

notice describing such proposed action and specifying the date on which the Company's books shall close, or a record shall be taken, for determining the holders

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of Common Stock entitled to participate in such action, or the date on which such reorganization, reclassification, consolidation, merger, sale, transfer, liquidation, dissolution or winding up shall take place or commence, as the case may be, and the date as of which it is expected that holders of Common Stock of record shall be entitled to receive securities and/or other property deliverable upon such action, if any such date is to be fixed. Such notice shall be mailed to the Holder at least twenty days prior to the record date for such action in the case of any action described in clause (i) above at least ten days prior to the record date for such action in the case of any action described in clause (iii) above, and in the case of any action described in clause (ii) above, at least twenty days prior to the date on which the action described is to take place and at least twenty days prior to the record date for determining holders of Common Stock entitled to receive securities and/or other property in connection with such action. The failure to give notice required by this Section 4.9(b) or any defect therein shall be a breach of this Warrant but shall not affect the legality or validity of the action taken by the Company or the vote upon any such action. Unless specifically required by this Article IV, the Exercise Price, the number of shares covered by each Warrant and the number of Warrants outstanding shall not be subject to adjustment as a result of the Company being required to give notice pursuant to this Section 4.9(b).

4.10. No Impairment. The Company shall not, by amendment of the Charter or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issuance or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but shall at all times in good faith assist in the carrying out of all the provisions of this Article IV and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Holder against impairment.

4.11. Application. Except as otherwise provide herein, all sections of this Article IV are intended to operate independently of one another. If an event occurs that requires the application of more than one section, all applicable sections shall be given independent effect.

ARTICLE V. REGISTRATION RIGHTS

5.1. Registration on Form S-3.

5.1.1. Filing of Registration Statement. The Company shall use its best efforts to secure effectiveness of, as soon as practicable, and shall file no later than 10 days after the commencement of the Exercise Period, a registration statement in form and substance satisfactory to the Holder on Form S-3 (the "Registration Statement") with the Commission under the Securities Act to register the issuance of Warrant Shares upon exercise of the Warrant and the transfer of such Warrant Shares (the Warrant Shares constituting the "Registrable Securities"); provided however, that in the event the Company fails to file reports in a timely manner or otherwise fails (due to an action or inaction of the Company) to be eligible to file a registration statement on Form S-3, the Company shall file a registration statement on Form S-1.

5.1.2. Registrable Expenses. The Company shall pay all Registration Expenses (as defined below) in connection with any registration, qualification or compliance hereunder, and each Holder shall pay all Selling Expenses (as defined below) and other expenses that are not Registration Expenses relating to the Registrable Securities resold by such Holder. "Registration Expenses" shall mean all expenses, except for Selling Expenses, incurred by the Company in complying with the registration provisions herein described, including, without limitation, all registration, qualification and filing fees, printing expenses, fees and disbursements of counsel for the Company, blue sky fees and expenses and the expense of any special audits incident to or required by any such registration. "Selling Expenses" shall mean all selling commissions, underwriting fees and stock transfer taxes applicable to the Registrable Securities and all fees and disbursements of counsel for any Holder.

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5.1.3. Additional Company Obligations. In the case of any registration effected by the Company pursuant to these registration provisions, the Company will use its best efforts to: keep such registration effective until

such date as all of the Registrable Securities have been sold or could immediately be sold pursuant to Rule 144(k) promulgated by the Commission; (ii) prepare and file with the Commission such amendments and supplements to the Registration Statement and the prospectus used in connection with the Registration Statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of the Registrable Securities; (iii) furnish such number of prospectuses and other documents incident thereto, including any amendment of or supplement to the prospectus, as a Holder from time to time may reasonably request; (iv) cause all such Registrable Securities registered as described herein to be listed on each securities exchange and quoted on each quotation system on which similar securities issued by the Company are then listed or quoted; (v) provide a transfer agent and registrar for all Registrable Securities registered pursuant to the Registration Statement and a CUSIP number for all such Registrable Securities; (vi) use its best efforts to comply with all applicable rules and regulations of the Commission, and make available to its securityholders, to the extent required, as soon as reasonably practicable, an earnings statement covering the period of at least twelve months, but not more than eighteen months, beginning with the first month after the effective date of the Registration Statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act; and (vii) file the documents required of the Company and otherwise use its best efforts to maintain requisite blue sky clearance in (A) all jurisdictions in which any of the Warrant Shares are originally sold and (B) all other states specified in writing by a Holder as may reasonably be required to sell such Holder's Warrant Shares, provided, however, that the Company shall not be required to qualify to do business, subject itself to taxation, or consent to service of process in any state in which it is not now so qualified or subject to taxation or has not so consented.

5.1.4. Conditions and Limitations

(a) Cooperation by Holder. It shall be a condition precedent to the obligation of the Company to take any action pursuant to this Article V in respect of the Registrable Securities that the Holder shall furnish to the Company such information regarding such Registrable Securities and the intended method of disposition thereof and such other information as the Company shall reasonably request and as shall be required in connection with the action taken by the Company.

(b) Notification Prior to Sale. If any Holder shall propose to sell any Registrable Securities pursuant to the Registration Statement, it shall notify the Company of its intent to do so at least three full business days prior to such sale, and the provision of such notice to the Company shall be deemed to establish an agreement by such Holder to comply with the registration provisions contained herein. Such notice shall be deemed to constitute a representation that any information previously supplied by such Holder is accurate as of the date of such notice. At any time within such three business day period, the Company may refuse to permit the Holder to resell any Registrable Securities pursuant to the Registration Statement; provided, however, that in order to exercise this right, the Company must deliver a certificate in writing to the Holder to the effect that a delay in such sale is necessary because, in the good faith judgment of the Company, a sale pursuant to the Registration Statement would require the public disclosure of information that would not otherwise be required to be disclosed (which disclosure would be likely, in the good faith judgment of the Company, to be materially harmful to the Company) or could in other respects constitute a violation of the federal securities laws. In such an event, the Company shall use its best efforts to amend the Registration Statement to the extent required to comply with Section 5.1.4 and to take all other actions necessary to allow such sale under the federal securities laws, and shall notify the Holders promptly after it has determined that such circumstances no longer exist. Notwithstanding the foregoing, the Company shall not under any circumstances be entitled to refuse to permit the Holder to resell any Registrable Securities more than twice in any twelve-month period, and any individual period during which the Company refuses to permit the Holder to resell any Registrable Securities shall not exceed sixty days.

The Company will promptly notify each holder of any Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event or existence of any fact as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances in which they are made, and, as promptly as is practicable, prepare and furnish to such holder a reasonable number of copies of any required supplement to or amendment of such prospectus as may be necessary so that, as

thereafter delivered to the purchasers of such securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances in which they are made. By acquisition of Registrable Securities, each holder of such Registrable Securities shall be deemed to have agreed that upon receipt of any notice from the Company of the happening of any event of the kind described in the preceding sentence, such holder will promptly discontinue such holder's disposition of Registrable Securities pursuant to the registration statement covering such Registrable Securities until such holder's receipt of the copies of any required supplemented or amended prospectus contemplated by this Section. If so directed by the Company, each holder of Registrable Securities will deliver to the Company (at the Company's expense) all copies, other than permanent file copies, in such holder's possession of the prospectus covering such Registrable Securities at the time of receipt of such notice. Subject to the foregoing, when a Holder is entitled to sell and gives notice of its intent to sell pursuant to the Registration Statement, the Company shall furnish to such Holder a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such shares, such prospectus shall not include an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances in which they are made.

5.2. Indemnification and Contribution.

5.2.1. Indemnification by the Company. The Company agrees to indemnify and hold harmless each Holder from and against any losses, claims, damages or liabilities (or actions or proceedings in respect thereof) to which such Holder may become subject (under the Securities Act or otherwise) insofar as such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) arise out of, or are based upon, any claim by a third party asserting any untrue statement of a material fact contained in the Registration Statement or omission of a material fact therefrom necessary to make the statements therein not misleading, on the effective date thereof, or arise out of any failure by the Company to fulfill any undertaking included in the Registration Statement, and the Company will, as incurred, reimburse such Holder for any legal or other expenses reasonably incurred in investigating, defending or preparing to defend any such action, proceeding or claim; provided, however, that the Company shall not be liable in any such case to the extent that such loss, claim, damages or liability arises out of, or is based upon (i) an untrue statement made in such Registration Statement in reliance upon and in conformity with written information furnished to the Company by or on behalf of such Holder specifically for use in preparation of the Registration Statement or (ii) any untrue statement in any prospectus that is corrected in any subsequent prospectus that was delivered to the Holder prior to the pertinent sale or sales by the Holder.

5.2.2. Indemnification by Holder. Each Holder, severally and not jointly, agrees to indemnify and hold harmless the Company from and against any losses, claims, damages or liabilities (or actions or proceedings in respect thereof) to which the Company may become subject (under the Securities Act or otherwise) insofar as such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) arise out of, or are based upon any claim by a third party asserting (i) an untrue statement made in such Registration Statement in reliance upon and in conformity with written information furnished to the Company by or on behalf of such Holder specifically for use in preparation of the Registration Statement, provided, however, that no Holder shall be liable in any such case for any untrue statement included in any

prospectus which statement has been corrected, in writing, by such Holder and delivered to the Company at least three business days before the sale from which such loss occurred or (ii) any untrue statement in any prospectus that is corrected in any subsequent prospectus that was delivered by the Holder to the purchaser prior to the pertinent sale or sales by the Holder, and each Holder, severally and not jointly, will, as incurred, reimburse the Company for any legal or other expenses reasonably incurred in investigating, defending or preparing to defend any such action, proceeding or claim.

5.2.3. Indemnification Procedures. Promptly after receipt by any indemnified person of a notice of a claim or the beginning of any action in respect of which indemnity is to be sought against an indemnifying person pursuant to this Section 5.2, such indemnified person shall notify the indemnifying person in writing of such claim or of the commencement of such action, and, subject to the provisions hereinafter stated, in case any such action shall be brought against an indemnified person and the indemnifying person shall have been notified thereof, the indemnifying person shall be

entitled to participate therein, and, to the extent that it shall wish, to assume the defense thereof, with counsel reasonably satisfactory to the indemnified person. After notice from the indemnifying person to such indemnified person of the indemnifying person's election to assume the defense thereof, the indemnifying person shall not be liable to such indemnified person for any legal expenses subsequently incurred by such indemnified person in connection with the defense thereof; provided, however, that if there exists or shall exist a conflict of interest that would make it inappropriate in the reasonable opinion of counsel for the indemnified person for the same counsel to represent both the indemnified person and such indemnifying person or any affiliate or associate thereof, the indemnified person shall be entitled to retain its own counsel at the expense of such indemnifying person; provided, however, that in the case of the immediately preceding proviso the indemnifying person shall not be responsible for the legal expenses of more than one counsel for all indemnified persons.

5.2.4. Contribution in Lieu of Indemnity. If the indemnification provided for in this Section 5.2 is unavailable to or insufficient to hold harmless an indemnified party under Section 5.2.1 or 5.2.2 above in respect of any losses, claims, damages or liabilities (or actions or proceedings in respect thereof) referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative benefit and relative fault of the respective parties as well as any other relevant equitable considerations. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or a Holder on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Holders agree that it would not be just and equitable if contribution pursuant to this Section 5.2.4 were determined by pro rata allocation (even if the Holders were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 5.2.4. The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this Section 5.2.4 shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 5.2.4, no Holder shall be required to contribute any amount in excess of the net amount received by the Holder from the sale of the Registrable Securities to which such loss relates. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Holders' obligations in this Section 5.2.4 to contribute are several in proportion to their respective sales of Registrable Securities to which such loss relates and not joint.

5.2.5. Controlling Persons Indemnified. The obligations of the Company and the Holders under this Section 5.2 shall be in addition to any liability which the Company and the respective

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Holders may otherwise have and shall extend, upon the same terms and conditions, to each person, if any, who controls or may be deemed to control the Company or any Holder within the meaning of the Securities Act including, without limitation, the directors and officers of the Company and the Holder, as the case may be.

5.3. Transfer Of Registration Rights. The right to sell Registrable Securities pursuant to the Registration Statement described herein will automatically be assigned to each transferee of the Warrant or Warrant Shares permitted under the terms of this Warrant. In the event that it is necessary, in order to permit a Holder to sell Registrable Securities pursuant to the Registration Statement, to amend the Registration Statement to name such Holder, such Holder shall upon written notice to the Company, be entitled to have the Company make such amendment as soon as reasonably practicable.

ARTICLE VI.
REPRESENTATIONS, WARRANTIES AND COVENANTS OF COMPANY

6.1. Representations and Warranties. The Company represents and warrants that as of the date hereof:

(a) Legal Status; Qualification. The Company is a corporation duly

organized, validly existing and in good standing under the laws of Rhode Island and is qualified or licensed to do business in all other countries, states and provinces in which the laws thereof require the Company to qualify and/or be licensed, except where failure to qualify or be licensed would not have a material adverse effect on the business or assets of the Company taken as a whole;

(b) Capitalization. The Company's authorized capital stock consists of: 300,000,000 shares of Common Stock, of which 130,792,386 shares are issued and outstanding;

(c) Options. Except as described in Exhibit "D-3" hereto there are no Options, warrants or similar rights to acquire from the Company, or agreements or other obligations by the Company, absolute or contingent, to issue or sell Common Stock, whether on conversion or exchange of Convertible Securities or otherwise;

(d) Preemptive Rights. No shareholder of the Company has any preemptive rights to subscribe for shares of Common Stock;

(e) Authority. The Company has the right and power, and is duly authorized and empowered, to enter into, execute, deliver and perform its obligations under this Warrant;

(f) Binding Effect. This Warrant has been duly authorized, executed and delivered and constitutes a valid and binding obligation of the Company enforceable in accordance with its terms, except to the extent that enforceability may be limited by (i) bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and (ii) general principles of equity;

(g) No Conflict. The execution, delivery and/or performance by the Company of this Warrant shall not, by the lapse of time, the giving of notice or otherwise, constitute a violation of any applicable law or a breach of any provision contained in the Company's Charter or Bylaws or contained in any agreement, instrument or document to which the Company is a party or by which it is bound;

(h) Consents. Except as contemplated by Article V and Section 6.2(b), no consent, approval, authorization or other order of any court, regulatory body, administrative agency or other governmental body is required for the valid issuance of the Warrant or for the performance of any of the Company's obligations hereunder, except in connection with listing of the Warrant Shares on the American

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Stock Exchange, which listing will be effected in accordance with the rules and regulations of the American Stock Exchange;

(i) Offering. Neither the Company nor any agent acting on its behalf has, either directly or indirectly, sold, offered for sale or disposed of, or attempted or offered to dispose of, this Warrant or any part hereof, or any similar obligation of the Company, to, or has solicited any offers to buy any thereof from, any Person or Persons other than the Holder. Neither the Company nor any agent acting on its behalf will sell or offer for sale or dispose of, or attempt or offer to dispose of, this Warrant or any part thereof to, or solicit any offers to buy any warrant of like tenor from, or otherwise approach or negotiate in respect thereof, with, any Person or Persons so as thereby to bring the issuance of this Warrant within the provisions of Section 5 of the Securities Act;

(j) Registration. Assuming the accuracy of the Holder's representations made herein, it is not necessary in connection with the issuance and sale of this Warrant to the Holder pursuant to this Agreement to Register this Warrant under the Securities Act; and

6.2. Covenants. The Company covenants that:

(a) Authorized Shares. The Company will at all times have authorized, and reserved for the purpose of issuance or transfer upon exercise of the rights evidenced by this Warrant, a sufficient number of shares of Common Stock to provide for the exercise of the rights represented by this Warrant (for purposes of determining compliance with this covenant, the shares of Common Stock issuable upon exercise of all other Options and warrants to acquire Common Stock and upon conversion of all instruments convertible into Common Stock shall be deemed issued and outstanding);

(b) Proper Issuance. The Company, at its expense, will take all such

action as may be necessary to assure that the Common Stock issuable upon the exercise of this Warrant may be so issued without violation of any applicable law or regulation, or of any requirements of any domestic securities exchange or automated quotation system upon which any capital stock of the Company may be listed or quoted, as the case may be, provided that the Holder, at its sole expense, will take all such action as may be necessary under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, in connection with its acquisition of securities of the Company. Such action by the Company may include, but not be limited to, causing such shares to be duly registered or approved, listed or quoted on relevant domestic securities exchanges or automated quotation systems; and

(c) Fully Paid Shares. The Company will take all actions necessary or appropriate to validly and legally issue fully paid and nonassessable shares of Common Stock upon exercise of this Warrant. All such shares will be free from all taxes, liens and charges with respect to the issuance thereof, other than any stock transfer taxes in respect to any transfer occurring contemporaneously with such issuance.

ARTICLE VII.
MISCELLANEOUS

7.1. Certain Expenses. The Company shall pay all expenses in connection with, and all taxes (other than stock transfer and income taxes) and other governmental charges that may be imposed in respect of, the issuance, sale and delivery of the Warrant and the Warrant Shares to the Holder.

7.2. Holder Not a Shareholder. Prior to the exercise of this Warrant as hereinbefore provided, the Holder shall not be entitled to any of the rights of a shareholder of the Company including, without limitation, the right as a shareholder (i) to vote on or consent to any proposed action of the Company or (ii) except as provided herein, to receive (a) dividends or any other distributions made to shareholders, (b)

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notice of or attend any meetings of shareholders of the Company or (c) notice of any other proceedings of the Company.

7.3. Like Tenor. All Warrants shall at all times be substantially identical except as to the Preamble.

7.4. Remedies. The Company stipulates that the remedies at law of the Holder in the event of any default or threatened default by the Company in the performance of or compliance with any of the terms of this Warrant are not and will not be adequate to the fullest extent permitted by law, and that such terms may be specifically enforced by a decree for the specific performance of any agreement contained herein or by an injunction against a violation of any of the terms hereof or otherwise.

7.5. Enforcement Costs. If the Holder, a Shareholder or the Company seeks to enforce its rights hereunder by legal proceedings or otherwise, then the non-prevailing party shall pay all reasonable costs and expenses incurred by the prevailing party, including, without limitation, all reasonable attorneys' fees (including the allocable costs of in-house counsel).

7.6. Nonwaiver; Cumulative Remedies. No course of dealing or any delay or failure to exercise any right hereunder on the part of the Holder and/or any Shareholder shall operate as a waiver of such right or otherwise prejudice the rights, powers or remedies of the Holder or such Shareholder. No single or partial waiver by the Holder and/or any Shareholder of any provision of this Warrant or of any breach or default hereunder or of any right or remedy shall operate as a waiver of any other provision, breach, default right or remedy or of the same provision, breach, default, right or remedy on a future occasion. The rights and remedies provided in this Warrant are cumulative and are in addition to all rights and remedies which the Holder and each Shareholder may have in law or in equity or by statute or otherwise.

7.7. Notices. Any notice, demand or delivery to be made pursuant to this Warrant will be sufficiently given or made if sent by certified or registered mail, postage prepaid, nationally recognized overnight delivery service or facsimile transmission, addressed to (a) the Holder and the Shareholders at their last known addresses appearing on the books of the Company maintained for such purpose or (b) the Company at its Principal Executive Office. The Holder, the Shareholders and the Company may each designate a different address by notice to the other pursuant to this Section 7.7. A notice shall be deemed effective upon receipt.

7.8. Successors and Assigns. This Warrant shall be binding upon, the

Company and any Person succeeding the Company by merger, consolidation or acquisition of all or substantially all of the Company's assets, and all of the obligations of the Company with respect to the shares of Common Stock issuable upon exercise of this Warrant shall survive the exercise, expiration or termination of this Warrant and all of the covenants and agreements of the Company shall inure to the benefit of the Holder, each Shareholder and their respective successors and assigns. The Company shall, at the time of exercise of this Warrant, in whole or in part, upon request of the Holder or any Shareholder but at the Company's expense, acknowledge in writing its continuing obligations hereunder with respect to rights of the Holder or such Shareholder to which it shall continue to be entitled after such exercise in accordance with the terms hereof; provided that the failure of the Holder or any Shareholder to make any such request shall not affect the continuing obligation of the Company to the Holder or such Shareholder in respect of such rights.

7.9. Modification; Severability.

(a) If, in any action before any court or agency legally empowered to enforce any term, any term is found to be unenforceable, then such term shall be deemed modified to the extent necessary to make it enforceable by such court or agency.

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(b) If any term is not curable as set forth in subsection (a) above, the unenforceability of such term shall not affect the other provisions of this Warrant but this Warrant shall be construed as if such unenforceable term had never been contained herein.

7.10. Integration. This Warrant replaces all prior and contemporaneous agreements and supersedes all prior and contemporaneous negotiations between the parties with respect to the transactions contemplated herein and constitutes the entire agreement of the parties with respect to the transactions contemplated herein.

7.11. Survival of Representations and Warranties. The representations and warranties of any party in this Warrant shall survive the execution and delivery of this Warrant and the consummation of the transactions contemplated hereby, notwithstanding any investigation by the such party or its agents.

7.12. Amendment. This Warrant may not be modified or amended except by written agreement of the Company, the Holder and the Shareholder(s), if any, holding a majority of the Warrant Shares.

7.13. Headings. The headings of the Articles and Sections of this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

7.14. Meanings. Whenever used in this Warrant, any noun or pronoun shall be deemed to include both the singular and plural and to cover all genders; and the words "herein," "hereof" and "hereunder" and words of similar import shall refer to this instrument as a whole, including any amendments hereto.

7.15. Governing Law. This Warrant shall be governed by, and construed in accordance with, the laws of the State of California applicable to contracts entered into and to be performed wholly within California by California residents.

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IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its duly authorized officer this October 30, 1998.

LUCAS LICENSING LTD. ("Holder") HASBRO, INC. ("Company")

By: /s/ GORDON RADLEY

By: /s/ HAROLD P. GORDON

Title: President

Title: Vice Chairman

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EXHIBIT "D-1" - Notice of Exercise (Section 2.1)

EXHIBIT "D-2" - Investment Representation Certificate (Section 3.2(a))

EXHIBIT "D-3" -- Assignment Form (Section 3.2(d))

EXHIBIT "D-4" - Schedule of Outstanding Options and Convertible Securities
(Sections 6.1(c))

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EXHIBIT "D-1"

NOTICE OF EXERCISE FORM

(To be executed only upon partial or full
exercise of the within Warrant)

The undersigned registered Holder of the within Warrant hereby irrevocably exercises the within Warrant for and purchases shares of Common Stock of Hasbro, Inc. and herewith makes payment therefor in the amount of \$_____, all at the price and on the terms and conditions specified in the within Warrant and requests that a certificate (or _____ certificates in denominations of _____ shares) for the shares of Common Stock of Hasbro, Inc. hereby purchased be issued in the name of and delivered to (choose one) (a) the undersigned or (b) [NAME], whose address is and, if such shares of Common Stock shall not include all the shares of Common Stock issuable as provided in the within Warrant, that a new Warrant of like tenor for the number of shares of Common Stock of Hasbro, Inc. not being purchased hereunder be issued in the name of and delivered to (choose one) (a) the undersigned or (b) [NAME], whose address is _____.

Dated: _____

NOTICE: The signature to this Notice of Exercise must correspond with the name as written upon the face of the within Warrant in every particular, without alteration or enlargement or any change whatever.

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EXHIBIT "D-2"

INVESTMENT REPRESENTATION CERTIFICATE

Purchaser:

Company: Hasbro, Inc.

Security: Common Stock

Amount:

Date:

(a) In connection with the purchase of the above-listed securities (the "Securities"), the undersigned (the "Purchaser") represents to the Company as follows:

(b) The Purchaser is aware of the Company's business affairs and financial condition, and has acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Securities. The Purchaser is purchasing the Securities for its own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof for purposes of the Securities Act of 1933, as amended (the "Securities Act");

(c) The Purchaser understands that the Securities have not been registered under the Securities Act in reliance upon a specific exemption therefor, which exemption depends upon, among other things, the bona fide nature of the Purchaser's investment intent as expressed herein;

(d) The Purchaser further understands that the Securities must be held indefinitely unless subsequently registered under the Securities Act or unless an exemption from registration is otherwise available. In addition, the

Purchaser understands that the certificate evidencing the Securities will be imprinted with the legend referred to in the Warrant under which the Securities are being purchased; and

(e) The Purchaser is aware of the provisions of Rule 144, promulgated under the Securities Act, which, in substance, permit limited public resale of "restricted securities" acquired, directly or indirectly, from the issuer thereof (or from an affiliate of such issuer), in a non-public offering subject to the satisfaction of certain conditions, if applicable, including, among other things: (i) the availability of certain public information about the Company; (ii) the resale occurring not less than one year after the party has purchased and paid for the securities to be sold; (iii) the sale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934) and the amount of securities being sold during any three-month period not exceeding the specified limitations stated therein.

The Purchaser represents that it is an "accredited investor" as that term is defined in Rule 501 of Regulation D under the Securities Act or any successor regulation thereunder.

Date: _____ PURCHASER: _____

EXHIBIT "D-3"

OUTSTANDING OPTIONS

ASSIGNMENT FORM

(To be executed only upon the assignment of the within Warrant)

FOR VALUE RECEIVED, the undersigned registered Holder of the within Warrant hereby sells, assigns and transfers unto _____, whose address is _____ all of the rights of the undersigned under the within Warrant, with respect to shares of Common Stock of Hasbro, Inc. and, if such shares of Common Stock shall not include all the shares of Common Stock issuable as provided in the within Warrant, that a new Warrant of like tenor for the number of shares of Common Stock of Hasbro, Inc. not being transferred hereunder be issued in the name of and delivered to the undersigned, and does hereby irrevocably constitute and appoint _____ attorney to register such transfer on the books of Hasbro, Inc. maintained for the purpose, with full power of substitution in the premises.

Dated: _____

By: _____
(Signature of Registered Holder)

Title: _____

NOTICE: The signature to this Assignment must correspond with the name upon the face of the within Warrant in every particular, without alteration or enlargement or any change whatever.

EXHIBIT "D-4"

OUTSTANDING OPTIONS AND CONVERTIBLE SECURITIES

(Sections 6.1(c))

1. Options granted under employee and non-employee director stock option plans for 9,395,028 shares of Common Stock.
2. Warrants granted to Lucas Licensing, Ltd. and Lucasfilm Ltd. for shares of Common Stock on October 14, 1997.
3. Warrants granted to DreamWorks LLC for shares of Common Stock.

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY STATE SECURITIES LAWS. NO SALE, TRANSFER, PLEDGE OR OTHER DISPOSITION OF SUCH SECURITIES MAY BE EFFECTED WITHOUT (A) (i) AN EFFECTIVE REGISTRATION STATEMENT RELATING THERETO, (ii) AN OPINION OF COUNSEL FOR THE HOLDER, REASONABLY SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATION IS NOT REQUIRED OR (iii) RECEIPT OF A NO-ACTION LETTER FROM THE SECURITIES AND EXCHANGE COMMISSION, AND (B) OTHERWISE COMPLYING WITH THE PROVISIONS OF ARTICLE III OF THIS WARRANT.

THIS WARRANT MAY NOT BE TRANSFERRED (i) OTHER THAN TO AN AFFILIATE (AS DEFINED UNDER THE SECURITIES ACT OF 1933, AS AMENDED), (ii) FOLLOWING A CHANGE IN CONTROL OR (iii) IN CONNECTION WITH THE SALE OF ALL OR SUBSTANTIALLY ALL OF THE ASSETS, BUSINESS OR CAPITAL STOCK OF HOLDER, AS PROVIDED HEREIN.

WARRANT
TO PURCHASE SHARES OF COMMON STOCK
AS HEREIN DESCRIBED

Dated October 30, 1998

This certifies that for value received:

LUCASFILM LTD.

or registered assigns, is entitled, subject to the terms set forth herein, to purchase from Hasbro, Inc., a Rhode Island corporation (the "Company"), up to 1,600,000 fully paid and nonassessable shares of the Common Stock of the Company, at the exercise price of thirty-five dollars (\$35.00) per share. The number of shares purchasable hereunder and the Exercise Price are subject to adjustment in certain events, all as more fully set forth under Article IV herein.

ARTICLE I.
DEFINITIONS

"Additional Stock" means any of Common Stock, Convertible Securities and Options.

"Change in Control" means:

A. The acquisition (or series of related acquisitions) 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, as amended (the "1934 Act") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 20% or more of either (x) the then outstanding shares of Common Stock (the "Outstanding Common Stock") or (y) the combined voting power of the then outstanding voting securities of the Company 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 (or series of related acquisitions) directly from the Company or any of its subsidiaries of shares that would constitute, after issuance, or any acquisition (or series of related acquisitions) consented to by the Board of Directors of the Company of outstanding shares constituting, in the aggregate, less than 40% of the Outstanding Voting Securities, (ii) any acquisition by the Company or any of its subsidiaries, (iii) any acquisition by any

employee benefit plan (or related trust) sponsored or maintained by the Company 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 (such holders described in clauses (ii) and (iii) and in this clause (iv), the "Permitted Acquirors") or (v) any acquisition by any corporation with respect to which, following such acquisition, (a) more than 50% 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, and (b) less than 40% of such outstanding shares of common stock of such corporation and of such combined voting power of such outstanding voting securities is then beneficially owned, directly or indirectly, by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the 1934 Act), other than the Permitted Acquirors; or

B. Any event in which individuals who as of the Closing Date constitute the Board of Directors of the Company (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 Closing Date, 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. A reorganization, merger or consolidation involving the Company (whether or not the Company is the surviving entity), in each case, with respect to which (i) 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 50% 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 (ii) following such reorganization, merger or consolidation, any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the 1934 Act), other than the Permitted Acquirors, beneficially owns, directly or indirectly, 40% or more of such outstanding shares of common stock of such surviving corporation and of such combined voting power of such outstanding voting securities; or

D. (i) A complete liquidation or dissolution of the Company or (ii) the sale or other disposition of all or substantially all of the assets of the Company (in one transaction or a series of related transactions), other than to a corporation, with respect to which following such sale or other disposition, (A) more than 50% 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

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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, and (B) less than 40% of such outstanding shares of common stock of such corporation and of such combined voting power of the outstanding voting securities of such corporation is then beneficially owned, directly or indirectly, by an individual entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the 1934 Act), other than the Permitted Acquirors; or

E. The acquisition (or series of related acquisitions) by a Competitor of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 20% or more of either (x) the Outstanding Common Stock or (y) the Outstanding Voting Securities unless such Competitor is approved by Holder as a passive investor in the Company, such approval not to be unreasonably withheld.

"Charter" means the certificate of incorporation of the Company, as filed with the Rhode Island Secretary of State.

"Closing Date" means October 30, 1998.

"Commission" means the Securities and Exchange Commission, or any other federal agency then administering the Securities Exchange Act of 1934 or the Securities Act.

"Common Stock" means the Company's Common Stock, par value \$.50 per share, any stock into which such stock shall have been changed or any stock resulting from any reclassification of such stock, and any other capital stock of the

Company of any class or series now or hereafter authorized having the right to share in distributions either of earnings or assets of the Company without limit as to amount or percentage.

"Company" means Hasbro, Inc., a Rhode Island corporation, and any successor corporation.

"Competitor" means a Person or group of Persons (within the meaning of Section 13(d)(3) or 14(d)(2) of the 1934 Act) engaged as a significant part of its or their business in the business of producing or distributing any entertainment properties including, without limitation, motion pictures, television production, and interactive educational and entertainment products.

"Convertible Securities" means evidences of indebtedness, shares of stock or other securities which are convertible into or exchangeable for, with or without payment of additional consideration, shares of Common Stock, either immediately or upon the arrival of a specified date or the happening of a specified event or both.

"Employee Securities" shall mean all securities of the Company issued or sold after October 30, 1998 to employees, consultants, officers or directors of the Company with the approval of, or pursuant to a plan approved by, the Board of Directors or any duly authorized committee thereof.

"Exercise Period" means the period commencing on the earlier of (i) the U.S. Release Date of Episode I and (ii) the occurrence of a Change in Control and terminating at 5:00 p.m. Pacific Time on the twelfth anniversary of the Closing Date.

"Exercise Price" means the exercise price per share of Common Stock set forth in the Preamble to this Warrant, as such price may be adjusted pursuant to Article IV hereof.

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"Fair Market Value" means with respect to a share of Common Stock at any date:

(i) If shares of Common Stock are being sold pursuant to a public offering under an effective registration statement under the Securities Act which has been declared effective by the Commission and Fair Market Value is being determined as of the closing of the public offering, the "per share price to public" specified for such shares in the final prospectus for such public offering;

(ii) If shares of Common Stock are then listed or admitted to trading on any national securities exchange or traded on any national market system and Fair Market Value is not being determined as of the date described in clause (i) of this definition, the average of the daily closing prices for the twenty trading days before such date. The closing price for each day shall be the last sale price on such date or, if no such sale takes place on such date, the average of the closing bid and asked prices on such date, in each case as officially reported on the principal national securities exchange or national market system on which such shares are then listed, admitted to trading or traded;

(iii) If no shares of Common Stock are then listed or admitted to trading on any national securities exchange or traded on any national market system or being offered to the public pursuant to a registration described in clause (i) of this definition, the average of the reported closing bid and asked prices thereof on such date in the over-the-counter market as shown by the Nasdaq Stock Market or, if such shares are not then quoted in such system, as published by the National Quotation Bureau, Incorporated or any similar successor organization, and in either case as reported by any member firm of the New York Stock Exchange selected by the Company and reasonably acceptable to the Holder;

(iv) If no shares of Common Stock are then listed or admitted to trading on any national exchange or traded on any national market system, if no closing bid and asked prices thereof are then so quoted or published in the over-the-counter market and if no such shares are being offered to the public pursuant to a registration described in clause (i) of this definition, the fair value of a share of Common Stock shall be as determined by an investment bank selected by Company with the approval of the Holder (which approval shall not be unreasonably withheld or delayed), the costs of such investment banker to be paid by the Company.

"Fiscal Year" means the fiscal year of the Company.

"Holder" means the person in whose name this Warrant is registered on the books of the Company maintained for such purpose and any transferee permitted under the terms of this Warrant of all or a portion of this Warrant.

"Option" means any right, warrant or option to subscribe for or purchase shares of Common Stock or Convertible Securities.

"Person" means and includes natural persons, corporations, limited partnerships, general partnerships, limited liability companies, joint stock companies, joint ventures, associations, companies, trusts, banks, trust companies, land trusts, business trusts, government entities and authorities and other organizations, whether or not legal entities.

"Principal Executive Office" means the Company's office at 1027 Newport Avenue, Pawtucket, Rhode Island 02862 or such other office as designated in writing to the Holder by the Company.

"Register," "Registered" and "Registration" refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act, and the declaration or ordering of the effectiveness of such registration statement.

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"Rule 144" means Rule 144 as promulgated by the Commission under the Securities Act, as such Rule may be amended from time to time, or any similar successor rule that the Commission may promulgate.

"Securities Act" means the Securities Act of 1933, as amended, or any successor federal statute, and the rules and regulations of the Commission promulgated thereunder, all as the same shall be in effect from time to time.

"Shareholder" means the person who was previously the Holder and has exercised all or a portion of this Warrant.

"U.S. Release Date of Episode I" means the initial theatrical release in the United States of the first prequel theatrical motion picture to the classic Star Wars trilogy.

"Warrant" means the warrant dated as of Closing Date issued to the Holder and all warrants issued upon the partial exercise, transfer or division of or in substitution for any Warrant.

"Warrant Shares" means the shares of Common Stock issued or issuable upon the exercise of this Warrant provided that if under the terms hereof there shall be a change such that the securities purchasable hereunder shall be issued by an entity other than the Company or there shall be a change in the type or class of securities purchasable hereunder, then the term shall mean the securities issued or issuable upon the exercise of the rights granted hereunder.

ARTICLE II. EXERCISE

2.1. Exercise Right; Manner of Exercise. The purchase rights represented by this Warrant may be exercised by the Holder, in whole or in part, at any time and from time to time during the Exercise Period upon (i) surrender of this Warrant, together with an executed notice of exercise, substantially in the form of Exhibit "D-1" ("Notice of Exercise") attached hereto, at the Principal Executive Office, and (ii) payment to the Company of the aggregate Exercise Price for the number of Warrant Shares specified in the Notice of Exercise (such aggregate Exercise Price, the "Total Exercise Price"). The Total Exercise Price shall be paid by check; provided, however, that if the Warrant Shares are acquired in conjunction with a Registration of such Warrant Shares, then the Holder may arrange for the aggregate Exercise Price for such Warrant Shares to be paid to the Company from the proceeds of the sale of such Warrant Shares pursuant to such Registration. The Person or Person(s) in whose name(s) any certificate(s) representing the Warrant Shares which are issuable upon exercise of this Warrant shall be deemed to become the Holder(s) of, and shall be treated for all purposes as the record holder(s) of, such Warrant Shares, and such Warrant Shares shall be deemed to have been issued, immediately prior to the close of business on the date on which this Warrant and Notice of Exercise are presented and payment made for such Warrant Shares, notwithstanding that the stock transfer books of the Company shall then be closed or that certificates representing such Warrant Shares shall not then be actually delivered to such Person or Person(s). Certificates for the Warrant Shares so purchased shall be delivered to the Holder within two business days after this Warrant is exercised. If this Warrant is exercised in part only, the Company shall, upon surrender of this Warrant for cancellation, deliver a new Warrant evidencing the rights of the Holder to purchase the balance of the Warrant Shares which the

Holder is entitled to purchase hereunder. The issuance of Warrant Shares upon exercise of this Warrant shall be made without charge to the Holder for any issuance tax with respect thereto or any other cost incurred by the Company in connection with the exercise of this Warrant and the related issuance of Warrant Shares.

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2.2. Conversion of Warrant.

(a) Right to Convert. In addition to, and without limiting, the other rights of the Holder hereunder, the Holder shall have the right (the "Conversion Right") to convert this Warrant or any part hereof into Warrant Shares at any time and from time to time during the term hereof. Upon exercise of the Conversion Right, the Company shall deliver to the Holder, without payment by the Holder of any Exercise Price or any cash or other consideration, that number of Warrant Shares computed using the following formula:

$$X = \frac{Y (A - B)}{A}$$

Where: X= The number of Warrant Shares to be issued to the Holder

Y= The number of Warrant Shares purchasable pursuant to this Warrant or such lesser number of Warrant Shares as may be selected by the Holder

A= The Fair Market Value of one Warrant Share as of the Conversion Date

B= The Exercise Price

(b) Method of Exercise. The Conversion Right may be exercised by the Holder by the surrender of this Warrant at the Principal Executive Office, together with a written statement (the "Conversion Statement") specifying that the Holder intends to exercise the Conversion Right and indicating the number of Warrant Shares to be acquired upon exercise of the Conversion Right. Such conversion shall be effective upon the Company's receipt of this Warrant, together with the Conversion Statement, or on such later date as is specified in the Conversion Statement (the "Conversion Date") and, at the Holder's election, may be made contingent upon the closing of the consummation of the sale of Common Stock pursuant to a Registration. Certificates for the Warrant Shares so acquired shall be delivered to the Holder within a reasonable time, not exceeding two business days after the Conversion Date. If applicable, the Company shall, upon surrender of this Warrant for cancellation, deliver a new Warrant evidencing the rights of the Holder to purchase the balance of the Warrant Shares which Holder is entitled to purchase hereunder. The issuance of Warrant Shares upon exercise of this Warrant shall be made without charge to the Holder for any issuance tax with respect thereto or any other cost incurred by the Company in connection with the conversion of this Warrant and the related issuance of Warrant Shares; provided that the Holder will be responsible for any transfer taxes in respect of the issuance of Warrant Shares to a Person other than the Holder.

2.3. Fractional Shares. The Company shall not issue fractional shares of Common Stock upon any exercise or conversion of this Warrant. As to any fractional share of Common Stock which the Holder would otherwise be entitled to purchase from the Company upon such exercise or conversion, the Company shall purchase from the Holder such fractional share at a price equal to an amount calculated by multiplying such fractional share (calculated to the nearest 1/100th of a share) by the Fair Market Value of a share of Common Stock on the date of the Notice of Exercise or the Conversion Date, as applicable. Payment of such amount shall be made in cash or by check payable to the order of the Holder at the time of delivery of any certificate or certificates arising upon such exercise or conversion.

2.4. Continued Validity. A Shareholder shall be entitled to all rights which a Holder of this Warrant is entitled pursuant to the provisions of this Warrant, except rights which by their terms apply only to a Warrant.

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ARTICLE III. TRANSFER, EXCHANGE AND REPLACEMENT

3.1. Maintenance of Registration Books. The Company shall keep at the Principal Executive Office a register in which, subject to such reasonable

regulations as it may prescribe, it shall provide for the registration, transfer and exchange of this Warrant. The Company and any Company agent may treat the Person in whose name this Warrant is registered as the owner of this Warrant for all purposes whatsoever, and neither the Company nor any Company agent shall be affected by any notice to the contrary.

3.2. Restrictions on Transfers.

(a) Compliance with Securities Act. The Holder, by acceptance hereof hereby makes the representations set forth in Exhibit D-2 with respect to its acquisition of this Warrant and agrees that this Warrant and the Common Stock to be issued to the Holder upon exercise hereof are being acquired for investment, solely for the Holder's own account and not as a nominee for any other Person, and that the Holder will not offer, sell or otherwise dispose of this Warrant or any such shares of Common Stock except under circumstances which will not result in a violation of the Securities Act or this Agreement. Unless registered under the Securities Act, upon exercise of this Warrant (other than through conversion of the Warrant on or after two years from the date hereof), the Holder shall confirm in writing, by executing the form attached as Exhibit "D-2" hereto, that the shares of Common Stock purchased thereby are being acquired for investment, solely for the Holder's own account and not as a nominee for any other Person, and not with a view toward distribution or resale.

(b) Certificate Legends. This Warrant and all Warrant Shares issued upon exercise of this Warrant (unless Registered under the Securities Act) shall be stamped or imprinted with legends in substantially the following form (in addition to any legends required by applicable state securities laws):

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY STATE SECURITIES LAWS. NO SALE, TRANSFER, PLEDGE OR OTHER DISPOSITION OF SUCH SECURITIES MAY BE EFFECTED WITHOUT (A) (i) AN EFFECTIVE REGISTRATION STATEMENT RELATING THERETO, (ii) AN OPINION OF COUNSEL FOR THE HOLDER, REASONABLY SATISFACTORY TO THE COMPANY, THAT SUCH REGISTRATION IS NOT REQUIRED OR (iii) RECEIPT OF A NO-ACTION LETTER FROM THE SECURITIES AND EXCHANGE COMMISSION AND (B) OTHERWISE COMPLYING WITH THE PROVISIONS OF ARTICLE III OF THE WARRANT UNDER WHICH THIS SECURITY WAS ISSUED.

In addition, the Warrant shall be stamped or imprinted with a legend in substantially the following form:

THIS WARRANT MAY NOT BE TRANSFERRED (i) OTHER THAN TO AN AFFILIATE (AS DEFINED UNDER THE SECURITIES ACT OF 1933, AS AMENDED) (ii) FOLLOWING A CHANGE IN CONTROL OR (iii) IN CONNECTION WITH THE SALE OF ALL OR SUBSTANTIALLY ALL OF THE ASSETS, BUSINESS OR CAPITAL STOCK OF HOLDER, ALL AS PROVIDED HEREIN.

(c) Additional Restriction on Transfer. The Holder shall not sell, assign or otherwise transfer, pledge or hypothecate all or part of this Warrant prior to a Change in Control without the prior written consent of the Company, which consent may be withheld in the Company's sole discretion;

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provided that (x) any such sale, assignment or other transfer by the Holder of the Warrant in its entirety to an entity owned or controlled by the Holder (but only for so long as it remains so owned or controlled and such entity agrees (i) to be bound by the terms and conditions of this Warrant pursuant to an agreement reasonably acceptable to the Company ("Assumption Agreement") and (ii) to transfer this Warrant back to the Holder if it ceases to be owned or controlled by the Holder), (y) any such sale, assignment or other transfer by the Holder of the Warrant in connection with (i) the merger, consolidation or reorganization of the Holder, (ii) the sale, assignment, transfer or other disposition of all or substantially all of the Holder's assets or business in one or more related transactions or (iii) the sale, assignment, transfer or other disposition of all or substantially all of the Holder's capital stock, provided that any transferee described in this clause (y) executes an Assumption Agreement, (z) a bona fide pledge or hypothecation (so long as any sale, assignment or other transfer in connection with any attempted foreclosure of such a pledge or hypothecation would require such consent from the Company), and (zz) any transfer to a Person directly or indirectly controlling the Holder, provided such Person executes an Assumption Agreement, may be effected without any such consent.

(d) Disposition of Warrant Shares. With respect to any offer, sale or other disposition of any Warrant Shares issued upon exercise of this Warrant prior to Registration of such shares, the Shareholder agrees to give written notice to the Company prior thereto, describing briefly the manner thereof, together with a written opinion of the Shareholder's counsel, if reasonably requested by the Company, to the effect that such offer, sale or other

disposition may be effected without Registration under the Securities Act or qualification under any applicable state securities laws of such Warrant Shares and indicating whether or not under the Securities Act certificates for such Warrant Shares to be sold or otherwise disposed of, require any restrictive legend as to applicable restrictions on transferability in order to insure compliance with the Securities Act and any other applicable securities laws, such opinion to be in form and substance reasonably satisfactory to the Company. Promptly upon receiving such written notice and reasonably satisfactory opinion, if so requested, the Company, as promptly as practicable, shall notify the Shareholder that it may sell or otherwise dispose of such Warrant Shares all in accordance with the terms of the notice delivered to the Company. If a determination has been made pursuant to this subsection (d) that the opinion of counsel for the Shareholder is not reasonably satisfactory to the Company, the Company shall so notify the Shareholder promptly after such determination has been made and shall specify the legal analysis supporting any such conclusion. Notwithstanding the foregoing, such Warrant Shares may be offered, sold or otherwise disposed of in accordance with Rule 144, provided that the Company shall have been furnished with such information as the Company may reasonably request to provide reasonable assurance that the provisions of Rule 144 have been satisfied. Each certificate representing the Warrant Shares thus transferred in accordance with this subsection (d) (except a transfer pursuant to Rule 144) shall bear a legend as to the applicable restrictions on transferability in order to insure compliance with the Securities Act, unless in the aforesaid reasonably satisfactory opinion of counsel for the Shareholder such legend is not necessary in order to insure compliance with the Securities Act. The Company may issue stop transfer instructions to its transfer agent in connection with such restrictions.

(e) Termination of Restrictions. The restrictions imposed under this Section 3.2 upon the transferability of the Warrant (other than those in Section 3.2(c)) and the shares of Common Stock acquired upon the exercise of this Warrant shall cease when (i) a registration statement covering the applicable securities becomes effective under the Securities Act, (ii) the Company is presented with an opinion of counsel reasonably satisfactory to the Company that such restrictions are no longer required in order to insure compliance with the Securities Act or with a Commission "no-action" letter stating that future transfers of such securities by the transferor or the contemplated transferee would be exempt from registration under the Securities Act, or (iii) such securities may be transferred in accordance with Rule 144(k). Subject to Section 3.2(c), if applicable, when such restrictions terminate, the Company shall, or shall instruct its transfer agent to, promptly, and without expense to the Shareholder issue new securities in the name of the Shareholder not bearing the legends required under subsection (b) of this Section 3.2.

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3.3. Exchange. At the Holder's option, this Warrant may be exchanged for other Warrants representing the right to purchase a like aggregate number of shares of Common Stock upon surrender of this Warrant at the Principal Executive Office. Whenever this Warrant is so surrendered to the Company at the Principal Executive Office for exchange, the Company shall execute and deliver the Warrants which the Holder is entitled to receive. All Warrants issued upon any registration of transfer or exchange of Warrants shall be the valid obligations of the Company, evidencing the same rights, and entitled to the same benefits, as the Warrants surrendered upon such registration of transfer or exchange. No service charge shall be made for any exchange of this Warrant.

3.4. Replacement. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and (i) in the case of any such loss, theft or destruction, upon delivery of indemnity reasonably satisfactory to the Company in form and amount or (ii) in the case of any such mutilation, upon surrender of such Warrant for cancellation at the Principal Executive Office, the Company, at its expense, shall execute and deliver, in lieu thereof, a new Warrant.

ARTICLE IV. ANTIDILUTION PROVISIONS

4.1. Reorganization, Reclassification or Recapitalization of the Company. In case of (1) a capital reorganization, reclassification or recapitalization of the Company's capital stock (other than in the cases referred to in Section 4.2 hereof), (2) the Company's consolidation or merger with or into another corporation in which the Company is not the surviving entity, or a reverse triangular merger in which the Company is the surviving entity but the shares of the Company's capital stock outstanding immediately prior to the merger are converted, by virtue of the merger, into other property, whether in the form of securities, cash or otherwise, or (3) the sale or transfer of the Company's property as an entirety or substantially as an entirety, then, as part of such reorganization, reclassification, recapitalization, merger, consolidation, sale

or transfer, lawful provision shall be made so that there shall thereafter be deliverable upon the exercise of this Warrant or any portion thereof (in lieu of or in addition to the number of shares of Common Stock theretofore deliverable, as appropriate), and without payment of any additional consideration, the number of shares of stock or other securities or property to which the holder of the number of shares of Common Stock which would otherwise have been deliverable upon the exercise of this Warrant or any portion thereof at the time of such reorganization, reclassification, recapitalization, consolidation, merger, sale or transfer would have been entitled to receive in such reorganization, reclassification, recapitalization, consolidation, merger, sale or transfer. This Section 4.1 shall apply to successive reorganizations, reclassifications, recapitalizations, consolidations, mergers, sales and transfers and to the stock or securities of any other corporation that are at the time receivable upon the exercise of this Warrant.

4.2. Reclassifications. If the Company changes any of the securities as to which purchase rights under this Warrant exist into the same or a different number of securities of any other class or classes, this Warrant shall thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities that were subject to the purchase rights under this Warrant immediately prior to such reclassification or other change and the Exercise Price therefor shall be appropriately adjusted.

4.3. Splits and Combinations. If the Company at any time subdivides any of its outstanding shares of Common Stock into a greater number of shares, the Exercise Price in effect immediately prior to such subdivision shall be proportionately reduced, and, conversely if the outstanding shares of Common Stock are combined into a smaller number of shares, the Exercise Price in effect immediately prior to such combination shall be proportionately increased. Upon any adjustment of the Exercise Price under this Section 4.3, the number of shares of Common Stock issuable upon exercise of this Warrant shall equal the number of shares determined by dividing (i) the aggregate Exercise Price payable for the purchase of all

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shares issuable upon exercise of this Warrant immediately prior to such adjustment by (ii) the Exercise Price per share in effect immediately after such adjustment.

4.4. Dividends and Distributions. If the Company declares a dividend or other distribution on the Common Stock (other than a cash dividend or distribution), then, as part of such dividend or distribution, lawful provision shall be made so that there shall thereafter be deliverable upon the exercise of this Warrant or any portion thereof, in addition to the number of shares of Common Stock receivable thereupon and without payment of any additional consideration, the amount of the dividend or other distribution to which the holder of the number of shares of Common Stock obtained upon exercise hereof would have been entitled to receive had the exercise occurred as of the record date for such dividend or distribution.

4.5. Liquidation; Dissolution. If the Company shall dissolve, liquidate or wind up its affairs, the Holder shall have the right, but not the obligation, to exercise this Warrant effective as of the date of such dissolution, liquidation or winding up. If any such dissolution, liquidation or winding up results in any cash distribution to the Holder in excess of the aggregate Exercise Price for the shares of Common Stock for which this Warrant is exercised, then the Holder may, at its option, exercise this Warrant without making payment of such aggregate Exercise Price and, in such case, the Company shall, upon distribution to the Holder, consider such aggregate Exercise Price to have been paid in full, and in making such settlement to the Holder, shall deduct an amount equal to such aggregate Exercise Price from the amount payable to the Holder.

4.6. Antidilution Provisions.

4.6.1. Definitions. For purposes of this Section 4.6 the following definitions shall apply:

"Common Stock Equivalents" shall mean Convertible Securities and rights entitling the holder thereof to receive directly, or indirectly, additional shares of Common Stock without the payment of any consideration by such holder for such additional shares of Common Stock or Common Stock Equivalents.

"Common Stock Outstanding" shall mean the aggregate of all Common Stock outstanding and all Common Stock issuable upon conversion of all outstanding Convertible Securities and exercise of all Options other than Employee Securities issued after October 30, 1998, unless such Employee

Securities arise from exercise of Options granted prior to October 30, 1998.

"Current Exercise Price" shall mean the Exercise Price immediately before the occurrence of any event, which, pursuant to Section 4.6, causes an adjustment to the Exercise Price.

4.6.2. Adjustments to Exercise Price. The Exercise Price in effect from time to time shall be subject to adjustment in certain cases as follows:

4.6.2.1. Issuance of Securities. Subject to Section 4.6.3, in case the Company shall at any time after October 30, 1998 issue or sell any Common Stock or Common Stock Equivalent without consideration, or for a consideration per share less than the Fair Market Value, then, and thereafter successively upon each such issuance or sale, the Current Exercise Price shall simultaneously with such issuance or sale be adjusted to an Exercise Price (calculated to the nearest cent) determined by multiplying the Current Exercise Price in effect immediately prior to such issuance or sale by a fraction, the numerator of which shall be the number of shares of Common Stock Outstanding on such date of sale or issuance plus the number of shares of Common Stock which the aggregate consideration received for the issuance or sale of such additional shares would purchase at the Fair Market Value and the denominator of which shall be the number of shares of Common Stock Outstanding immediately after the issuance or sale.

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For the purposes of this subsection 4.6.2.1, the following provisions shall also be applicable:

4.6.2.1.1. Cash Consideration. In case of the issuance or sale of additional Common Stock or Common Stock Equivalents for cash, the consideration received by the Company therefor shall be deemed to be the amount of cash received by this corporation for such shares (or, if such shares are offered by the corporation for subscription, the subscription price, or, if such shares are sold to underwriters or dealers for public offering without a subscription offering, the initial public offering price), without deducting therefrom any compensation or discount paid or allowed to underwriters or dealers or others performing similar services or for any expenses incurred in connection therewith.

4.6.2.1.2. Non-Cash Consideration. In case of the issuance (otherwise than upon conversion or exchange of Convertible Securities) or sale of additional Common Stock, Options or Convertible Securities for a consideration other than cash or a consideration, a part of which shall be other than cash, the fair value of such consideration as determined by the board of directors of the Company in the good faith exercise of its business judgment, irrespective of the accounting treatment thereof, shall be deemed to be the value, for purposes of this Section 4.6.2, of the consideration other than cash received by the Company for such securities.

4.6.2.1.3. Options and Convertible Securities. In case the Company shall in any manner issue or grant any Options or any Convertible Securities, the total maximum number of shares of Common Stock issuable upon the exercise of such Options or upon conversion or exchange of the total maximum amount of such Convertible Securities at the time such Convertible Securities first become convertible or exchangeable shall (as of the date of issue or grant of such Options or, in the case of the issue or sale of Convertible Securities other than where the same are issuable upon the exercise of Options, as of the date of such issue or sale) be deemed to be issued and to be outstanding for the purpose of this Section 4.6.2. and to have been issued for the sum of the amount (if any) paid for such Options or Convertible Securities and the minimum amount (if any) payable upon the exercise of such Options or upon conversion or exchange of such Convertible Securities at the time such Convertible Securities first become convertible or exchangeable; provided that, subject to the provisions of Section 4.6.2.1.4, no adjustment or further adjustment of the Exercise Price shall be made upon the actual issuance of (a) any such Common Stock or Convertible Securities or upon the conversion or exchange of any such Convertible Securities or the exercise of such Options or (b) any Common Stock issued or sold pursuant to conversion of any Convertible Securities or exercise of any Options to the extent outstanding on October 30, 1998.

4.6.2.1.4. Change in Option Price or Conversion Rate. If the exercise price provided for in any Option referred to in subsection 4.6.2.1.3, or the rate at which any Convertible Securities referred to in subsection 4.6.2.1.3 are convertible into or exchangeable for shares of Common Stock shall change at any time (other than under or by reason of provisions designed to protect against dilution), the Current Exercise Price in effect at the time of such event shall forthwith be readjusted to the Exercise Price that would have been in effect at such time had such Options or Convertible Securities still

outstanding provided for such changed exercise price, additional consideration or conversion rate, as the case may be, at the time initially granted, issued or sold. If the exercise price provided for in any such Option referred to in subsection 4.6.2.1.3, or the additional consideration (if any) payable upon the conversion or exchange of any Convertible Securities referred to in subsection 4.6.2.1.3, or the rate at which any Convertible Securities referred to in subsection 4.6.2.1.3 are convertible into or exchangeable for shares of Common Stock, shall be reduced at any time under or by reason of provisions with respect thereto designed to protect against dilution and such reduction would trigger an adjustment under Subsection 4.6.2.1, then in case of the delivery of shares of Common Stock upon the exercise of any such Option or upon conversion or exchange of any such Convertible Security, the Current Exercise Price then in effect hereunder shall, upon issuance of such shares of Common Stock, be adjusted to such amount as would have obtained had such Option or Convertible Security never been issued and had adjustments been

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made only upon the issuance of the shares of Common Stock actually delivered and for the consideration actually received for such Option or Convertible Security and the Common Stock.

4.6.2.1.5. Termination of Option or Conversion Rights. In the event of the termination or expiration of any right to purchase Common Stock under any Option or of any right to convert or exchange Convertible Securities, the Current Exercise Price shall, upon such termination, be changed to the Exercise Price that would have been in effect at the time of such expiration or termination had such Option or Convertible Security, to the extent outstanding immediately prior to such expiration or termination, never been issued, and the shares of Common Stock issuable thereunder shall no longer be deemed to be Common Stock Outstanding.

4.6.3. Employee Securities. Notwithstanding anything in this Article IV to the contrary, the Exercise Price shall not be adjusted by virtue of the issuance or sale of Employee Securities and no Employee Securities shall be included in any manner in the computation from time to time of the Exercise Price under subsection 4.6.2 or in Common Stock Outstanding for purposes of such computation except that Employee Securities constituting Common Stock arising from exercise of Options granted prior to October 30, 1998 shall be included in Common Stock Outstanding.

4.7. Maximum Exercise Price. At no time shall the Exercise Price exceed the amount set forth in the Preamble to this Warrant, unless the Exercise Price is adjusted pursuant to Section 4.3 hereof.

4.8. Other Dilutive Events. If any event occurs as to which the other provisions of this Article IV are not strictly applicable but the failure to make any adjustment would not fairly protect the purchase rights represented by this Warrant in accordance with the essential intent and principles hereof, then, in each such case, the Company shall appoint a firm of independent public accountants of recognized national standing (which may be the Company's regular auditors) which shall give their opinion upon the adjustment, if any, on a basis consistent with the essential intent and principles established in this Article IV, necessary to preserve, without dilution, the purchase rights represented by this Warrant; provided, that no adjustments shall be made in connection with the issuance of Common Stock upon exercise, conversion or exchange of Options or Convertible Securities to the extent that adjustment has previously been made upon issuance of such Options or Convertible Securities and each lowering of the effective purchase price of Common Stock pursuant to such Option or Convertible Securities. Upon receipt of such opinion, the Company shall promptly mail a copy thereof to the Holder and shall make the adjustments described therein.

4.9. Certificates and Notices.

(a) Adjustment Certificates. Upon any adjustment of the Exercise Price and/or the number of shares of Common Stock purchasable upon exercise of this Warrant, a certificate, signed by (i) the Company's President or Chief Financial Officer, or (ii) any independent firm of certified public accountants of recognized national standing the Company selects at its own expense, setting forth in reasonable detail the events requiring the adjustment and the method by which such adjustment was calculated, shall be mailed to the Holder and shall specify the adjusted Exercise Price and the number of shares of Common Stock purchasable upon exercise of the Warrant after giving effect to the adjustment.

(b) Extraordinary Corporate Events. If the Company, after the date hereof, proposes to effect (i) any transaction described in Sections 4.1 or 4.2 hereof, or (ii) a liquidation, dissolution or winding up of the Company described in Section 4.5 hereof or (iii) any payment of a dividend or distribution with respect to the Common Stock (other than a cash dividend or

distribution), then, in each such case, the Company shall mail to the Holder a notice describing such proposed action and specifying the date on which the Company's books shall close, or a record shall be taken, for determining the holders of Common Stock entitled to participate in such action, or the date on which such reorganization, reclassification, consolidation, merger, sale, transfer, liquidation, dissolution or winding up shall take place or commence, as the case may be, and the date as of which it is expected that holders of Common Stock of

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record shall be entitled to receive securities and/or other property deliverable upon such action, if any such date is to be fixed. Such notice shall be mailed to the Holder at least twenty days prior to the record date for such action in the case of any action described in clause (i) above at least ten days prior to the record date for such action in the case of any action described in clause (iii) above, and in the case of any action described in clause (ii) above, at least twenty days prior to the date on which the action described is to take place and at least twenty days prior to the record date for determining holders of Common Stock entitled to receive securities and/or other property in connection with such action. The failure to give notice required by this Section 4.9(b) or any defect therein shall be a breach of this Warrant but shall not affect the legality or validity of the action taken by the Company or the vote upon any such action. Unless specifically required by this Article IV, the Exercise Price, the number of shares covered by each Warrant and the number of Warrants outstanding shall not be subject to adjustment as a result of the Company being required to give notice pursuant to this Section 4.9(b).

4.10. No Impairment. The Company shall not, by amendment of the Charter or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issuance or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but shall at all times in good faith assist in the carrying out of all the provisions of this Article IV and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Holder against impairment.

4.11. Application. Except as otherwise provide herein, all sections of this Article IV are intended to operate independently of one another. If an event occurs that requires the application of more than one section, all applicable sections shall be given independent effect.

ARTICLE V. REGISTRATION RIGHTS

5.1. Registration on Form S-3.

5.1.1. Filing of Registration Statement. The Company shall use its best efforts to secure effectiveness of, as soon as practicable, and shall file no later than 10 days after the commencement of the Exercise Period, a registration statement in form and substance satisfactory to the Holder on Form S-3 (the "Registration Statement") with the Commission under the Securities Act to register the issuance of Warrant Shares upon exercise of the Warrant and the transfer of such Warrant Shares (the Warrant Shares constituting the "Registrable Securities"); provided however, that in the event the Company fails to file reports in a timely manner or otherwise fails (due to an action or inaction of the Company) to be eligible to file a registration statement on Form S-3, the Company shall file a registration statement on Form S-1.

5.1.2. Registrable Expenses. The Company shall pay all Registration Expenses (as defined below) in connection with any registration, qualification or compliance hereunder, and each Holder shall pay all Selling Expenses (as defined below) and other expenses that are not Registration Expenses relating to the Registrable Securities resold by such Holder. "Registration Expenses" shall mean all expenses, except for Selling Expenses, incurred by the Company in complying with the registration provisions herein described, including, without limitation, all registration, qualification and filing fees, printing expenses, fees and disbursements of counsel for the Company, blue sky fees and expenses and the expense of any special audits incident to or required by any such registration. "Selling Expenses" shall mean all selling commissions, underwriting fees and stock transfer taxes applicable to the Registrable Securities and all fees and disbursements of counsel for any Holder.

5.1.3. Additional Company Obligations. In the case of any registration effected by the Company pursuant to these registration provisions, the Company will use its best efforts to: keep such registration effective until such date as all of the Registrable Securities have been sold or could immediately be sold pursuant to Rule 144(k) promulgated by the Commission; (ii) prepare and file with the Commission such amendments and supplements to the

with the Registration Statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of the Registrable Securities; (iii) furnish such number of prospectuses and other documents incident thereto, including any amendment of or supplement to the prospectus, as a Holder from time to time may reasonably request; (iv) cause all such Registrable Securities registered as described herein to be listed on each securities exchange and quoted on each quotation system on which similar securities issued by the Company are then listed or quoted; (v) provide a transfer agent and registrar for all Registrable Securities registered pursuant to the Registration Statement and a CUSIP number for all such Registrable Securities; (vi) use its best efforts to comply with all applicable rules and regulations of the Commission, and make available to its securityholders, to the extent required, as soon as reasonably practicable, an earnings statement covering the period of at least twelve months, but not more than eighteen months, beginning with the first month after the effective date of the Registration Statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act; and (vii) file the documents required of the Company and otherwise use its best efforts to maintain requisite blue sky clearance in (A) all jurisdictions in which any of the Warrant Shares are originally sold and (B) all other states specified in writing by a Holder as may reasonably be required to sell such Holder's Warrant Shares, provided, however, that the Company shall not be required to qualify to do business, subject itself to taxation, or consent to service of process in any state in which it is not now so qualified or subject to taxation or has not so consented.

5.1.4. Conditions and Limitations

(a) Cooperation by Holder. It shall be a condition precedent to the obligation of the Company to take any action pursuant to this Article V in respect of the Registrable Securities that the Holder shall furnish to the Company such information regarding such Registrable Securities and the intended method of disposition thereof and such other information as the Company shall reasonably request and as shall be required in connection with the action taken by the Company.

(b) Notification Prior to Sale. If any Holder shall propose to sell any Registrable Securities pursuant to the Registration Statement, it shall notify the Company of its intent to do so at least three full business days prior to such sale, and the provision of such notice to the Company shall be deemed to establish an agreement by such Holder to comply with the registration provisions contained herein. Such notice shall be deemed to constitute a representation that any information previously supplied by such Holder is accurate as of the date of such notice. At any time within such three business day period, the Company may refuse to permit the Holder to resell any Registrable Securities pursuant to the Registration Statement; provided, however, that in order to exercise this right, the Company must deliver a certificate in writing to the Holder to the effect that a delay in such sale is necessary because, in the good faith judgment of the Company, a sale pursuant to the Registration Statement would require the public disclosure of information that would not otherwise be required to be disclosed (which disclosure would be likely, in the good faith judgment of the Company, to be materially harmful to the Company) or could in other respects constitute a violation of the federal securities laws. In such an event, the Company shall use its best efforts to amend the Registration Statement to the extent required to comply with Section 5.1.4 and to take all other actions necessary to allow such sale under the federal securities laws, and shall notify the Holders promptly after it has determined that such circumstances no longer exist. Notwithstanding the foregoing, the Company shall not under any circumstances be entitled to refuse to permit the Holder to resell any Registrable Securities more than twice in any twelve-month period, and any individual period during which the Company refuses to permit the Holder to resell any Registrable Securities shall not exceed sixty days.

The Company will promptly notify each holder of any Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event or existence of any fact as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not

misleading in light of the circumstances in which they are made, and, as promptly as is practicable, prepare and furnish to such holder a reasonable number of copies of any required supplement to or amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances in which they are made. By acquisition of Registrable Securities, each holder of such Registrable Securities shall be deemed to have agreed that upon receipt of any notice from the Company of the happening of any event of the kind described in the preceding sentence, such holder will promptly discontinue such holder's disposition of Registrable Securities pursuant to the registration statement covering such Registrable Securities until such holder's receipt of the copies of any required supplemented or amended prospectus contemplated by this Section. If so directed by the Company, each holder of Registrable Securities will deliver to the Company (at the Company's expense) all copies, other than permanent file copies, in such holder's possession of the prospectus covering such Registrable Securities at the time of receipt of such notice. Subject to the foregoing, when a Holder is entitled to sell and gives notice of its intent to sell pursuant to the Registration Statement, the Company shall furnish to such Holder a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such shares, such prospectus shall not include an untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances in which they are made.

5.2. Indemnification and Contribution.

5.2.1. Indemnification by the Company. The Company agrees to indemnify and hold harmless each Holder from and against any losses, claims, damages or liabilities (or actions or proceedings in respect thereof) to which such Holder may become subject (under the Securities Act or otherwise) insofar as such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) arise out of, or are based upon, any claim by a third party asserting any untrue statement of a material fact contained in the Registration Statement or omission of a material fact therefrom necessary to make the statements therein not misleading, on the effective date thereof, or arise out of any failure by the Company to fulfill any undertaking included in the Registration Statement, and the Company will, as incurred, reimburse such Holder for any legal or other expenses reasonably incurred in investigating, defending or preparing to defend any such action, proceeding or claim; provided, however, that the Company shall not be liable in any such case to the extent that such loss, claim, damages or liability arises out of, or is based upon (i) an untrue statement made in such Registration Statement in reliance upon and in conformity with written information furnished to the Company by or on behalf of such Holder specifically for use in preparation of the Registration Statement or (ii) any untrue statement in any prospectus that is corrected in any subsequent prospectus that was delivered to the Holder prior to the pertinent sale or sales by the Holder.

5.2.2. Indemnification by Holder. Each Holder, severally and not jointly, agrees to indemnify and hold harmless the Company from and against any losses, claims, damages or liabilities (or actions or proceedings in respect thereof) to which the Company may become subject (under the Securities Act or otherwise) insofar as such losses, claims, damages or liabilities (or actions or proceedings in respect thereof) arise out of, or are based upon any claim by a third party asserting (i) an untrue statement made in such Registration Statement in reliance upon and in conformity with written information furnished to the Company by or on behalf of such Holder specifically for use in preparation of the Registration Statement, provided, however, that no Holder shall be liable in any such case for any untrue statement included in any prospectus which statement has been corrected, in writing, by such Holder and delivered to the Company at least three business days before the sale from which such loss occurred or (ii) any untrue statement in any prospectus that is corrected in any subsequent prospectus that was delivered by the Holder to the purchaser prior to the pertinent sale or sales by the Holder, and each Holder, severally and not jointly, will, as

incurred, reimburse the Company for any legal or other expenses reasonably incurred in investigating, defending or preparing to defend any such action, proceeding or claim.

5.2.3. Indemnification Procedures. Promptly after receipt by any indemnified person of a notice of a claim or the beginning of any action in respect of which indemnity is to be sought against an indemnifying person pursuant to this Section 5.2, such indemnified person shall notify the

indemnifying person in writing of such claim or of the commencement of such action, and, subject to the provisions hereinafter stated, in case any such action shall be brought against an indemnified person and the indemnifying person shall have been notified thereof, the indemnifying person shall be entitled to participate therein, and, to the extent that it shall wish, to assume the defense thereof, with counsel reasonably satisfactory to the indemnified person. After notice from the indemnifying person to such indemnified person of the indemnifying person's election to assume the defense thereof, the indemnifying person shall not be liable to such indemnified person for any legal expenses subsequently incurred by such indemnified person in connection with the defense thereof; provided, however, that if there exists or shall exist a conflict of interest that would make it inappropriate in the reasonable opinion of counsel for the indemnified person for the same counsel to represent both the indemnified person and such indemnifying person or any affiliate or associate thereof, the indemnified person shall be entitled to retain its own counsel at the expense of such indemnifying person; provided, however, that in the case of the immediately preceding proviso the indemnifying person shall not be responsible for the legal expenses of more than one counsel for all indemnified persons.

5.2.4. Contribution in Lieu of Indemnity. If the indemnification provided for in this Section 5.2 is unavailable to or insufficient to hold harmless an indemnified party under Section 5.2.1 or 5.2.2 above in respect of any losses, claims, damages or liabilities (or actions or proceedings in respect thereof) referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative benefit and relative fault of the respective parties as well as any other relevant equitable considerations. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or a Holder on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Holders agree that it would not be just and equitable if contribution pursuant to this Section 5.2.4 were determined by pro rata allocation (even if the Holders were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 5.2.4. The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this Section 5.2.4 shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 5.2.4, no Holder shall be required to contribute any amount in excess of the net amount received by the Holder from the sale of the Registrable Securities to which such loss relates. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Holders' obligations in this Section 5.2.4 to contribute are several in proportion to their respective sales of Registrable Securities to which such loss relates and not joint.

5.2.5. Controlling Persons Indemnified. The obligations of the Company and the Holders under this Section 5.2 shall be in addition to any liability which the Company and the respective Holders may otherwise have and shall extend, upon the same terms and conditions, to each person, if any, who controls or may be deemed to control the Company or any Holder within the meaning of the Securities Act including, without limitation, the directors and officers of the Company and the Holder, as the case may be.

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5.3. Transfer Of Registration Rights. The right to sell Registrable Securities pursuant to the Registration Statement described herein will automatically be assigned to each transferee of the Warrant or Warrant Shares permitted under the terms of this Warrant. In the event that it is necessary, in order to permit a Holder to sell Registrable Securities pursuant to the Registration Statement, to amend the Registration Statement to name such Holder, such Holder shall upon written notice to the Company, be entitled to have the Company make such amendment as soon as reasonably practicable.

ARTICLE VI.
REPRESENTATIONS, WARRANTIES AND COVENANTS OF COMPANY

6.1. Representations and Warranties. The Company represents and warrants that as of the date hereof:

(a) Legal Status; Qualification. The Company is a corporation duly organized, validly existing and in good standing under the laws of Rhode Island and is qualified or licensed to do business in all other countries, states and provinces in which the laws thereof require the Company to qualify and/or be licensed, except where failure to qualify or be licensed would not have a material adverse effect on the business or assets of the Company taken as a whole;

(b) Capitalization. The Company's authorized capital stock consists of: 300,000,000 shares of Common Stock, of which 130,792,386 shares are issued and outstanding;

(c) Options. Except as described in Exhibit "D-3" hereto there are no Options, warrants or similar rights to acquire from the Company, or agreements or other obligations by the Company, absolute or contingent, to issue or sell Common Stock, whether on conversion or exchange of Convertible Securities or otherwise;

(d) Preemptive Rights. No shareholder of the Company has any preemptive rights to subscribe for shares of Common Stock;

(e) Authority. The Company has the right and power, and is duly authorized and empowered, to enter into, execute, deliver and perform its obligations under this Warrant;

(f) Binding Effect. This Warrant has been duly authorized, executed and delivered and constitutes a valid and binding obligation of the Company enforceable in accordance with its terms, except to the extent that enforceability may be limited by (i) bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and (ii) general principles of equity;

(g) No Conflict. The execution, delivery and/or performance by the Company of this Warrant shall not, by the lapse of time, the giving of notice or otherwise, constitute a violation of any applicable law or a breach of any provision contained in the Company's Charter or Bylaws or contained in any agreement, instrument or document to which the Company is a party or by which it is bound;

(h) Consents. Except as contemplated by Article V and Section 6.2(b), no consent, approval, authorization or other order of any court, regulatory body, administrative agency or other governmental body is required for the valid issuance of the Warrant or for the performance of any of the Company's obligations hereunder, except in connection with listing of the Warrant Shares on the American Stock Exchange, which listing will be effected in accordance with the rules and regulations of the American Stock Exchange;

(i) Offering. Neither the Company nor any agent acting on its behalf has, either directly or indirectly, sold, offered for sale or disposed of, or attempted or offered to dispose of, this Warrant or any part hereof, or any similar obligation of the Company, to, or has solicited any offers to buy

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any thereof from, any Person or Persons other than the Holder. Neither the Company nor any agent acting on its behalf will sell or offer for sale or dispose of, or attempt or offer to dispose of, this Warrant or any part thereof to, or solicit any offers to buy any warrant of like tenor from, or otherwise approach or negotiate in respect thereof, with, any Person or Persons so as thereby to bring the issuance of this Warrant within the provisions of Section 5 of the Securities Act;

(j) Registration. Assuming the accuracy of the Holder's representations made herein, it is not necessary in connection with the issuance and sale of this Warrant to the Holder pursuant to this Agreement to Register this Warrant under the Securities Act; and

6.2. Covenants. The Company covenants that:

(a) Authorized Shares. The Company will at all times have authorized, and reserved for the purpose of issuance or transfer upon exercise of the rights evidenced by this Warrant, a sufficient number of shares of Common Stock to provide for the exercise of the rights represented by this Warrant (for purposes of determining compliance with this covenant, the shares of Common Stock issuable upon exercise of all other Options and warrants to acquire Common Stock and upon conversion of all instruments convertible into Common Stock shall be deemed issued and outstanding);

(b) Proper Issuance. The Company, at its expense, will take all such action as may be necessary to assure that the Common Stock issuable upon the exercise of this Warrant may be so issued without violation of any applicable law or regulation, or of any requirements of any domestic securities exchange or automated quotation system upon which any capital stock of the Company may be listed or quoted, as the case may be, provided that the Holder, at its sole expense, will take all such action as may be necessary under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, in connection with its acquisition of securities of the Company. Such action by the Company may include, but not be limited to, causing such shares to be duly registered or approved, listed or quoted on relevant domestic securities exchanges or automated quotation systems; and

(c) Fully Paid Shares. The Company will take all actions necessary or appropriate to validly and legally issue fully paid and nonassessable shares of Common Stock upon exercise of this Warrant. All such shares will be free from all taxes, liens and charges with respect to the issuance thereof, other than any stock transfer taxes in respect to any transfer occurring contemporaneously with such issuance.

ARTICLE VII.
MISCELLANEOUS

7.1. Certain Expenses. The Company shall pay all expenses in connection with, and all taxes (other than stock transfer and income taxes) and other governmental charges that may be imposed in respect of, the issuance, sale and delivery of the Warrant and the Warrant Shares to the Holder.

7.2. Holder Not a Shareholder. Prior to the exercise of this Warrant as hereinbefore provided, the Holder shall not be entitled to any of the rights of a shareholder of the Company including, without limitation, the right as a shareholder (i) to vote on or consent to any proposed action of the Company or (ii) except as provided herein, to receive (a) dividends or any other distributions made to shareholders, (b) notice of or attend any meetings of shareholders of the Company or (c) notice of any other proceedings of the Company.

7.3. Like Tenor. All Warrants shall at all times be substantially identical except as to the Preamble.

7.4. Remedies. The Company stipulates that the remedies at law of the Holder in the event of any default or threatened default by the Company in the performance of or compliance with any of the

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terms of this Warrant are not and will not be adequate to the fullest extent permitted by law, and that such terms may be specifically enforced by a decree for the specific performance of any agreement contained herein or by an injunction against a violation of any of the terms hereof or otherwise.

7.5. Enforcement Costs. If the Holder, a Shareholder or the Company seeks to enforce its rights hereunder by legal proceedings or otherwise, then the non-prevailing party shall pay all reasonable costs and expenses incurred by the prevailing party, including, without limitation, all reasonable attorneys' fees (including the allocable costs of in-house counsel).

7.6. Nonwaiver; Cumulative Remedies. No course of dealing or any delay or failure to exercise any right hereunder on the part of the Holder and/or any Shareholder shall operate as a waiver of such right or otherwise prejudice the rights, powers or remedies of the Holder or such Shareholder. No single or partial waiver by the Holder and/or any Shareholder of any provision of this Warrant or of any breach or default hereunder or of any right or remedy shall operate as a waiver of any other provision, breach, default right or remedy or of the same provision, breach, default, right or remedy on a future occasion. The rights and remedies provided in this Warrant are cumulative and are in addition to all rights and remedies which the Holder and each Shareholder may have in law or in equity or by statute or otherwise.

7.7. Notices. Any notice, demand or delivery to be made pursuant to this Warrant will be sufficiently given or made if sent by certified or registered mail, postage prepaid, nationally recognized overnight delivery service or facsimile transmission, addressed to (a) the Holder and the Shareholders at their last known addresses appearing on the books of the Company maintained for such purpose or (b) the Company at its Principal Executive Office. The Holder, the Shareholders and the Company may each designate a different address by notice to the other pursuant to this Section 7.7. A notice shall be deemed effective upon receipt.

7.8. Successors and Assigns. This Warrant shall be binding upon, the Company and any Person succeeding the Company by merger, consolidation or acquisition of all or substantially all of the Company's assets, and all of the obligations of the Company with respect to the shares of Common Stock issuable upon exercise of this Warrant shall survive the exercise, expiration or termination of this Warrant and all of the covenants and agreements of the Company shall inure to the benefit of the Holder, each Shareholder and their respective successors and assigns. The Company shall, at the time of exercise of this Warrant, in whole or in part, upon request of the Holder or any Shareholder but at the Company's expense, acknowledge in writing its continuing obligations hereunder with respect to rights of the Holder or such Shareholder to which it shall continue to be entitled after such exercise in accordance with the terms hereof; provided that the failure of the Holder or any Shareholder to make any such request shall not affect the continuing obligation of the Company to the Holder or such Shareholder in respect of such rights.

7.9. Modification; Severability.

(a) If, in any action before any court or agency legally empowered to enforce any term, any term is found to be unenforceable, then such term shall be deemed modified to the extent necessary to make it enforceable by such court or agency.

(b) If any term is not curable as set forth in subsection (a) above, the unenforceability of such term shall not affect the other provisions of this Warrant but this Warrant shall be construed as if such unenforceable term had never been contained herein.

7.10. Integration. This Warrant replaces all prior and contemporaneous agreements and supersedes all prior and contemporaneous negotiations between the parties with respect to the transactions contemplated herein and constitutes the entire agreement of the parties with respect to the transactions contemplated herein.

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7.11. Survival of Representations and Warranties. The representations and warranties of any party in this Warrant shall survive the execution and delivery of this Warrant and the consummation of the transactions contemplated hereby, notwithstanding any investigation by the such party or its agents.

7.12. Amendment. This Warrant may not be modified or amended except by written agreement of the Company, the Holder and the Shareholder(s), if any, holding a majority of the Warrant Shares.

7.13. Headings. The headings of the Articles and Sections of this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

7.14. Meanings. Whenever used in this Warrant, any noun or pronoun shall be deemed to include both the singular and plural and to cover all genders; and the words "herein," "hereof" and "hereunder" and words of similar import shall refer to this instrument as a whole, including any amendments hereto.

7.15. Governing Law. This Warrant shall be governed by, and construed in accordance with, the laws of the State of California applicable to contracts entered into and to be performed wholly within California by California residents.

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IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its duly authorized officer this October 30, 1998.

LUCASFILM LTD. ("Holder")

HASBRO, INC. ("Company")

By: /s/ GORDON RADLEY

By: /s/ HAROLD P. GORDON

Title: President

Title: Vice Chairman

SCHEDULE OF EXHIBITS

- EXHIBIT "D-1" -- Notice of Exercise (Section 2.1)
- EXHIBIT "D-2" -- Investment Representation Certificate (Section 3.2(a))
- EXHIBIT "D-3" -- Assignment Form (Section 3.2(d))
- EXHIBIT "D-4" -- Schedule of Outstanding Options and Convertible Securities (Sections 6.1(c))

EXHIBIT "D-1"

NOTICE OF EXERCISE FORM

(To be executed only upon partial or full exercise of the within Warrant)

The undersigned registered Holder of the within Warrant hereby irrevocably exercises the within Warrant for and purchases shares of Common Stock of Hasbro, Inc. and herewith makes payment therefor in the amount of \$ _____, all at the price and on the terms and conditions specified in the within Warrant and requests that a certificate (or _____ certificates in denominations of _____ shares) for the shares of Common Stock of Hasbro, Inc. hereby purchased be issued in the name of and delivered to (choose one) (a) the undersigned or (b) [NAME], whose address is and, if such shares of Common Stock shall not include all the shares of Common Stock issuable as provided in the within Warrant, that a new Warrant of like tenor for the number of shares of Common Stock of Hasbro, Inc. not being purchased hereunder be issued in the name of and delivered to (choose one) (a) the undersigned or (b) [NAME], whose address is _____.

Dated: _____

NOTICE: The signature to this Notice of Exercise must correspond with the name as written upon the face of the within Warrant in every particular, without alteration or enlargement or any change whatever.

EXHIBIT "D-2"

INVESTMENT REPRESENTATION CERTIFICATE

Purchaser:

Company: Hasbro, Inc.

Security: Common Stock

Amount:

Date:

(a) In connection with the purchase of the above-listed securities (the "Securities"), the undersigned (the "Purchaser") represents to the Company as follows:

(b) The Purchaser is aware of the Company's business affairs and financial condition, and has acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the Securities. The Purchaser is purchasing the Securities for its own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof for purposes of the Securities Act of 1933, as amended (the "Securities Act");

(c) The Purchaser understands that the Securities have not been registered under the Securities Act in reliance upon a specific exemption therefor, which exemption depends upon, among other things, the bona fide nature of the Purchaser's investment intent as expressed herein;

(d) The Purchaser further understands that the Securities must be held indefinitely unless subsequently registered under the Securities Act or unless an exemption from registration is otherwise available. In addition, the Purchaser understands that the certificate evidencing the Securities will be imprinted with the legend referred to in the Warrant under which the Securities are being purchased; and

(e) The Purchaser is aware of the provisions of Rule 144, promulgated under the Securities Act, which, in substance, permit limited public resale of "restricted securities" acquired, directly or indirectly, from the issuer thereof (or from an affiliate of such issuer), in a non-public offering subject to the satisfaction of certain conditions, if applicable, including, among other things: (i) the availability of certain public information about the Company; (ii) the resale occurring not less than one year after the party has purchased and paid for the securities to be sold; (iii) the sale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934) and the amount of securities being sold during any three-month period not exceeding the specified limitations stated therein.

The Purchaser represents that it is an "accredited investor" as that term is defined in Rule 501 of Regulation D under the Securities Act or any successor regulation thereunder.

Date: _____ PURCHASER: _____

EXHIBIT "D-3"
OUTSTANDING OPTIONS
ASSIGNMENT FORM

(To be executed only upon the assignment of the within Warrant)

FOR VALUE RECEIVED, the undersigned registered Holder of the within Warrant hereby sells, assigns and transfers unto _____, whose address is _____ all of the rights of the undersigned under the within Warrant, with respect to shares of Common Stock of Hasbro, Inc. and, if such shares of Common Stock shall not include all the shares of Common Stock issuable as provided in the within Warrant, that a new Warrant of like tenor for the number of shares of Common Stock of Hasbro, Inc. not being transferred hereunder be issued in the name of and delivered to the undersigned, and does hereby irrevocably constitute and appoint _____ attorney to register such transfer on the books of Hasbro, Inc. maintained for the purpose, with full power of substitution in the premises.

Dated: _____

By: _____
(Signature of Registered Holder)

Title: _____

NOTICE: The signature to this Assignment must correspond with the name upon the face of the within Warrant in every particular, without alteration or enlargement or any change whatever.

EXHIBIT "D-4"
OUTSTANDING OPTIONS AND CONVERTIBLE SECURITIES
(Sections 6.1(c))

- 1. Options granted under employee and non-employee director stock option plans for 9,395,028 shares of Common Stock.
- 2. Warrants granted to Lucas Licensing, Ltd. and Lucasfilm Ltd. for shares of Common Stock on October 14, 1997.

3. Warrants granted to DreamWorks LLC for shares of Common Stock.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement"), made as of the 5th day of January, 1999 is entered into by Hasbro, Inc., a corporation with its principal place of business at Pawtucket, Rhode Island (the "Company"), and Herbert M. Baum (the "Employee").

WHEREAS, the Company desires to employ the Employee as President and Chief Operating Officer of the Company and the Employee desires to be employed by the Company as President and Chief Operating Officer;

NOW, THEREFORE, in consideration of the mutual covenants and promises contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the parties agree as follows:

1. Term of Employment

The Company hereby agrees to employ the Employee, and the Employee hereby accepts employment with the Company, upon the terms set forth in this Agreement, for the period commencing on January 5, 1999 (the "Commencement Date") and ending on January 5, 2002, unless sooner terminated in accordance with the provisions of Section 5 or extended as hereinafter provided in this Section 1 (such period, as it may be extended or terminated, the "Employment Period"). The Employment Period may be extended not later than January 5, 2002 for an additional one year period from the then current expiration date of the Employment Period provided the Employee and the Company mutually agree in writing to extend the Employment Period.

2. Title; Capacity

The Company will employ the Employee, and the Employee agrees to work for the Company, as its President and Chief Operating Officer of the Company and in such other senior executive positions with the Company and with domestic and foreign subsidiaries of the Company as the Company's Board of Directors (the "Board") and the Chairman of the Board and Chief Executive Officer of the Company may reasonably determine from time to time. The Employee shall be based at the Company's headquarters in Pawtucket, Rhode Island and shall undertake such domestic and foreign business travel as shall be reasonably required to fulfill his duties. The Employee shall report directly to the Chairman of the Board and Chief Executive Officer of the Company.

The Employee shall have authorities, duties and responsibilities commensurate with his position of President and Chief Operating Officer (including but not limited to, responsibility for all operating functions and units of the Company with all of said functions and units reporting directly or, with his consent, indirectly to him) and shall have such other authorities, duties and responsibilities commensurate with his position as the Board shall from time to time reasonably assign to him. The Employee shall devote substantially his full business time in the performance of the foregoing services, except that he may serve on the boards of directors of other businesses, trade associations and charitable organizations, engage in charitable activities and community affairs and manage his personal investments and affairs as long as these activities present no conflict of interest and do not materially interfere with the performance of his duties hereunder.

The Employee agrees to abide in all material respects with the policies of the Company applicable to senior executives, officers and members of the Board and any changes therein which may be adopted from time to time by the Company with regard to conflicts of interest.

3. Member of the Board

During the Employment Period, the Company agrees that it shall recommend to the Board the election of the Employee as a Director of the Company on the Commencement Date or as soon as practical thereafter. Upon the expiration of his term as a Director during the Employment Period, the Company agrees to use its best efforts to cause him to be re-nominated for election and to recommend his election.

4. Compensation and Benefits

4.1 Salary

During the Employment Period, the Company shall pay the Employee, in weekly installments one week in arrears, an annual base salary of not less than \$750,000 (the "Base Salary"). Such Base Salary shall be considered for upward adjustment annually in accordance with the Company's salary increase

guidelines based upon the Employee's achievement of individual performance goals but subject to recommendation by the Chairman and Chief Executive Officer and approval by the Compensation and Stock Option Committee of the Board (the "Compensation Committee"). Once increased, Base Salary shall not be reduced and shall thereafter be the "Base Salary" hereunder.

4.2 Bonus

During the Employment Period, the Employee shall be eligible to participate in the Company's management incentive bonus arrangement with a target bonus of not less than 45% of Base Salary. The Employee's actual bonus may be greater or less than his target bonus for such year depending upon the Company's and the Employee's actual performance during the applicable bonus year. In the event Employee's employment is terminated prior to the completion of a bonus year due to (I) his death or Disability, (ii) a termination by the Employee for "Good Reason," or (iii) a termination by the Company without "Cause," the Company will pay the Employee a pro rata bonus for such year equal to at least the bonus for such year he would have received based on assuming his individual performance was the same as that of the prior year and the actual Company performance for such year multiplied by a fraction, the numerator of which is the number of days during such bonus year that the Employee is employed by the Company, and the denominator of which is three hundred sixty-five (365). If such pro rata bonus is for 1999, the entire bonus shall be based on the actual Company performance for such year.

4.3 Stock Options

(a) Subject to the approval of the Compensation Committee of the Board the Company shall grant to the Employee options (the "Options") to purchase 175,000 shares of the Company's Common Stock (the "Shares") on the Commencement Date, or as soon thereafter as practical, at the then-current Fair Market Value of the Company Shares as of the date of the grant under and according to the terms of the Company's Stock Incentive Performance Plan and the applicable Stock Option Agreement. During the Employment Period, Options to purchase 58,333 shares shall vest on each of the first two anniversaries of the Commencement Date and the remaining Options to purchase 58,334 shares shall vest on January 5, 2002, the last day of the initial three year Employment Period.

(b) Subsequent grants of regular stock options may be made subject to the Company's standard practice and policy in making such grants, except that the Employee will not have any right to participate in the Company's premium priced stock option program. Subsequent stock option grants will be subject to not less favorable vesting and exercise provisions than those set forth in this Section 4.3.

(c) Unless the termination of Employee's employment is for Cause, the Employee will have three (3) years from the date on which his employment terminates or, if earlier, until the expiration of stated term of the Options, to exercise all unexercised vested Options.

(d) If the Employee's employment with the Company terminates upon or after the expiration of the initial three year Employment Period for any reason whatsoever other than Cause, provided the Employee executes a non-compete agreement in the form of Exhibit A hereto, the Options shall become fully vested on the date of termination. In the event the prior sentence does not apply and the Employee is terminated by the Company without Cause or the Employee terminates his employment with or without Good Reason either during or after the initial three year Employment Period, the Options shall continue to vest during the period which the Employee is receiving severance payment from the Company.

(e) In the event of the Employee's termination of employment due to the Employee's death or Disability, vesting of all unvested options will be fully accelerated as of the date of death or Disability.

4.4 Retirement Benefits

(a) The Employee shall be eligible to participate in the Hasbro, Inc. Pension Plan (the "Pension Plan") and the Hasbro, Inc. Supplemental Retirement Benefit Plan (the "Supplemental Plan") on the same basis as other senior executives of the Company.

(b) In addition, after the Employee's employment terminates for any reason, the Employee shall receive an annuity payable in monthly installments, the first such installment being paid on the first day of the month following the month in which the employee attains age 65 or his employment terminates, whichever occurs later (subject to earlier commencement, as referred to below), and the last such installment being paid on the first day of the month in which the Employee dies (subject to the

right to elect an actuarially equivalent form), in which the annual amount is 3.3% of the Employee's Average Annual Cash Compensation multiplied by the number of full years and partial years (with proration to include full months employed during any partial years) the Employee had been employed by the Company at termination of employment. The amount payable under the preceding sentence shall be reduced by the sum of the benefits payable to the Employee in the form of a life annuity commencing at age 65 (or such later date), under (a) the Pension Plan, and (b) the Supplemental Plan. For purposes of this supplemental retirement benefit, the Employee's Average Annual Cash Compensation shall be one-third of the total Base Salary and management incentive bonuses (exclusive of any severance pay (but not Accrued Obligations) or other additional compensation) received by the Employee in the three highest consecutive years during the Employees' period of employment. For purposes of the calculation in the previous sentence, the Annual Cash Compensation taken into account for any single year,, shall not exceed \$909,091. If the Employee had been employed by the Company for fewer than three years, the Employee's Average Annual Cash Compensation shall be the annualized average of the Employee's total Base Salary and management incentive bonuses during the period of employment (including any pro-rata bonus amounts due for the year of termination) (with the management incentive bonus being deemed the 1999 target bonus until the 1999 management incentive bonus is paid).

At the Employee's option, the benefit described above shall be payable in any actuarially equivalent annuity form of benefit provided under the Pension Plan or an actuarially equivalent lump sum, determined using the actuarial conversion factors used for the Pension Plan. If the benefit commences prior to age 65, it shall be reduced by the early retirement reduction factor set forth in the Pension Plan. Any lump sum payment shall be made during the first two calendar weeks of January in the year following termination of employment.

The benefits provided under this Section 4.4 shall be unfunded and shall be paid from the general assets of the Company. In the event of a Change of Control (as defined in the Change of Control Agreement referred to in Section 8 below), these benefits shall be paid from a fully funded corporate rabbi trust. The Employee shall have a right to the benefit hereunder and any rabbi trust no greater than the right of an unsecured general creditor of the Company. The benefits are not assignable by the Employee prior to receipt.

4.5 Financial Planning -----

During the Employment Period, the Company shall provide the Employee, at the Company's expense, tax and financial counseling from a provider of such services of the Employee's own choosing up to Fifteen Thousand Dollars (\$15,000) per year. Such tax and financial assistance shall be provided as may be reasonably required to prepare any income tax returns that the Employee may be required to file and as may be reasonably required to prepare an appropriate estate plan.

4.6 Automobile Allowance -----

During the Employment Period, the Company shall make available to the Employee a Company automobile allowance of \$920 per month or the equivalent in a leased automobile suitable to the Employee's position in accordance with the Company's automobile policy.

4.7 Relocation -----

(a) In connection with the establishment of a residence in Rhode Island for purposes of the Employee's employment with the Company, the Employee shall be eligible for relocation benefits under the Company's policy entitled "Relocation Expenses-Transferred Employees and Executive New Hires."

(b) Upon termination of employment, for any reason whatsoever, in connection with the Employee's relocation back to his initial home location, the Employee shall be eligible for relocation benefits under the Company's policy entitled "Relocation Expenses-Transferred Employees and Executive New Hires," as if he were a transferred active employee. In addition, such relocation benefits will also include a guarantee of the original purchase price of the Rhode Island residence plus the fair market value of any capital improvements. Such guarantee may be called on by the Employee by the Employee notifying the Company in writing of his desire to sell the residence to the Company or its designee for the above price. The sale shall be closed within sixty (60) days after the Employee gives the Company such written notice.

(c) In addition, the Employee shall receive such additional relocation benefits as may be agreed upon by the Chairman and Chief Executive Officer of the Company and the Employee.

(d) The Company shall pay the Employee a full gross up with regard to amounts paid pursuant to this Section 4.7 so that , to the extent that such amounts are includible in the Employee's gross income, the Employee has no cost for such relocation on an after-tax basis.

4.8 Fringe Benefits

During the Employment Period, the Employee shall be entitled to participate in all bonus, benefit and fringe plans and programs that the Company establishes and makes available to its senior executives or employees generally, as they may be in effect from time to time if any, to the extent that Employee's position, tenure, salary, age, health and other qualifications make him eligible to participate, including, but not limited to, the programs indicated in the Hasbro Benefits Summary previously delivered to Employee. The Employee shall be entitled to four weeks of paid vacation time during each calendar year (prorated for partial years) during the Employment Period.

4.9 Reimbursement of Expenses

The Company shall reimburse the Employee for reasonable travel, entertainment and other expenses incurred or paid by him in connection with, or related to, the performance of his duties, responsibilities or services under this Agreement, upon presentation by the Employee of documentation, expense statements, vouchers and/or such other supporting information as the Company may request, provided, however, that the amount available for travel, entertainment and other expenses may be fixed in writing in advance by the Board at a level commensurate with his position.

4.10 Deferred Compensation

The Employee shall be entitled to participate in the Company's Non-Qualified Deferred Compensation Plan in accordance with the terms of such Plan, provided that any termination of Executive's employment (other than for death or Disability) shall be deemed a "retirement" under such plan.

4.11 401(k) and Profit Sharing Benefits

The Employee shall be entitled to participate in the Company's Retirement Savings Plan subject to and in accordance with the terms of such plan.

4.12 Annual Physical

The Company shall reimburse the Employee for the normal costs of an annual physical examination, including laboratory costs, by a physician of his own choosing in each calendar year.

4.13 Indemnification

(a) Effective upon his election as a Director, the Company and the Employee shall enter into the Company's standard Directors' Indemnification Agreement, in the form filed as an Exhibit to the Company's Annual Report on Form 10-K (the "Indemnification Agreement"). The Company acknowledges, as a clarification of the last sentence of Section 6 of the Indemnification Agreement, that even if after the Company has assumed defense of a claim, the Employee shall have reasonably concluded that there may be a conflict of interest between the Company and the Employee in the conduct of the defense of the claim, the Company will thereafter be responsible for the fees and disbursement of the Employee's separate counsel.

(b) The Company shall not retroactively amend the By-Laws of the Company so as to adversely affect Employee's rights to indemnification thereunder. So long as the Company purchases directors' and officers' liability insurance, the Company shall maintain Employee's coverage thereunder with respect to covered acts or omissions during the Employment Period.

5. Employment Termination

The Employee's employment by the Company pursuant to this Agreement shall terminate at or prior to the expiration of the Employment Period upon the occurrence of any of the following:

5.1 Termination of the Employment Period

At the expiration of the Employment Period in accordance with Section 1;

5.2 Termination by the Company for Cause

Upon written notice by the Company to the Employee of a termination for Cause, provided such notice is given within one hundred eighty (180) days

after the discovery by the Board or the Chief Executive Officer of the Cause event. For the purposes of this Section 5.2, "Cause" shall be deemed to exist upon the occurrence (or non-occurrence, as the case may be) of any of the following: (a) repeated violations by the Employee of the Employee's obligations under Section 2 of this Agreement (other than as a result of incapacity due to physical or mental illness) which are demonstrably willful and deliberate on the Employee's part, which are committed in bad faith or without reasonable belief that such violations are in the best interests of the Company and which are not remedied within thirty (30) days after receipt of written notice from the Board specifying such violations; or (b) the conviction of the Employee of a felony involving moral turpitude.

5.3 Termination by the Company without Cause

At the election of the Company, immediately upon written notice by the Company to the Employee without Cause;

5.4 Death or Disability

Thirty days after the death of the Employee. Upon thirty (30) days' prior written notice by the Company to the Employee of a termination for Disability, provide such notice is delivered during the period of Disability. As used in this Agreement the term "Disability" shall mean the inability of the Employee, due to a physical or mental disability, for a continuous period of 180 days to substantially perform the services contemplated under this Agreement. A determination of disability shall be made by a physician satisfactory to both the Employee and the Company, provided that if the Employee and the Company do not agree on a physician, the Employee and the Company shall each select a physician and these two together shall select a third physician, whose determination as to disability shall be binding on all parties;

5.5 Termination by the Employee with or without Good Reason

At the election of the Employee upon Good Reason or otherwise, upon five business days' prior written notice of termination. For purposes of this Agreement, "Good Reason" for termination shall be deemed to exist solely if the Employee terminates employment within one year after the occurrence of any of the following without the explicit written consent of the Employee: (a) diminution of title, responsibilities, authority or duties; (b) a failure to be elected to or removal from the Board; (c) a change in work location beyond a 50 mile radius from the Employee's current location of employment (it being understood that foreign business travel shall not constitute a "change in work location" for these purposes unless it averages more than one calendar week per month outside North America), (d) the failure of the Company to obtain and deliver to the Employee a satisfactory written agreement from any successor to the Company to assume and agree to perform this Agreement, or (e) any breach of Section 4 of this Agreement or any other material breach of this Agreement by the Company; or

5.6 Agreement of the Parties

By mutual consent of the Employee and the Company.

6. Effect of Termination

6.1 Termination for Cause or Upon Expiration of the Agreement Term

In the event than the Employee's employment is terminated for Cause pursuant to Section 5.2 or upon the expiration of the Agreement pursuant to Section 5.1, the Company shall have no further obligations under this Agreement other than to pay to the Employee the following amounts and benefits: (i) any unpaid Base Salary, (ii) any unpaid incentive bonus for the fiscal year ending immediately prior to Employee's termination date (or in the case of expiration, the year of expiration), (iii) any accrued but unused vacation that is still eligible to be taken in accordance with Company policy, (iv) reimbursement for any business expenses incurred prior to the Employee's date of termination to which the Employee would be otherwise entitled, (v) the Employee's entitlements with regard to the Options as set forth in Section 4.3 and (vi) any benefits or fringes due under any benefit or fringe benefit plan or arrangement in accordance with the terms of said plan or arrangement due for the period prior to such termination and (vii) the retirement benefits set forth in Section 4.4 (collectively, the "Accrued Obligations").

6.2 Termination by the Company without Cause, Termination by the

Employee for Good Reason, or Termination by Agreement of the

Parties

In the event that the Employee's employment is terminated by the Company without Cause pursuant to Section 5.3, or by the Employee for Good Reason pursuant to Section 5.5, or upon mutual agreement of the parties pursuant to Section 5.6, the Company shall pay to the Employee, in addition to any Accrued Obligations and the bonus amount set forth in Section 4.2, a lump sum payment in an amount equal to the lesser of (i) his annual Base Salary then in effect for eighteen (18) months, or (ii) his annual Base Salary for the period beginning on the date of termination through and including the expiration of the Employment Period set forth in Section 1 as if no termination had occurred. The Employee shall have no obligation to mitigate by seeking other employment and there shall be no offset against amounts due the Employee under this Agreement on account of any remuneration attributable to any subsequent employment he may obtain. In addition, the Company shall continue its contributions toward the Company's health and life insurance benefits on the same basis as immediately prior to the date of termination, except as provided below, for the applicable period outlined above under (i) or (ii). Notwithstanding the foregoing, the Company shall not be required to provide any health or life insurance benefit otherwise receivable by the Employee pursuant to this Section 6.2 if the Employee is actually covered by an equivalent benefit (at the same cost to the Employee, if any) from another employer during which continuing benefits are provided pursuant to this Section 6.2. Any such benefit made available to the Employee shall be reported to the Company. The Company shall provide the foregoing severance pay and benefits to the Employee as set forth in this Section 6.2 only upon execution by the Employee of a release of claims, other than with respect to the Employee's rights under the Indemnification Agreement, with regard to post employment benefits and as a stockholder and option holder, in a form reasonably satisfactory to the Company. If the Employee fails to execute the aforesaid release of claims agreement, the Company shall have no further obligations under this Agreement other than to pay to the Employee the compensation and benefits otherwise payable to him under Section 4 through the last day of his actual employment by the Company and the Accrued Obligations.

6.3 Termination by the Employee Without Good Reason -----

In the event that the Employee terminates his employment without Good Reason pursuant to Section 5.5, the Company shall pay to the Employee, in addition to any Accrued Obligations, a lump sum payment in an amount equal to the lesser of (i) his annual base salary then in effect for twelve (12) months, or (ii) his annual base salary for the period beginning on the date of termination through and including the expiration of the Employment as set forth in Section 1 as if no termination had occurred. The Employee shall have no obligation to mitigate by seeking other employment and there shall be no offset against amounts due the Employee under this Agreement on account of any remuneration attributable to any subsequent employment he may obtain. In addition, the Company shall continue its contributions toward the Company's health and life insurance benefits on the same basis as immediately prior to the date of termination, except as provided below, for the applicable period outlined above under (i) or (ii). Notwithstanding the foregoing, the Company shall not be required to provide any health or life insurance benefit otherwise receivable by the Employee pursuant to this Section 6.3 if the Employee is actually covered by an equivalent benefit (at the same cost to the Employee, if any) from another employer during which continuing benefits are provided pursuant to this Section 6.3. Any such benefit made available to the Employee shall be reported to the Company. The Company shall provide the foregoing severance pay and benefits to the Employee as set forth in this Section 6.3 only upon execution by the Employee of a release of claims, other than with respect to the Employee's rights under the Indemnification Agreement, with regard to post employment benefits and as a stockholder and optionholder in a form reasonably satisfactory to the Company. If the Employee fails to execute the aforesaid release of claims agreement, the Company shall have no further obligations under this Agreement other than to pay to the Employee the compensation and benefits otherwise payable to him under Section 4 through the last day of his actual employment by the Company and the Accrued Obligations.

6.4 Termination for Death or Disability -----

In the event that the Employee's employment is terminated by death or because of disability pursuant to Section 5.4, the Company shall pay to the Employee or to the Employee's heirs or to the executor or administrator of the Employee's estate, as the case may be, in addition to any Accrued Obligations and the bonus amount set forth in Section 4.2, compensation which would otherwise be payable to him under Section 4.1 of this Agreement through the end of the month in which such termination occurs.

7. Legal Fees -----

The Company agrees to reimburse the Employee for reasonable legal and consulting fees incurred in connection with the negotiation, acceptance and

execution of the employment terms and this Agreement.

8. Change of Control

The Company and the Employee are parties to another agreement which provides the Employee with certain benefits upon the occurrence of a Change in Control of the Company (as defined therein). This other agreement shall be referred to as "the Change in Control Agreement." Upon the "Effective Date," as defined in the Change in Control Agreement, the Employee shall be entitled to receive the greater of the payments and benefits accruing to the Employee under (a) the Change in Control Agreement, or (b) this Agreement. Notwithstanding anything therein to the contrary, Section 3 of the Change in Control Agreement is hereby clarified to provide that the Employee may voluntarily terminate his employment at any time during the Employment Period without such termination constituting a breach or other violation of such agreement.

9. Proprietary Information and Developments

The Employee agrees to execute the Company's standard Invention Assignment and Proprietary Information Agreement.

10. Notices

All notices required or permitted under this Agreement shall be in writing and shall be deemed effective upon personal or overnight delivery or three business days after deposit in the United States Post Office, by registered or certified mail, postage prepaid, addressed to the other party at the addresses shown below, or at such other address or addresses as either party shall designate to the other in accordance with this Section 10.

If to the Company:

Hasbro, Inc.
1011 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 H. Waldoks
Senior Vice President--
Corporate Legal Affairs and Secretary

If to the Employee:

Herbert M. Baum
45 Loring Place
Providence, RI 02906

With a copy to:

Proskauer Rose LLP
1585 Broadway
New York, NY 10036-8299
Attn: Michael S. Sirkin, Esq.

11. Pronouns

Whenever the context may require, any pronouns used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular forms of nouns and pronouns shall include the plural, and vice versa.

12. Entire Agreement

This Agreement, together with the agreements referred to herein, constitutes the entire agreement between the parties and supersedes all prior agreements and understandings, whether written or oral, relating to the subject matter of this Agreement other than the Change in Control Agreement.

13. Amendment

This Agreement may be amended or modified only by a written instrument executed by both the Company and the Employee.

14. Governing Law

This Agreement shall be construed, interpreted and enforced in accordance

with the internal laws of the State of Rhode Island.

15. Successors and Assigns

This Agreement shall be binding upon and inure to the benefit of both parties and their respective successors and assigns, including any corporation with which or into which the Company may be merged or which may succeed to all or substantially all of its assets or business, provided, however, that the obligations of the Employee are personal and shall not be assigned by him. Notwithstanding the foregoing, the Company may, with the Employee's prior written consent, assign an appropriate portion of its obligations hereunder to one or more of its subsidiaries.

16. Miscellaneous

16.1

No delay or omission by the Company or the Employee 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 or the Employee 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.

16.2

The Company may withhold from any amounts payable under this Agreement such Federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

16.3

The captions of the sections of this Agreement are for convenience of reference only and in no way define, limit or affect the scope or substance of any section of this Agreement.

16.4

In case any provision of this Agreement shall be invalid, illegal or otherwise unenforceable, the validity, legality and enforceability of the remaining provisions shall in no way be affected or impaired thereby.

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

HASBRO, INC.

By: /s/ Alan G. Hassenfeld

Title: Chairman of the Board and
Chief Executive Officer

EMPLOYEE

/s/ Herbert M. Baum

Herbert M. Baum

EXHIBIT A

RETIREE ACCELERATED OPTION EXERCISE AGREEMENT

AGREEMENT, dated _____, _____, between Hasbro, Inc., a Rhode Island corporation having its principal place of business at 1027 Newport Avenue, Pawtucket, Rhode Island 02862 (the "Company"), and Herbert M. Baum, residing at 45 Loring Place, Providence, RI 02906 ("Optionee").

RECITAL

The Company and Optionee are parties to the Stock Option Agreements described on Schedule 1 hereto (the "Option Agreements"), pursuant to which Optionee has been granted options to purchase shares of common stock, par value \$.50 per share, of the Company at prices designated in the Option Agreements (the "Options") exercisable in accordance with Section 2 of each of the Options Agreements.

The Company and the Optionee are also party to an Employment Agreement, dated as of January 5, 1999 (the "Employment Agreement") and this Agreement

is made pursuant to the first sentence in Section 4.3 (d) of the Employment Agreement. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Employment Agreements.

The Optionee wishes to be granted the right to exercise Optionee's Options that are not yet exercisable in accordance with the schedule set forth in Section 2 of each of the Option Agreements (the "Unvested Options").

The Company is willing to grant Optionee the right to exercise all Unvested Options (see Schedule 1 hereto) for a period beginning on the date Employee's employment with the Company terminates, other than for Cause, upon or after the expiration of the initial three year Employment Period (the "Retirement Date") and ending three years thereafter, in consideration for Optionee's covenants herein.

Optionee understands that all of Optionee's Options that shall not have been exercised by Optionee within said three-year period shall expire at the end of said three-year period, regardless of the expiration date otherwise specified in Section 2 of each of the Option Agreements.

AGREEMENT

In consideration of the mutual covenants and promises contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

Section 1. Acceleration of Options

The Optionee's Unvested Options are hereby exercisable for the period beginning on the Retirement Date and ending three years thereafter, at which time all of Optionee's Options that have not been exercised shall expire.

Section 2. Non-Competition Covenants of the Optionee

The Optionee agrees that, except as otherwise provided in this Section 2, Optionee will not, without the prior written consent of the Company, for a period from the Retirement Date until the later of (a) the first anniversary of the Retirement Date and (b) the period that any of Optionee's Options are outstanding, in any country in which the Company or any affiliate is engaged in business on the date hereof, 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 or any of its affiliates, except that nothing shall prevent the Optionee from serving as an outside director or executive officer of any publicly held company, less than 5% of the revenues of which derive from products or services that are competitive with products or services of the Company, provided that Optionee shall not be directly involved in the development, manufacture or distribution of such competitive products or services. The Optionee shall not be deemed under this Section 2 to be engaged in any business solely by reason of ownership, as an investment only, of less than two percent of the outstanding amount of any securities of any corporation regularly traded on a national stock exchange or over-the-counter.

Section 3. Miscellaneous

3.1 Rights and Remedies Upon Breach

If the Optionee breaches, or threatens to commit a breach of, any of the provisions of Section 2 (the "Covenants"), the Company shall have the following rights and remedies, each of which rights and remedies shall be independent of the others and severally enforceable, and each of which is in addition to, and not in lieu of, any other rights and remedies available to the Company under law or in equity.

3.1.1 Specific Performance

The right and remedy to have the Covenants specifically enforced by any court of competent jurisdiction, it being agreed that any breach or threatened breach of the Covenants would cause irreparable injury to the Company and that money damages would not provide an adequate remedy to the Company.

3.2 Severability of Covenants

The Optionee acknowledges and agrees that the Covenants are reasonable and valid in geographical and temporal scope and in all other respects. If any court determines that any of the Covenants, or any part thereof, is invalid or unenforceable, the remainder of the Covenants shall not thereby be affected and shall be given full effect without regard to the invalid

portions.

3.3 Blue-Penciling

If any court determines that any of the Covenants, or any part thereof, is unenforceable because of the duration or geographic scope of such provisions, such court shall have the power to reduce the duration or scope of such provision, as the case may be, and, in its reduced form, such provision shall then be enforceable.

3.4 Enforceability in Jurisdictions

The Optionee intends to, and hereby confers jurisdiction to, enforce the Covenants upon the courts of any jurisdiction within the geographical scope of such Covenants. If the courts of any one or more of such jurisdiction hold the Covenants unenforceable by reason of the breadth of such scope or otherwise, it is the intention of the parties hereto that such determination not bar or in any way affect the Company's right to the relief provided above in the courts of any other jurisdiction within the geographical scope of the Covenants, as to breaches of the Covenants in such other respective jurisdictions, such Covenants as they relate to each jurisdiction being, for this purpose, severable into diverse and independent covenants.

3.5 Entire Agreement

This Agreement contains the entire agreement among the parties with respect to the subject matter hereof and supersedes all prior agreements, written or oral, with respect thereto.

3.6 Waivers and Amendments; Non-Contractual Remedies;

Preservation of Remedies

This Agreement may be amended, superseded, cancelled, terminated, renewed or extended, and the terms hereof may be waived, only by a written instrument signed by the parties or, in the case of a waiver, by the party waiving compliance. The rights and remedies herein provided are cumulative and are not exclusive of any rights or remedies that any party may otherwise have at law or in equity.

3.7 Governing Law

This Agreement shall be governed 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.

3.8 Binding Effect; Assignment

This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and legal representatives. This Agreement is not assignable except by operation of law or by the Company to any of its affiliates or successors.

3.9 Counterparts

This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument. Each counterpart may consist of a number of copies hereof each signed by less than all, but together signed by all of the parties thereto.

3.10 Headings

The headings in this Agreement are for reference only, and shall not affect the interpretation of this Agreement.

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

OPTIONEE:

Herbert M. Baum

HASBRO, INC.

By: _____

Name: _____

Title: _____

SCHEDULE 1

Unvested Options

1. Stock Option Agreement, dated _____, _____, for _____ shares at the exercise price of ____ of which _____ are Unvested Options.

2. Stock Option Agreement, dated _____, _____, for _____ shares at the exercise price of ____ of which _____ are Unvested Options.

March 23, 1999

Mr. Adam Klein
7 Lowell Street
Cambridge, MA 02138

Dear Adam:

In connection with your termination of employment on April 1, 1999 ("Termination Date") and subject to the approval of the Compensation and Stock Option Committee of the Board of Directors, Hasbro, Inc. (the "Company") will provide you with the benefits described below provided you timely sign, return and do not revoke this Letter Agreement within the seven (7) day revocation period.

1. Description of Severance

In return for the execution of this Letter Agreement, the Company agrees to pay you five hundred and twenty thousand dollars and fifty-two cents (\$520,000.52), less all applicable state and federal taxes, as severance pay. The severance pay will be paid to you from April 1, 1999 through March 31, 2000 ("the Severance Period") as follows:

\$43,333.16 on April 1, 1999; and

In weekly installments commencing on April 9, 1999 and ending on March 31, 2000; each installment in the gross amount of nine thousand one hundred sixty-six dollars and sixty-eight cents (\$9,166.68).

You will not be eligible for payment under the Company's holiday bonus during the Severance Period. The payments will commence no sooner than April 1, 1999 and the eighth (8th) day after the execution of this Agreement, provided it has become binding between you and the Company.

2. Benefits Continuation

During the Severance Period, the Company further agrees to the following:

(a) Effective as of the termination date, you shall be considered to have elected to continue receiving group medical and dental insurance pursuant to the law known as COBRA, 29 U.S.C. section 1161 et. seq. During the Severance Period, the Company will continue to pay the share of the premiums for such coverage that is paid by the Company for active and similarly situated executives who receive the same type of coverage. The remaining balance of any premium costs, and all premium costs after the Severance Period, shall be paid by you on a monthly basis for as long as and to the extent that, you remain eligible for COBRA continuation.

(b) Continuation of your Company provided life insurance.

(c) Use of your Company leased vehicle, cellphone, personal computer and fax machine provided that you will be responsible for all operating and maintenance costs (other than automobile insurance and lease payments).

(d) During the first quarter of the year 2000, you shall receive a management bonus equivalent for 1999. This payment shall be made in accordance with general Company practice and will be one hundred and seventy thousand dollars (\$170,000.00), less applicable state and federal taxes.

At your election, you may receive either (1) the "Key Employee Service" outplacement through Right Associates, at any Right Associates location or, (2) a cash payment of twenty thousand dollars (\$20,000.00), less applicable state and federal taxes. To elect the cash option, you must notify Robert Carniaux by April 30, 1999. If the cash option is elected, payment will be made within 10 days of the Company's notification of your election.

In the event you obtain other employment prior to the expiration of the Severance Period, continuation of all benefits and use of Company equipment outlined in paragraphs (a), (b) and (c), above, will cease effective on the date you commence other employment to the extent that such employment affords you comparable benefits and equipment.

Effective the Termination Date, you will no longer be eligible for, or

participate in, the Company's short-term disability, long-term disability, pension, 401(K), profit sharing benefits, or any other program not specifically listed herein. The Company will pay to you within a reasonable time after the Termination Date, subject to plan's requirements for processing such account distributions, any amounts owed to you under the 401 (K) and profit sharing plan.

You understand and agree that the payment of benefits hereunder is greater than, and satisfies, any entitlement or right to benefits, if any, that you may have under the Hasbro, Inc. Severance Benefits Plan for Salaried Employees.

3. Stock Options

Effective as of the Termination Date, all options that would vest pursuant to your existing stock option agreements with the Company between the Termination Date and April 23, 2000 shall be deemed to be vested on the Termination Date and shall be exercisable between the Termination Date and March 31, 2000.

You agree to refrain from selling any shares of Company stock before the second business day following the announcement of 1st quarter earnings of 1999.

4. Releases

In exchange for the benefits described in paragraphs 1, 2 and 3 above, certain of which benefits that you are not otherwise entitled to, 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, 5% stockholders, corporate affiliates, attorneys or 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 your separation from employment, all claims arising from any failure to reemploy you, all claims and damages relating to race, sex, national origin, handicap, religious, sexual orientation, benefits 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 Employee Retirement Income Security Act of 1974, 29 U.S.C. section 1001, et. seq., and the Americans with Disabilities Act, 42 U.S.C. section 12101 et. seq., and similar state or local statutes including M.G.L. c. 151B, section 1 et. seq., R.I. Fair Employment Practices Act, R.I., Gen. Laws section 28-5-1, et. seq., all 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.

Notwithstanding the foregoing, in no event shall you be deemed by this paragraph 4 to have released: (1) any rights or claims you may have for payments or benefits under this Agreement; and (2) your rights to indemnification or contribution as provided by law or to protection under the Company's directors' and officers' liability insurance policies (and in the event such indemnity or insurance rights shall be enhanced you shall be entitled to such enhanced rights as they relate to action taken while an officer or employee of the Company).

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 willful wrongs, any contractual obligation you have to the Company, any shareholder derivative suits, 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.

5. 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.

6. 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, 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 or any of its subsidiaries, affiliates or joint ventures in any country in any line of business in which the Company is engaged with the exception of any business, firm or corporation which derives less than 5% of its revenues from products or services that are competitive with products or services of the Company or any of its subsidiaries, affiliates or joint ventures and provided you are not directly involved in the development, manufacture or distribution of such competitive products or services.

(b) You agree that during the period in which Severance Benefits are paid, 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.

7. Legal Expenses

The Company agrees to pay reasonable and documented legal expenses, up to a maximum of fifteen thousand dollars (\$15,000.00), incurred by you in connection with drafting this Letter Agreement and related documents.

8. 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.

9. 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, estates, 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.

10. 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.

11. Nondisparagement

You agree to refrain from directly or indirectly interfering in any manner with the operations or management of the Company and agree to refrain from making any disparaging remarks about the Company, its subsidiaries, attorneys and employees. The Company agrees that any employees and attorneys with knowledge of this Agreement will refrain from making any disparaging remarks about you. "Disparaging remarks," as defined herein, shall mean publication made without privilege of a matter that is untrue or induces others not to do business with or associate with the other party.

12. 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.

13. Acknowledgments

You acknowledge that you have been given at least twenty-one (21) days to consider this Letter Agreement and that you are advised 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.

14. 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.

If you have any questions about this Letter Agreement, please call Robert Carniaux, Senior Vice President, Human Resources at (401) 727-5654. If you are in agreement with the above terms, please sign below.

Very truly yours,

/s/ Harold Gordon

Harold Gordon
Vice Chairman
Hasbro, Inc.

I hereby agree to the terms and conditions set forth above. I have been given at least twenty-one (21) days to consider this Letter Agreement and I have chosen to execute this Letter Agreement on the date below. 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.

/s/ Adam Klein

Employee Name

Date: March 23, 1999

To be returned in the enclosed envelope by April 13, 1999.

HASBRO, INC. AND SUBSIDIARIES

Computation of Earnings Per Share

(Thousands of Dollars and Shares Except Per Share Data)

	1998		1997		1996	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net earnings	\$206,365	206,365	134,986	134,986	199,912	199,912
Interest and amortization on convertible notes, net of taxes	-	-	-	4,782	-	5,757
Net earnings applicable to common shares	\$206,365	206,365	134,986	139,768	199,912	205,669
Weighted average number of shares outstanding: (a)						
Outstanding at beginning of period	200,162	200,162	193,294	193,294	196,525	196,525
Exercise of stock options and warrants:						
Actual	2,214	2,214	1,368	1,368	753	753
Assumed	-	7,493	-	3,835	-	2,723
Conversion of convertible notes:						
Actual	-	-	2,033	2,033	9	9
Assumed	-	-	-	9,429	-	11,499
Purchase of common stock	(4,449)	(4,449)	(3,606)	(3,606)	(2,226)	(2,226)
Equivalent Shares	197,927	205,420	193,089	206,353	195,061	209,283
Earnings per share	\$ 1.04	1.00	.70	.68	1.02	.98

(a) Adjusted to reflect the three-for-two stock split declared on February 19, 1999 for payment on March 15, 1999.

HASBRO, INC. AND SUBSIDIARIES

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

(Thousands of Dollars)

	1998	1997	1996	1995	1994
	----	----	----	----	----
Earnings available for fixed charges:					
Net earnings	\$206,365	134,986	199,912	155,571	175,033
Add:					
Cumulative effect of change in accounting principles	-	-	-	-	4,282
Fixed charges	53,209	43,893	47,174	52,422	44,280
Taxes on income	97,113	69,539	106,981	96,979	112,254
Total	<u>\$356,687</u>	<u>248,418</u>	<u>354,067</u>	<u>304,972</u>	<u>335,849</u>
Fixed charges:					
Interest on long-term debt	\$ 9,688	7,348	9,258	9,267	11,179
Other interest charges	26,423	20,138	22,207	28,321	19,610
Amortization of debt expense	121	377	339	339	429
Rental expense representative of interest factor	16,977	16,030	15,370	14,495	13,062
Total	<u>\$ 53,209</u>	<u>43,893</u>	<u>47,174</u>	<u>52,422</u>	<u>44,280</u>
Ratio of earnings to fixed charges	<u>6.70</u>	<u>5.66</u>	<u>7.51</u>	<u>5.82</u>	<u>7.58</u>

HASBRO, INC. AND SUBSIDIARIES

Selected Information Contained in
Annual Report to Shareholders

for the Year Ended December 27, 1998

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 15, 1999, for the periods listed.

Period	Sales Prices		Cash Dividends Declared
	High	Low	
1997			
1st Quarter	\$19 3/4	16 1/16	\$.05
2nd Quarter	19 5/8	15 1/4	.05
3rd Quarter	20 3/4	17 5/8	.05
4th Quarter	24 5/16	17 1/8	.05
1998			
1st Quarter	\$25 3/4	19 7/8	\$.05
2nd Quarter	27 1/16	23 1/8	.05
3rd Quarter	27 1/4	19 5/8	.05
4th Quarter	25 7/16	18 5/8	.05

The approximate number of holders of record of the Company's Common Stock as of February 26, 1998 was 5,000.

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 27, 1998, 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				
	1998	1997	1996	1995	1994
Statement of Earnings Data:					
Net revenues	\$3,304,454	3,188,559	3,002,370	2,858,210	2,670,262
Net earnings	\$ 206,365	134,986	199,912	155,571	175,033
Per Common Share Data: (1)					
Earnings					
Basic	\$ 1.04	.70	1.02	.79	.89
Diluted	\$ 1.00	.68	.98	.77	.85
Cash dividends declared	\$.21	.21	.18	.14	.12
Balance Sheet Data:					
Total assets	\$3,793,845	2,899,717	2,701,509	2,616,388	2,378,375
Long-term debt	\$ 407,180	-	149,382	149,991	150,000
Ratio of Earnings to Fixed Charges (2)	6.70	5.66	7.51	5.82	7.58
Weighted Average					

Number of Common

Shares: (1)

Basic	197,927	193,089	195,061	197,272	197,554
Diluted	205,420	206,353	209,283	210,075	212,051

- (1) Adjusted to reflect the three-for-two stock split declared on February 19, 1999 and paid on March 15, 1999.
- (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

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Summary

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A percentage analysis of results of operations follows:

	1998	1997	1996
	----	----	----
Net revenues	100.0%	100.0%	100.0%
Cost of sales	41.3	42.6	44.3
	-----	-----	-----
Gross profit	58.7	57.4	55.7
Amortization	2.2	1.7	1.3
Royalties, research and development	12.9	12.1	10.6
Advertising	13.3	12.9	13.9
Selling, distribution and administration	19.8	19.4	18.8
Acquired in-process research and development and restructuring charge	.6	3.9	-
Interest expense	1.1	.9	1.1
Other (income) expense, net	(.4)	.1	(.2)
	-----	-----	-----
Earnings before income taxes	9.2	6.4	10.2
Income taxes	2.9	2.2	3.5
	-----	-----	-----
Net earnings	6.3%	4.2%	6.7%
	=====	=====	=====

(Thousands of Dollars Except Share Data)

Results of Operations

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Net revenues for 1998 were \$3,304,454 compared to \$3,188,559 and \$3,002,370 for 1997 and 1996, respectively. This approximate 4% increase in revenues over 1997 levels was net of an approximate \$26,000 unfavorable impact of foreign currency translation rates. Revenue growth during the year was led by products from the Tiger line, including Furby, the year's most sought-after toy, the Hasbro Interactive line of CD-ROM interactive games, hand-held electronic games marketed under the Milton Bradley and Parker Brothers brands, and water toys from Larami. Within the Company's more traditional product lines, revenues from boys' toys, creative play and games and puzzles were all lower, reflecting both the lack of a major motion picture release related to the Company's products and the changes in inventory management policies at Toys 'R Us. The preschool line, reflecting the strength of the Teletubbies products, and girls' lines achieved moderate revenue growth.

The Company's gross profit margin increased to 58.7% from 57.4% in 1997, which had been negatively impacted by 0.5% due to the Company's global integration and profit enhancement program, and 55.7% in 1996. The improvement from the adjusted 1997 margin of 57.9% is attributable to a lower cost structure resulting from the removal of excess capacity, the increased level of sales of interactive products which have a higher gross margin and overall favorable material prices. This improvement in the 1998 gross margin was moderated by the unanticipated shortfall in business with Toys 'R Us which resulted in lower than anticipated factory utilization.

Amortization expense of \$72,208, which includes amortization of both property rights and cost in excess of net assets acquired, compares with \$53,767 in 1997 and \$40,064 in 1996. The increases in all years were attributable to the acquisitions made during the respective years. As a result of acquisitions made during 1998, 1999 amortization expense will exceed that of 1998.

Expenditures for royalties, research and development increased to \$424,673 from \$386,912 in 1997 and \$319,494 in 1996. Included in these amounts are expenditures for research and development of \$184,962 in 1998, \$154,710 in 1997 and \$152,487 in 1996. As percentages of net revenues, research and

development was 5.6% in 1998, up from 4.9% in 1997, which had decreased from 5.1% in 1996. The 1998 increase reflects the expenditures of the Company's 1998 acquisitions as well as the continuing investment to grow Hasbro Interactive. While royalties increased in dollars during 1998, they remained constant as a percentage of net revenues. The increased percentage in 1997, when compared with 1996, was primarily attributable to the higher proportion of the Company's revenues arising from licensed products as well as the higher rates generally paid on such items. Royalty expense during 1999 is expected to increase in both amount and as a percentage of net revenues due to the expected higher percentage of the Company's products arising from licensed product carrying higher royalty rates.

Advertising expenses, at 13.3% of net revenues, increased four-tenths of a point from the 1997 level of 12.9% which had decreased a full point from 13.9% in 1996. The increase in 1998 and the decrease in 1997 both reflect the mix of more non-entertainment based product in 1998, in the absence of support from a major motion picture release.

During 1998, selling, distribution and administration costs increased by approximately 6% to \$655,938, or 19.8% of revenues, from the \$617,140, or 19.4%, in 1997 and \$563,645, or 18.8%, in 1996. In addition to normal inflationary trends, both the 1998 and 1997 increases reflect the impact of the Company's acquisitions and new operations in those years. Also adversely impacting the 1998 rate was the unanticipated reduction in revenues resulting from the changes in inventory management policies at Toys 'R Us.

During the third quarter of 1998, the Company incurred a one-time charge to write off the \$20,000 appraised value of acquired in-process research and development of MicroProse, Inc. (MicroProse), which was acquired for approximately \$70,000 on September 14, 1998.

Late in the fourth quarter of 1997, Hasbro announced a global integration and profit enhancement program which anticipated the redundancy of approximately 2,500 employees, principally in manufacturing, and provided 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 was reported as a nonrecurring charge and \$15,000 was reflected in cost of sales. Of the nonrecurring amount, approximately \$54,000 related to severance and people costs, \$52,000 to property, plant and equipment and leases and \$19,000 to product line related costs. During 1998 the employment of all employees planned for redundancy was terminated. The approximate \$63,000 accrual remaining at December 27, 1998, is principally attributable to severance costs, which will be disbursed over the employee's entitlement period, and costs associated with lease terminations and the closing of certain facilities. In the balance sheet, such property, plant and equipment is included as a component of other assets. With the exception of the ultimate disposition of certain facilities closed as a result of this program, the program has been substantially completed. The Company had initially estimated its pretax cost savings from this initiative to be \$40,000 in 1998 and \$350,000 over the period 1998 through 2002. Because of the unanticipated shortfall in sales to Toys 'R Us during the current year and changes in product mix, factory utilization rates were not as high as initially anticipated, which resulted in below target savings during 1998. During 1998, the Company estimates that it has realized pretax savings of approximately \$30,000. The positive cash flow impact from this program has and will occur largely in the form of reduced outflows for payment of costs associated with the manufacture and sourcing of products.

Interest expense was \$36,111 in 1998 compared to \$27,486 during 1997 and \$31,465 during 1996. The increase during the current year largely reflects the costs associated with funding the approximate \$670,000 of acquisitions during the year as well as the Company's stock repurchase program, both partially offset by the availability of funds generated during 1997. The decrease in 1997 reflected the impact of lower interest rates and the availability of funds generated from operations during 1996. Due to additional debt incurred during 1998, interest expense in 1999 is expected to increase.

Other income of \$14,707 in 1998 compares with expense of \$3,097 and income of \$6,091 in 1997 and 1996, respectively. The change between 1998 and 1997 primarily reflects the larger benefits to Hasbro from its consolidated and unconsolidated operations in which it either is, or has, a minority partner, increased interest income and a decrease in foreign currency transactional losses. The change between 1997 and 1996 reflects an increase in foreign currency transactional losses and larger amounts attributable to Hasbro's minority partners in various units.

Income tax expense as a percentage of pretax earnings in 1998 decreased to 32.0% from 34.0% and 34.9% in 1997 and 1996, respectively. The lower 1998

rate reflects the impact of the acquisitions made during the year and, in all years, the implementation of various tax strategies and the downward trend of the tax on international earnings due to the continued reorganization of the Company's global business.

Liquidity and Capital Resources

The Company continued to have a strong and liquid balance sheet with cash and cash equivalents of \$177,748 at December 27, 1998. Cash and cash equivalents were \$361,785 and \$218,971 at December 28, 1997 and December 29, 1996, respectively.

Hasbro generated approximately \$127,000 of net cash from its operating activities in 1998, compared with approximately \$544,000 in 1997 and \$280,000 in 1996. The significant change between the 1998 and 1997 amounts results from a combination of factors. During 1998, \$267,231 was utilized by changes in operating assets and liabilities. With the \$170,723 increase in fourth quarter revenues, most of which, under Hasbro's normal trading terms, became due after the end of the Company's fiscal year, accounts receivable increased. Inventories also increased, in part reflecting acquisitions made during the year, as did prepaid expenses and other current assets, largely reflecting higher advance royalty payments. Partially offsetting these utilizations of funds was a small increase in accounts payable and other accrued liabilities. During 1997, \$273,344 was provided by changes in operating assets and liabilities. Contributing to this were reductions in accounts receivable, inventories and prepaid expenses and other current assets and an increase in trade payables and accrued liabilities, reflecting the unpaid portion of the costs associated with the Company's global integration and profit enhancement program. During 1996, changes in operating assets and liabilities utilized approximately \$50,000 with receivables, prepaid expenses and other current assets and trade payables and accrued liabilities all contributing to this utilization. Receivable growth reflected the \$83,000 increase in fourth quarter sales, partially offset by a 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 in 1996.

Cash flows from investing activities were a net utilization of \$792,700, \$269,277 and \$127,286 in 1998, 1997 and 1996, respectively. During 1998, the Company expended approximately \$142,000 on additions to its property, plant and equipment while during each of 1997 and 1996 it expended approximately \$100,000. Of these amounts, 38% in 1998, 51% in 1997 and 57% in 1996 were for purchases of tools, dies and molds related to the Company's products. The 1998 additions also include the expenditures associated with the consolidation of its Spanish manufacturing operation within one facility. During the three years, depreciation and amortization of plant and equipment was \$96,991, \$112,817 and \$98,201, respectively.

Hasbro made three major acquisitions during 1998, having an aggregate purchase price of \$669,737. On April 1, it acquired substantially all of the business and operating assets of Tiger Electronics, Inc. and certain affiliates (Tiger). On September 14, 1998, it acquired the outstanding shares of MicroProse through a cash tender offer of \$6.00 for each outstanding share of MicroProse. On October 30, 1998, it acquired the outstanding shares of Galoob Toys, Inc. (Galoob) through a cash tender offer of \$12.00 for each outstanding share of Galoob. 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 was significant.

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 and the issuance of long-term debt. During 1999, 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 February 28, 1999, the Company's unused committed and uncommitted lines of credit, including revolving credit agreements for \$350,000 (long-term) and \$150,000 (short-term), were in excess of \$1,000,000.

During 1998, net financing activities provided approximately \$490,000, principally through the issuance of \$100,000 of 5.60% notes due November 1, 2005, \$150,000 of 6.15% notes due July 15, 2008 and \$150,000 of 6.60% debentures due July 15, 2028. In 1997 and 1996, net financing activities utilized approximately \$125,000 and \$95,000, respectively, of Hasbro's funds.

During the year, the Company also invested approximately \$180,000 to repurchase its common stock in the open market, which compares with approximately \$135,000 and \$84,000 repurchased in 1997 and 1996, respectively.

During October 1997, the Company called its 6% Convertible Subordinated Notes Due 1998 for redemption. Substantially all of these notes were converted into approximately 11.4 million shares (adjusted to reflect the three-for-two stock split discussed below) of Hasbro common stock.

On December 9, 1997, the Board of Directors 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 27, 1998, \$309,540 remained under this authorization. The Company anticipates that it will continue to repurchase its shares in the future, when it deems conditions to be favorable, and will fund such purchases from working capital or available lines of credit. The shares acquired under these programs are being used for corporate purposes including issuance upon the exercise of stock options.

Financial Risk Management

The Company is exposed to market risks attributable to fluctuations in foreign currency exchange rates primarily 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 27, 1998, Hasbro has hedged a considerable portion of its estimated 1999 foreign currency transactions through the purchase of forward foreign exchange contracts. The Company estimates that a hypothetical immediate 10% unfavorable movement in the currencies involved could result in an approximate \$5.7 million decrease in the fair value of these instruments. The Company is also exposed to foreign currency risk with respect to its net cash and cash equivalents or short-term borrowing positions in other than the U.S. dollar. 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.

At December 27, 1998, the Company had fixed rate debt of \$407,180. Interest rate changes affect the fair value of this fixed rate debt but do not impact earnings or cash flows. The Company estimates that a hypothetical one percentage point decrease or increase in interest rates would increase or decrease the fair value of this debt by approximately \$38,000 or \$33,000, respectively.

The Economy and Inflation

The Company continued to experience difficult economic environments in some parts of the world during 1998. 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 1998 was not significant and the Company will continue its policy of monitoring costs and adjusting prices accordingly.

Year 2000

The Company has developed plans that address its possible exposure from the impact of the Year 2000. This project is being managed by a global cross-functional team of employees. The team meets regularly and makes periodic reports on its progress to a management steering committee, the Audit Committee of the Board of Directors and the Board of Directors.

The Company has completed the awareness and assessment phases of this project through the inventorying and assessment of its critical financial, operational (including imbedded and non-information technology) and information systems. The renovation phase is now well underway, as a number of non-compliant systems have been modified or replaced and plans are in place for the required modifications or replacements of other non-compliant systems. A planned global 'enterprise' system became operational at several of the Company's major units during 1998 and replaced a number of older non-compliant systems. As the global roll-out of this enterprise system continues, additional Year 2000 compliance will occur. The Company is now in the validation and implementation phases and believes that approximately 85%

of its mission critical systems are currently Year 2000 compliant and virtually all will be by mid-1999. Excluding costs related to the enterprise system, the Company's out of pocket costs associated with becoming Year 2000 compliant are estimated to approximate \$3,000. These costs are being expensed as incurred and approximately half of this amount has been spent to date.

The Company is also well into the process of reviewing the Year 2000 readiness of its customers, vendors and service providers. This review process includes both the obtaining of confirmation from these business partners of their readiness as well as reviews of such readiness by independent third party consultants. While this review process is ongoing, nothing has come to the attention of the Company that would lead it to believe that its material customers, vendors and service providers will not be Year 2000 ready.

The Company's risk management program includes disaster recovery contingency plans that will be expanded by mid-year 1999 to include Year 2000 issues and may include, for example, the maintaining and development of back-up systems and procedures, early identification and selection of alternative Year 2000 ready suppliers and service providers, revisions to credit policies and possible temporary increases in levels of inventories.

Year 2000 readiness has been a senior management priority of the Company for some time and the Company believes that it is taking such reasonable and prudent steps as are necessary to mitigate its risks related to Year 2000. However, the effect, if any, on the Company's results of operations from Year 2000 if it, its customers, vendors or service providers are not fully Year 2000 compliant cannot be reasonably estimated. Notwithstanding the above, the most likely impact on the Company would be a reduced level of activity in the early part of the first quarter of the year 2000, a time at which, as a result of the seasonality of the Company's business, its activities in sales, manufacturing and sourcing, are at their low.

Certain statements contained in this discussion contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are inherently subject to known and unknown risks and uncertainties. The Company's actual actions or results may differ materially from those expected or anticipated in the forward-looking statements. Specific factors that might cause such a difference include, but are not limited to, delays in, or increases in the anticipated cost of, the implementation of planned actions as a result of unanticipated technical malfunctions or difficulties which would arise during the validation process or otherwise; the inherent risk that assurances, warranties, and specifications provided by third parties with respect to the Company's systems, or such third party's Year 2000 readiness, may prove to be inaccurate, despite the Company's review process; the continued availability of qualified persons to carry out the remaining anticipated phases; the risk that governments may not be Year 2000 ready, which could affect the commercial sector in trade, finance and other areas, notwithstanding private sector Year 2000 readiness; whether, despite a comprehensive review, the Company has successfully identified all Year 2000 issues and risks; and the risk that proposed actions and contingency plans of the Company and third parties with respect to Year 2000 issues may conflict or themselves give rise to additional issues.

Other Information

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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 1999.

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.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), which the Company is required to adopt not later than the beginning of fiscal 2000. SFAS 133 will require that the Company record all derivatives, such as foreign exchange contracts, on the balance sheet at fair value. Changes in derivative fair values will either be recognized in earnings as an offset to the changes in the fair value of the related hedged assets, liabilities and firm commitments or, for forecasted transactions, deferred and recorded as a component of other shareholders' equity until the hedged transactions occur and are recognized in earnings. Any portion of a hedging derivative's change in fair value which does not offset the change in fair value of the underlying exposure will be immediately recognized in earnings. The Company does not believe adoption of SFAS 133 will have a material impact on either the Company's financial condition or its results of operations.

On February 19, 1999, the Company announced both a three-for-two stock split and a quarterly dividend of \$.06 per share, which represents a 13% increase from that previously in effect. The stock split, in the form of a 50% stock dividend, was paid on March 15, 1999 to shareholders of record on March 1, 1999, and the dividend is payable on May 17, 1999 to shareholders of record on May 3, 1999.

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 27, 1998 and December 28, 1997 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 27, 1998. 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 27, 1998 and December 28, 1997 and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended December 27, 1998 in conformity with generally accepted accounting principles.

/s/ KPMG LLP

Providence, Rhode Island

February 3, 1999

HASBRO, INC. AND SUBSIDIARIES

Consolidated Balance Sheets
December 27, 1998 and December 28, 1997

(Thousands of Dollars Except Share Data)

Assets	1998	1997
-----	----	----
Current assets		
Cash and cash equivalents	\$ 177,748	361,785
Accounts receivable, less allowance for doubtful accounts of \$64,400 in 1998 and \$51,700 in 1997	958,826	783,008
Inventories	334,801	242,702
Prepaid expenses and other current assets	318,611	186,379
	-----	-----
Total current assets	1,789,986	1,573,874
Property, plant and equipment, net	330,355	280,603

Other assets		
Cost in excess of acquired net assets, less accumulated amortization of \$152,008 in 1998 and \$128,237 in 1997	704,282	486,502
Other intangibles, less accumulated amortization of \$192,268 in 1998 and \$135,467 in 1997	837,899	478,798
Other	131,323	79,940
Total other assets	1,673,504	1,045,240
Total assets	\$3,793,845	2,899,717

HASBRO, INC. AND SUBSIDIARIES

Consolidated Balance Sheets, Continued
December 27, 1998 and December 28, 1997

(Thousands of Dollars Except Share Data)

Liabilities and Shareholders' Equity	1998	1997
Current liabilities		
Short-term borrowings	\$ 372,249	122,024
Trade payables	209,119	179,156
Accrued liabilities	729,605	596,033
Income taxes	55,327	106,333
Total current liabilities	1,366,300	1,003,546
Long-term debt	407,180	-
Deferred liabilities	75,570	58,054
Total liabilities	1,849,050	1,061,600
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 209,698,516 shares in 1998 and 139,799,011 shares in 1997	104,849	69,900
Additional paid-in capital	521,316	489,447
Retained earnings	1,621,799	1,457,495
Accumulated other comprehensive earnings	(9,625)	(3,903)
Treasury stock, at cost, 13,523,983 shares in 1998 and 6,357,948 shares in 1997	(293,544)	(174,822)
Total shareholders' equity	1,944,795	1,838,117
Total liabilities and shareholders' equity	\$3,793,845	2,899,717

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)

	1998	1997	1996
Net revenues	\$3,304,454	3,188,559	3,002,370
Cost of sales	1,366,061	1,359,058	1,328,897
Gross profit	1,938,393	1,829,501	1,673,473
Expenses			
Amortization	72,208	53,767	40,064

Royalties, research and development	424,673	386,912	319,494
Advertising	440,692	411,574	418,003
Selling, distribution and administration	655,938	617,140	563,645
Acquired in-process research and development	20,000	-	-
Restructuring charge	-	125,000	-
	-----	-----	-----
Total expenses	1,613,511	1,594,393	1,341,206
	-----	-----	-----
Operating profit	324,882	235,108	332,267
	-----	-----	-----
Nonoperating (income) expense			
Interest expense	36,111	27,486	31,465
Other (income) expense, net	(14,707)	3,097	(6,091)
	-----	-----	-----
Total nonoperating expense	21,404	30,583	25,374
	-----	-----	-----
Earnings before income taxes	303,478	204,525	306,893
Income taxes	97,113	69,539	106,981
	-----	-----	-----
Net earnings	\$ 206,365	134,986	199,912
	=====	=====	=====
Per common share			
Net earnings			
Basic	\$ 1.04	.70	1.02
	=====	=====	=====
Diluted	\$ 1.00	.68	.98
	=====	=====	=====
Cash dividends declared	\$.21	.21	.18
	=====	=====	=====

See accompanying notes to consolidated financial statements.

HASBRO, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows Fiscal Years Ended in December

(Thousands of Dollars)

	1998	1997	1996
	----	----	----
Cash flows from operating activities			
Net earnings	\$206,365	134,986	199,912
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization of plant and equipment	96,991	112,817	98,201
Other amortization	72,208	53,767	40,064
Deferred income taxes	1,679	(40,555)	(8,120)
Acquired in-process research and development	20,000	-	-
Change in operating assets and liabilities (other than cash and cash equivalents):			
(Increase) decrease in accounts receivable	(126,842)	11,920	(22,418)
(Increase) decrease in inventories	(44,606)	40,739	42,959
(Increase) decrease in prepaid expenses and other current assets	(113,451)	20,326	(37,036)
Increase (decrease) in trade payables and other current liabilities	17,668	200,359	(35,852)
Other	(3,425)	9,482	2,283
	-----	-----	-----
Net cash provided by operating activities	126,587	543,841	279,993
	-----	-----	-----
Cash flows from investing activities			
Additions to property, plant and equipment	(141,950)	(99,356)	(101,946)
Investments and acquisitions, net of cash acquired	(667,736)	(172,116)	(33,027)
Other	16,986	2,195	7,687
	-----	-----	-----
Net cash utilized by investing activities	(792,700)	(269,277)	(127,286)

HASBRO, INC. AND SUBSIDIARIES

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

(Thousands of Dollars)

	1998	1997	1996
	----	----	----
Cash flows from financing activities			
Proceeds from borrowings with original maturities of more than three months	407,377	295,132	265,017
Repayments of borrowings with original maturities of more than three months	(24,925)	(304,927)	(255,636)
Net proceeds (payments) of other short-term borrowings	271,895	21,599	(6,116)
Purchase of common stock	(178,917)	(134,880)	(83,657)
Stock option and warrant transactions	58,493	37,258	17,745
Dividends paid	(42,277)	(39,694)	(32,959)
	-----	-----	-----
Net cash provided (utilized) by financing activities	491,646	(125,512)	(95,606)
	-----	-----	-----
Effect of exchange rate changes on cash	(9,570)	(6,238)	840
	-----	-----	-----
(Decrease) increase in cash and cash equivalents	(184,037)	142,814	57,941
Cash and cash equivalents at beginning of year	361,785	218,971	161,030
	-----	-----	-----
Cash and cash equivalents at end of year	\$177,748	361,785	218,971
	=====	=====	=====
Supplemental information			
Cash paid during the year for			
Interest	\$ 25,135	23,480	29,430
	=====	=====	=====
Income taxes	\$128,436	135,446	92,670
	=====	=====	=====
Non-cash financing activities			
6% Convertible Subordinated Notes Due 1998, converted into common stock	\$ -	149,354	609
	=====	=====	=====

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	Accumulated Other Comprehensive Earnings	Treasury Stock	Total Shareholders' Equity
	-----	-----	-----	-----	-----	-----
Balance, December 31, 1995	\$ 44,043	279,288	1,198,937	25,755	(22,411)	1,525,612
Net earnings	-	-	199,912	-	-	199,912
Other comprehensive earnings	-	-	-	(5,762)	-	(5,762)
Comprehensive earnings	-	-	-	-	-	194,150
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)
Other	10	598	(5)	-	-	603
	-----	-----	-----	-----	-----	-----
Balance, December 29, 1996	66,080	282,922	1,364,285	19,993	(81,234)	1,652,046
Net earnings	-	-	134,986	-	-	134,986
Other comprehensive earnings	-	-	-	(23,896)	-	(23,896)

Comprehensive earnings					111,090
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
Other	-	(117)	7	-	5
	-----	-----	-----	-----	-----
Balance, December 28, 1997	\$ 69,900	489,447	1,457,495	(3,903)	(174,822)
	=====	=====	=====	=====	=====

HASBRO, INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity, continued

(Thousands of Dollars)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Earnings	Treasury Stock	Total Shareholders' Equity
	-----	-----	-----	-----	-----	-----
Balance, December 28, 1997	\$ 69,900	489,447	1,457,495	(3,903)	(174,822)	1,838,117
Net earnings	-	-	206,365	-	-	206,365
Other comprehensive earnings	-	-	-	(5,722)	-	(5,722)
Comprehensive earnings						200,643
Three-for-two stock split	34,949	(34,949)	-	-	-	-
Purchase of treasury stock	-	-	-	-	(178,917)	(178,917)
Stock option and warrant transactions	-	66,818	-	-	60,195	127,013
Dividends declared	-	-	(42,061)	-	-	(42,061)
	-----	-----	-----	-----	-----	-----
Balance, December 27, 1998	\$ 104,849	521,316	1,621,799	(9,625)	(293,544)	1,944,795
	=====	=====	=====	=====	=====	=====

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. Each of the reported three fiscal years are fifty-two week periods.

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

Approximately 53% 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. An additional approximate 35% results from the Company's 1998 acquisitions of Tiger Electronics, Inc., MicroProse, Inc. and Galoob Toys, Inc. Goodwill is being amortized on the straight-line basis over lives ranging from ten to forty years.

Substantially all of the other intangibles consist of the cost of acquired product rights. 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 48% of these other intangibles relate to rights acquired in the acquisitions noted above. 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. An additional approximate 15% of these other intangibles relate to rights acquired from a major motion picture studio and are being amortized over the contract life, in proportion to projected sales of the licensed products during the same period.

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.

Research and Development

Research and product development costs for 1998, 1997 and 1996 were \$184,962, \$154,710 and \$152,487, 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.

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 as well as translation gains and losses resulting from the use of the U.S. dollar as the functional currency in highly inflationary economies. Other gains and losses resulting from translation of financial statements are the principal component of other comprehensive earnings.

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.

Risk Management Contracts

Hasbro does not enter into derivative financial instruments for speculative purposes. The Company enters into foreign currency forward and option contracts to mitigate its exposure to foreign currency exchange rate fluctuations. 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. Premiums on 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. Gains and losses on forward and option contracts meeting hedge accounting requirements are deferred and recognized as adjustments to the carrying value of the related transactions. In the event hedge accounting requirements are not met, gains and losses on such instruments are included currently in the statements of earnings.

Earnings Per Common Share

Basic earnings per share is computed by dividing net earnings by the weighted average number of shares outstanding for the year. Diluted earnings per share is similar except that the weighted average number of shares outstanding is increased by shares issuable upon exercise of stock options and warrants for which market price exceeds exercise price, less shares which could have been purchased by the Company with the related proceeds.

A reconciliation of earnings per share for the three fiscal years ended December 27, 1998 is as follows:

	1998		1997		1996	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net earnings	\$206,365	206,365	134,986	134,986	199,912	199,912
Effect of dilutive securities:						
6% Convertible Notes due 1998	-	-	-	4,782	-	5,757
Adjusted net earnings	\$206,365	206,365	134,986	139,768	199,912	205,669
Average shares outstanding (in thousands)	197,927	197,927	193,089	193,089	195,061	195,061
Effect of dilutive securities:						
6% Convertible Notes due 1998	-	-	-	9,428	-	11,499
Options and warrants	-	7,493	-	3,836	-	2,723
Equivalent shares	197,927	205,420	193,089	206,353	195,061	209,283
Earnings per share \$	1.04	1.00	.70	.68	1.02	.98

(2) Acquisitions

On May 2, 1997, Hasbro purchased certain assets of OddzOn Products, Inc., and Cap Toys, Inc. (OddzOn), wholly owned subsidiaries of Russ Berrie and Company, Inc., for a purchase price of \$167,379. This acquisition was accounted for using the purchase 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.

Hasbro made three major acquisitions during 1998, having an aggregate purchase price of \$669,737. On April 1, it acquired substantially all of the business and operating assets of Tiger Electronics, Inc. and certain affiliates (Tiger). On September 14, 1998, it acquired MicroProse, Inc. (MicroProse) through a cash tender offer of \$6.00 for each outstanding share of MicroProse. Upon completion of a short-form merger, MicroProse became a wholly owned subsidiary of the Company and each untendered share was converted into the right to receive \$6.00 in cash. On October 30, 1998, it acquired Galoob Toys, Inc. (Galoob) through a cash tender offer of \$12.00 for each outstanding share of Galoob. Upon completion of a short-form merger, Galoob became a wholly owned subsidiary of the Company and each untendered share was converted into the right to receive \$12.00 in cash.

These three acquisitions were accounted for using the purchase method, and accordingly, the net assets acquired have been recorded at their fair value and the results of their operations included from the dates of acquisition. Based on estimates of fair market value, \$90,494 has been allocated to net tangible assets, \$306,710 to product rights, \$252,533 to goodwill and \$20,000 to acquired in-process research and development. The appraised fair value of this acquired in-process research and development (interactive game software projects under development at the date of acquisition) was determined using the discounted cash flow approach, considered the percentage of completion at the date of acquisition and was expensed at acquisition.

On a pro forma basis, reflecting these three acquisitions as if they had taken place at the beginning of each period and after giving effect to adjustments recording the acquisitions, and excluding the charge for in-process research and development, unaudited net revenues, net earnings and basic and diluted earnings per share for the year ended December 27, 1998 would have been \$3,530,807, \$171,866, \$.87 and \$.84, respectively, and for the year ended December 28, 1997 would have been \$3,904,061, \$65,189, \$.34 and \$.34, respectively. These pro forma results are not indicative of either future performance or actual results which would have occurred had the acquisitions taken place at the beginning of the respective periods.

(3) Inventories

	1998	1997
	----	----
Finished products	\$283,160	198,215
Work in process	12,698	12,208
Raw materials	38,943	32,279
	-----	-----
	\$334,801	242,702
	=====	=====

(4) Property, Plant and Equipment

	1998	1997
	----	----
Land and improvements	\$ 14,748	13,297
Buildings and improvements	197,295	181,362
Machinery and equipment	295,810	265,313
	-----	-----
	507,853	459,972
Less accumulated depreciation	227,820	219,106
	-----	-----
	280,033	240,866
Tools, dies and molds, net of amortization	50,322	39,737
	-----	-----
	\$330,355	280,603
	=====	=====

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 \$500,000 and \$750,000, respectively. Substantially all of the short-term borrowings outstanding at the end of 1998 and 1997 represent borrowings made under, or supported by, these lines of credit and the weighted average interest rates of the outstanding borrowings were 6.0% and 6.3%, 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. The committed line includes \$350,000 and \$150,000 available under long-term and short-term revolving credit agreements, respectively. These agreements contain certain restrictive covenants with which the Company is in compliance. Compensating balances and facility fees were not material.

(6) Accrued Liabilities

	1998	1997
	----	----
Royalties	\$116,603	95,418
Advertising	172,621	112,299
Payroll and management incentives	54,622	44,014
1997 restructuring accruals	62,996	120,099
Other	322,763	224,203
	-----	-----
	\$729,605	596,033
	=====	=====

(7) Long-Term Debt

	1998	1997
	----	----
5.60% Notes Due 2005	\$100,000	-
6.15% Notes Due 2008	150,000	-
6.60% Debentures Due 2028	150,000	-
Other	7,180	-
	-----	-----
	\$407,180	-
	=====	=====

Current installments of \$260 in 1998 are aggregated with short-term borrowings. The maturities of long-term debt in 2000 and in the succeeding three years are \$296, \$310, \$324 and \$339.

(8) Income Taxes

Income taxes attributable to earnings before income taxes are:

	1998	1997	1996
	----	----	----
Current			
United States	\$ 40,256	62,042	58,580
State and local	5,226	8,296	9,033
International	49,952	39,756	47,488
	-----	-----	-----
	95,434	110,094	115,101
	-----	-----	-----
Deferred			
United States	(6,458)	(31,533)	4,309
State and local	(554)	(2,793)	406
International	8,691	(6,229)	(12,835)
	-----	-----	-----
	1,679	(40,555)	(8,120)
	-----	-----	-----
	\$ 97,113	69,539	106,981
	=====	=====	=====

Certain tax benefits are not reflected in income taxes in the statements of earnings. Such benefits of \$14,377 in 1998, \$4,036 in 1997 and \$6,793 in 1996, 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:

	1998	1997	1996
	----	----	----
Statutory income tax rate	35.0%	35.0%	35.0%
State and local income taxes, net	1.0	1.7	2.0
Goodwill amortization	1.8	2.4	1.6
Tax on international earnings	(5.4)	(4.9)	(2.2)
Reduction of valuation allowance	-	-	(1.1)
Other, net	(.4)	(.2)	(.4)
	----	----	----
	32.0%	34.0%	34.9%
	=====	=====	=====

The components of earnings before income taxes, determined by tax jurisdiction, are as follows:

	1998	1997	1996
	----	----	----
United States	\$123,969	157,987	208,864
International	179,509	46,538	98,029
	-----	-----	-----
	\$303,478	204,525	306,893
	=====	=====	=====

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 27, 1998 and December 28, 1997 are:

	1998	1997
	----	----
Deferred tax assets:		
Accounts receivable	\$ 27,556	24,497
Inventories	14,718	12,576
Net operating loss carryovers	31,608	22,821
Operating expenses	44,491	45,503
Postretirement benefits	12,269	12,343
Other	74,955	53,689
	-----	-----
Gross deferred tax assets	205,597	171,429
Valuation allowance	(13,261)	(8,649)
	-----	-----
Net deferred tax assets	192,336	162,780
	-----	-----
Deferred tax liabilities	46,174	49,060
	-----	-----
Net deferred income taxes	\$146,162	113,720
	=====	=====

Hasbro has a valuation allowance for deferred tax assets at December 27, 1998 of \$13,261, which is an increase of \$4,612 from the \$8,649 at December 28, 1997. The allowance pertains to United States and international operating loss carryforwards, some of which have no expiration and others that would expire beginning in 2001. If fully realized, \$8,760 will reduce goodwill and the balance will reduce future income tax expense. Deferred tax liabilities relate primarily to property rights.

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.

Deferred income taxes of \$100,332 and \$96,489 at the end of 1998 and 1997, respectively, are included as a component of prepaid expenses and other current assets, and \$53,331 and \$21,541, respectively, are included as a component of other assets. At the same dates, deferred income taxes of \$7,010 and \$1,553, respectively, are included as a component of deferred liabilities.

The cumulative amount of undistributed earnings of Hasbro's international subsidiaries held for reinvestment is approximately \$282,000 at December 27, 1998. In the event that all international undistributed earnings were remitted to the United States, the amount of incremental taxes would be approximately \$39,000.

(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 \$.00296 per Right. The Rights Plan contains certain exceptions with respect to the Hassenfeld family and related entities.

Common Stock

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 27, 1998, \$309,540 remained under this authorization.

On February 19, 1999, the Board declared a three-for-two stock split, payable in the form of a 50% stock dividend, on March 15, 1999 to shareholders of record on March 1, 1999. Appropriate changes to reflect the split have been effected in the stock options and warrants. Except for balance sheet presentation of the December 28, 1997 outstanding and treasury shares, all share and per share amounts have been adjusted to reflect this split.

(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 25,351,914 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.

As permitted by Statement of Financial Accounting Standards No. 123 (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:

	1998 ----	1997 ----	1996 ----
Reported net earnings	\$206,365	134,986	199,912
Pro forma compensation expense, net of tax	(10,339)	(5,880)	(3,001)
	-----	-----	-----
Pro forma net earnings	\$196,026	129,106	196,911
	=====	=====	=====
Pro forma earnings per share			
Basic	\$.99	.67	1.01
Diluted	\$.95	.65	.97
	=====	=====	=====

The weighted average fair value of options granted in 1998, 1997 and 1996 were \$8.66, \$5.76 and \$4.62, 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 1998, 1997 and 1996, respectively: risk-free interest rates of 5.70%, 6.20% and 5.51%; expected dividend yields of 0.85%, 1.12% and 1.13% and expected volatility of approximately 26% in 1998 and 21% in 1997 and 1996, and lives of approximately 6 years.

Additionally, the Company has reserved 22,500,000 shares of its common stock for issuance upon exercise of outstanding warrants. During 1998, warrants to purchase 6,000,000 shares at an exercise price of \$23.3333 per share were issued in connection with the acquisition of certain rights. The fair value of these warrants was \$11.42 each on the date of grant.

Information with respect to options and warrants, in thousands of shares, for the three years ended December 27, 1998 is as follows:

	1998 ----	1997 ----	1996 ----
Number of shares:			
Outstanding at beginning of year	31,424	20,452	13,315
Granted	8,639	14,191	9,508

Exercised	(3,468)	(2,651)	(1,854)
Expired or canceled	(234)	(568)	(517)
	-----	-----	-----
Outstanding at end of year	36,361	31,424	20,452
	=====	=====	=====
Exercisable at end of year	11,673	11,090	9,878
	=====	=====	=====
Weighted average exercise price:			
Granted	\$ 23.86	18.77	14.50
Exercised	\$ 13.34	12.30	9.65
Expired or canceled	\$ 18.75	15.80	14.78
Outstanding at end of year	\$ 18.17	16.08	13.71
Exercisable at end of year	\$ 14.43	13.46	12.88
	=====	=====	=====

Information, in thousands of shares, with respect to the 36,361 options and warrants outstanding and the 11,673 exercisable at December 27, 1998, is as follows:

Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
-----	-----	-----	-----
Outstanding			
\$ 4.56-\$13.86	2,024	4.1 years	\$10.61
\$14.00-\$17.68	12,250	4.6 years	\$14.72
\$18.67-\$20.06	13,478	9.7 years	\$18.80
\$23.04-\$29.72	8,609	10.7 years	\$23.86
	=====		=====
Exercisable			
\$ 4.56-\$13.86	2,024		\$10.61
\$14.00-\$17.68	8,648		\$14.78
\$18.67-\$20.06	988		\$19.06
\$23.04-\$29.72	13		\$24.88
	=====		=====

(11) Pension, Postretirement and Postemployment Benefits

Pension and Postretirement Benefits

Hasbro's net pension and profit sharing cost for 1998, 1997 and 1996 was approximately \$12,900, \$13,400 and \$15,700, respectively.

United States Plans

Substantially all United States employees are covered under at least one of several non-contributory defined benefit pension plans maintained by the Company. Benefits under the two major plans, principally covering non-union employees, are based primarily on salary and years of service. One of these plans is funded. Benefits under the remaining plans are based primarily on fixed amounts for specified years of service. One of these plans is also funded. At December 27, 1998, the two funded plans have plan assets of \$219,410 and accumulated benefit obligations of \$149,907. The unfunded plans have accumulated benefit obligations of \$15,740.

Hasbro also provides certain postretirement health care and life insurance benefits to eligible 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.

	Pension		Postretirement	
	-----	-----	-----	-----
	1998	1997	1998	1997
	----	----	----	----
Change in projected benefit obligation				

Projected benefit obligation at beginning of year	\$184,589	147,349	\$ 28,885	24,562
Service cost	9,362	8,022	224	205
Interest cost	12,798	11,451	1,893	2,039

Plan amendments	-	1,062	-	-
Actuarial (gain) loss	6,468	21,989	(271)	3,799
Benefits paid	(5,539)	(4,744)	(2,303)	(1,720)
Expenses paid	(615)	(540)	-	-
	-----	-----	-----	-----
Projected benefit obligation at end of year	\$207,063	184,589	\$ 28,428	28,885
	=====	=====	=====	=====
Change in plan assets				

Fair value of plan assets at beginning of year	\$196,634	162,641	\$ -	-
Actual return on plan assets	28,522	37,987	-	-
Employer contribution	408	1,290	-	-
Benefits paid	(5,539)	(4,744)	-	-
Expenses paid	(615)	(540)	-	-
	-----	-----	-----	-----
Fair value of plan assets at end of year	\$219,410	196,634	\$ -	-
	=====	=====	=====	=====
Funded status	\$ 12,347	12,045	\$(28,428)	(28,885)
Unrecognized net (gain) loss	(39,402)	(36,435)	2,885	3,212
Unrecognized prior service cost	9,268	10,443	-	-
	-----	-----	-----	-----
Accrued benefit cost	\$(17,787)	(13,947)	\$(25,543)	(25,673)
	=====	=====	=====	=====

The assets of the funded plans are managed by investment advisors and consist primarily of pooled indexed and actively managed bond and stock funds. For measuring the expected pension accumulated benefit obligation, assumed discount rates of 6.75%, 7.00% and 7.75% were used for 1998, 1997 and 1996, respectively; assumed long-term rates of compensation increase of 4.50% in 1998 and 5.00% in 1997 and 1996, and an assumed long-term rate of return on plan assets of 9.00% in all years.

For measuring the expected postretirement benefit obligation, a 7.50%, 8.00% and 8.60% annual rate of increase in the per capita cost of covered health care benefits was assumed for 1998, 1997 and 1996, respectively. The 1998 rate was further assumed to decrease gradually to 4.50% in 2012, while the 1997 and 1996 rates were assumed to decrease to 5.00% over this same period. All were assumed to remain constant after 2012. The discount rates used in the pension calculation were also used for the postretirement calculation.

	1998	1997	1996
	----	----	----
Components of net periodic cost			

Pension			

Service cost	\$ 9,362	8,022	8,583
Interest cost	12,798	11,451	9,869
Expected return on assets	(17,465)	(14,517)	(11,633)
Net amortization and deferrals	(448)	(465)	168
	-----	-----	-----
Net periodic benefit cost	\$ 4,247	4,491	6,987
	=====	=====	=====
Postretirement			

Service cost	\$ 224	205	289
Interest cost	1,893	2,039	1,727
Net amortization and deferrals	57	22	-
	-----	-----	-----
Net periodic benefit cost	\$ 2,174	2,266	2,016
	=====	=====	=====

If the health care cost trend rate were increased one percentage point in each year, the accumulated postretirement benefit obligation at December 28, 1998 and the aggregate of the benefits earned during the period and the interest cost would have each increased by approximately 10%.

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 1998, 1997 and 1996 was approximately \$5,000, \$5,100 and \$5,000, 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.

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 1998, 1997 and 1996 amounted to \$50,932, \$48,090 and \$46,092, respectively.

Minimum rentals, net of minimum sublease income which is not material, under long-term operating leases for the five years subsequent to 1998 and in the aggregate are as follows:

1999	\$ 38,163
2000	29,251
2001	22,941
2002	17,954
2003	15,523
Later years	89,486

	\$213,318
	=====

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 1998.

In addition, Hasbro leases certain facilities which, as a result of restructurings, are 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

Late in the fourth quarter of 1997, the Company announced a global integration and profit enhancement program which anticipated the redundancy of approximately 2,500 employees, principally in manufacturing, and provided 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 was reported as a nonrecurring charge and \$15,000 was reflected in cost of sales. Of the nonrecurring amount approximately \$54,000 related to severance and people costs, \$52,000 to property, plant and equipment and leases and \$19,000 to product line related costs. During 1998, the employment of all employees planned for redundancy was terminated. The approximate \$63,000 accrual remaining at December 27, 1998, is principally attributable to severance costs, which will be disbursed over the employee's entitlement period, and costs associated with lease terminations and closing of certain facilities. In the balance sheet, such property, plant and equipment is included as a component of other assets. With the exception of the ultimate disposition of certain facilities closed as a result of this program, the program has been substantially completed.

(14) Financial Instruments

Hasbro's financial instruments include cash and cash equivalents, accounts receivable, short- and long-term borrowings, accounts payable and accrued liabilities. At December 27, 1998, the carrying cost of these instruments approximated their fair value. Its financial instruments also include foreign currency forwards and options. At December 27, 1998, 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 primarily 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 \$130,000 and \$35,000 of foreign currency forwards outstanding at December 27, 1998 and December 28, 1997, respectively, 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. Gains and losses on contracts not meeting hedge accounting provisions are included currently in earnings. The aggregate amount of gains and losses resulting from all foreign currency transactions was not material.

(15) Commitments and Contingencies

Hasbro had unused open letters of credit of approximately \$20,000 and \$15,000 at December 27, 1998 and December 28, 1997, 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 become liable for guaranteed minimum royalties of up to \$660,000 between 1998 and 2007. Of this amount, in excess of \$110,000 has been paid and is included in the \$145,066 of prepaid royalties which are a component of prepaid expenses and other current assets on the balance sheet. Of the remaining amount, Hasbro may be required to pay approximately \$250,000, \$120,000 and \$120,000 in 1999, 2002 and 2005, respectively. Such payments are related to royalties which are expected to be incurred on anticipated revenues in the years 1999 through 2007.

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

Segment and Geographic Information

Effective at year end 1998, Hasbro adopted Statement of Financial Accounting Standards No. 131 (SFAS 131), Disclosures about Segments of an Enterprise and Related Information. Prior period amounts have been reclassified to conform to the requirements of SFAS 131.

Hasbro and its subsidiaries operate in one segment, the marketing, licensing, development, manufacture and sourcing of toy and game products on a global basis. Accounting policies for management reporting are those described in the summary of significant accounting policies.

Information as to Hasbro's operations in different geographical areas is presented below on the basis the Company uses to manage its business. Net revenues and the related pretax earnings are categorized based on location of the customer, while long-lived assets (property, plant and equipment, cost in excess of acquired net assets and other intangibles) are categorized based on their location:

	1998	1997	1996
	----	----	----
Net revenues			
United States	\$2,113,057	1,947,824	1,777,579
International	1,191,397	1,240,735	1,224,791
	-----	-----	-----
	\$3,304,454	3,188,559	3,002,370
	=====	=====	=====
Pretax Earnings			
United States	\$ 194,050	117,436	156,391
International	109,428	87,089	150,502

	\$ 303,478	204,525	306,893
	=====	=====	=====

Long-lived assets			
United States	\$1,694,967	1,119,836	986,344
International	177,569	126,067	152,655
	-----	-----	-----
	\$1,872,536	1,245,903	1,138,999
	=====	=====	=====

Principal international markets include Western Europe, Canada, Mexico, Australia, New Zealand and Hong Kong.

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 overall retail economic environment.

Sales to the Company's two largest customers, Wal-Mart Stores, Inc. and Toys 'R Us, Inc., amounted to 18% and 17%, respectively, of consolidated net revenues during 1998, 15% and 22%, respectively, during 1997 and 13% and 22%, respectively, during 1996.

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)

1998

	Quarter				Full Year
	First	Second	Third	Fourth	
Net revenues	\$482,820	572,057	945,498	1,304,079	3,304,454
Gross profit	\$278,508	324,962	543,129	791,794	1,938,393
Earnings before income taxes	\$ 11,808	8,262	89,601 (a)	193,807	303,478
Net earnings	\$ 7,793	5,453	61,330	131,789	206,365
	=====	=====	=====	=====	=====
Per common share Earnings					
Basic	\$.04	.03	.31	.67	1.04
Diluted	\$.04	.03	.30	.65	1.00
Market price					
High	\$ 25 3/4	27 1/16	27 1/4	25 7/16	27 1/4
Low	\$ 19 7/8	23 1/8	19 5/8	18 5/8	18 5/8
Cash dividends declared	\$.05	.05	.05	.05	.21
	=====	=====	=====	=====	=====

1997

	Quarter				Full Year
	First	Second	Third	Fourth	
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	\$.13	.07	.41	.10	.70
Diluted	\$.13	.07	.38	.09	.68
Market price					
High	\$ 19 3/4	19 5/8	20 3/4	24 5/16	24 5/16
Low	\$ 16 1/16	15 1/4	17 5/8	17 1/8	15 1/4
Cash dividends declared					
	\$.05	.05	.05	.05	.21
	=====	=====	=====	=====	=====

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	\$.12	.03	.36	.51	1.02
Diluted	\$.12	.03	.35	.48	.98
Market price					
High	\$ 20 7/8	17 3/16	17	19 9/16	20 7/8
Low	\$ 12 13/16	15 11/16	14 1/8	16 7/16	12 13/16
Cash dividends declared					
	\$.04	.04	.04	.04	.18
	=====	=====	=====	=====	=====

(a) In 1998, includes the expense impact of \$20,000 relating to acquired in-process research and development and, in 1997, \$125,000 relating to restructuring of operations.

HASBRO, INC. AND SUBSIDIARIES

Subsidiaries of the Registrant (a)

Name Under Which Subsidiary Does Business	State or Other Jurisdiction of Incorporation or Organization
-----	-----
Galoob Toys, Inc.	Delaware
Hasbro Australia Limited	Australia
Hasbro Interactive, Inc.	Delaware
Hasbro Interactive GmbH	Germany
Hasbro Interactive SNC	France
Leisuresoft Vertriebs GmbH	Germany
MicroProse California, Inc.	California
MicroProse Software, Inc.	Maryland
Hasbro International, Inc.	Delaware
Hasbro Canada, Inc.	Canada
Hasbro de Mexico S.A. de C.V.	Mexico
Hasbro Far East LTD	Hong Kong
Tiger Electronics Far East, Limited	Hong Kong
Hasbro France S.A.	France
Hasbro Deutschland GmbH	Germany
Tiger Electronics S.A.R.L.	France
Hasbro Ireland Limited	Ireland
Hasbro Italy S.r.l.	Italy
Hasbro Latin America Inc.	Delaware
Hasbro Argentina S.A.	Argentina
Hasbro Chile LTDA	Chile
Hasbro Latin America, L.P.	Delaware
Hasbro Peru S.A.	Peru
Hasbro New Zealand Limited	New Zealand
Hasbro S.A.	Switzerland
Hasbro Asia-Pacific Marketing Ltd.	Hong Kong
Tiger Electronics Far East Services, Limited	Hong Kong
Hasbro (Schweiz) AG	Switzerland
Hasbro U.K. Limited	United Kingdom
Hasbro Interactive Limited	United Kingdom
Tiger Electronics UK Limited	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 Osterreich Ges.m.b.H	Austria
Hasbro Poland SpZoo	Poland
Hasbro Toys & Games Holdings, S.L.	Spain
MB Espana, S.A.	Spain
S.A. Hasbro N.V.	Belgium
Juguetreneros S.A. de C.V.	Mexico
Palmyra Holdings Pte Ltd.	Singapore
Hasbro Hong Kong Limited	Hong Kong
Hasbro Singapore Pte Ltd.	Singapore
Hasbro Toy (Malaysia) Sdn Bhd	Malaysia
Hasbro Managerial Services, Inc.	Rhode Island
Larami Limited	Delaware
OddzOn, Inc.	Delaware
Sonic Bites L.L.C. (dba Sound Bites L.L.C.)	Delaware
Tiger Electronics, Ltd.	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 3, 1999 relating to the consolidated balance sheets of Hasbro, Inc. and subsidiaries as of December 27, 1998 and December 28, 1997 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 27, 1998, 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 27, 1998.

/s/ KPMG LLP

Providence, Rhode Island

March 26, 1999

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YEAR
DEC-27-1998
DEC-27-1998
177,748
0
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64,400
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1,789,986
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227,820
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400,000
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3,304,454
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206,365
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1.00