

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

SCHEDULE 14D-1

TENDER OFFER STATEMENT  
PURSUANT TO SECTION 14(d)(1)  
OF THE SECURITIES EXCHANGE ACT OF 1934

GALOOB TOYS, INC.  
(NAME OF SUBJECT COMPANY)

NEW HIAC II CORP.  
HASBRO, INC.  
(BIDDERS)

COMMON STOCK, PAR VALUE \$0.01 PER SHARE  
(TITLE OF CLASS OF SECURITIES)

364091 10 8  
(CUSIP NUMBER OF CLASS OF SECURITIES)

PHILLIP H. WALDOKS, ESQ.  
SENIOR VICE PRESIDENT --  
CORPORATE LEGAL AFFAIRS  
AND SECRETARY  
HASBRO, INC.

32 W. 23RD STREET  
NEW YORK, NY 10010  
TELEPHONE: (212) 645-2400  
FACSIMILE: (212) 741-0663

(NAME, ADDRESS AND TELEPHONE NUMBER OF PERSON AUTHORIZED TO  
RECEIVE NOTICES AND COMMUNICATIONS ON BEHALF OF BIDDERS)

COPY TO:

THOMAS H. KENNEDY, ESQ.  
SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP  
919 THIRD AVENUE  
NEW YORK, NY 10022  
TELEPHONE: (212) 735-3000  
FACSIMILE: (212) 735-2000

CALCULATION OF FILING FEE

TRANSACTION VALUATION\* \$230,086,776

AMOUNT OF FILING FEE \$46,018

\* Estimated for purposes of calculating the amount of the filing fee only. The filing fee calculation assumes the purchase of 18,127,864 shares of common stock, \$0.01 par value per share (the "Shares"), of Galoob Toys, Inc. at a price of \$12.00 per Share in cash, without interest. The filing fee calculation is based on the 18,127,864 Shares outstanding as of September 27, 1998 and assumes the issuance prior to the consummation of the Offer (as defined herein), of 1,046,034 Shares upon the exercise of outstanding options and other rights and securities exercisable into Shares that have an exercise price of less than \$12.00. The amount of the filing fee calculated in accordance with Regulation 240.0-11 of the Securities Exchange Act of 1934, as amended, equals 1/50th of one percent of the value of the transaction.

[ ] Check box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

Amount Previously Paid: Not applicable.  
Form or Registration No.: Not applicable.  
Filing Party: Not applicable.  
Date Filed: Not applicable.

CUSIP NO. 364091 10 8

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1	NAMES OF REPORTING PERSONS I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS NEW HIAC II CORP.
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) [ ] (b) [ ]
3	SEC USE ONLY
4	SOURCE OF FUNDS AF
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(e) OR 2(f) [ ]
6	CITIZENSHIP OR PLACE OF ORGANIZATION DELAWARE
7	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON NONE
8	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (7) EXCLUDES CERTAIN SHARES [ ]
9	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (7)
10	TYPE OF REPORTING PERSON CO

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CUSIP NO. 364091 10 8

- 1. NAMES OF REPORTING PERSONS S.S. OR I.R.S. IDENTIFICATION  
NOS. OF ABOVE PERSONS HASBRO, INC.  
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- 2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) [ ]  
(b) [ ]  
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- 3. SEC USE ONLY  
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- 4. SOURCE OF FUNDS WC  
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- 5. CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED  
PURSUANT TO ITEM 2(e) OR 2(f) [ ]  
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- 6. CITIZENSHIP OR PLACE OF ORGANIZATION RHODE ISLAND  
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- 7. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  
NONE  
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- 8. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (7) EXCLUDES  
CERTAIN SHARES [ ]  
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- 9. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (7)  
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- 10. TYPE OF REPORTING PERSON CO  
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## TENDER OFFER

This Tender Offer Statement on Schedule 14D-1 (this "Statement") relates to the offer by New HIAC II Corp., a Delaware corporation ("Purchaser") and a wholly owned subsidiary of Hasbro, Inc., a Rhode Island corporation ("Parent"), to purchase all of the outstanding shares of common stock, par value \$0.01 per share (the "Common Stock") including the associated preferred stock purchase rights issued pursuant to the Rights Agreement, dated as of January 17, 1990, by and between the Company and Mellon Securities Trust Company, Rights Agent (the "Rights" and, together with the Common Stock, the "Shares"), of Galoob Toys, Inc., a Delaware corporation (the "Company"), at \$12.00 per Share, net to the seller in cash, without interest, upon the terms and subject to the conditions set forth in the Offer to Purchase dated October 2, 1998 (the "Offer to Purchase"), a copy of which is attached hereto as Exhibit (a)(1), and in the related Letter of Transmittal, a copy of which is attached hereto as Exhibit (a)(2) (which, as amended or supplemented from time to time, together constitute the "Offer").

## ITEM 1. SECURITY AND SUBJECT COMPANY.

(a) The name of the subject company is Galoob Toys, Inc., and the address of its principal executive offices is 500 Forbes Boulevard, South San Francisco, CA 94080. The telephone number of the Company at such location is (650) 952-1678.

(b) The information set forth in the "INTRODUCTION" of the Offer to Purchase is incorporated herein by reference.

(c) The information set forth in "Price Range of the Shares; Dividends on the Shares" of the Offer to Purchase is incorporated herein by reference.

## ITEM 2. IDENTITY AND BACKGROUND.

(a)-(d), (g) This Statement is being filed by Purchaser and Parent. The information set forth in the "INTRODUCTION" and "Certain Information Concerning Parent and Purchaser" of the Offer to Purchase is incorporated herein by reference. The name, business address, present principal occupation or employment, the material occupations, positions, offices or employments for the past five years and citizenship of each director and executive officer of Parent and Purchaser and the name, principal business and address of any corporation or other organization in which such occupations, positions, offices and employments are or were carried on are set forth in Schedule I to the Offer to Purchase and incorporated herein by reference.

(e)-(f) During the last five years, neither Purchaser nor Parent nor, to the best knowledge of Purchaser and Parent, any of the persons listed in Schedule I to the Offer to Purchase (i) have been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or (ii) was a party to a civil proceeding of a judicial or administrative body of competent jurisdiction as a result of which any such person was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting activities subject to, federal or state securities laws or finding any violation of such laws.

## ITEM 3. PAST CONTACTS, TRANSACTIONS OR NEGOTIATIONS WITH THE SUBJECT COMPANY.

(a)(1) Other than the transactions described in Item 3(b) below, neither Purchaser nor Parent nor, to the best knowledge of Purchaser and Parent, any of the persons listed in Schedule I to the Offer to Purchase have entered into any transaction with the Company, or any of the Company's affiliates which are corporations, since the commencement of the Company's third full fiscal year preceding the date of this Statement, the aggregate amount of which was equal to or greater than one percent of the consolidated revenues of the Company for (i) the fiscal year in which such transaction occurred or (ii) the portion of the current fiscal year which has occurred if the transaction occurred in such year.

(a)(2) Other than the transactions described in Item 3(b) below, neither Purchaser nor Parent nor, to the best knowledge of Purchaser and Parent, any of the persons listed in Schedule I to the Offer to Purchase have entered into any transaction since the commencement of the Company's third full fiscal year preceding the date of this Statement with the executive officers, directors or affiliates of the Company which are not

corporations, in which the aggregate amount involved in such transaction or in a series of similar transactions, including all periodic installments in the case of any lease or other agreement providing for periodic payments or installments, exceeded \$40,000.

(b) The information set forth in the "INTRODUCTION," "Certain Information Concerning Parent and Purchaser," "Background of the Offer; Purpose of the Offer and the Merger; The Merger Agreement and Certain Other Agreements" and "Plans for the Company; Other Matters" of the Offer to Purchase is incorporated herein by reference.

ITEM 4. SOURCE AND AMOUNT OF FUNDS OR OTHER CONSIDERATION.

(a)-(b) The information set forth in the "INTRODUCTION" and "Source and Amount of Funds" of the Offer to Purchase is incorporated herein by reference.

(c) Not applicable.

ITEM 5. PURPOSE OF THE TENDER OFFER AND PLANS OR PROPOSALS OF THE BIDDERS.

(a)-(e) The information set forth in the "INTRODUCTION," "Background of the Offer; Purpose of the Offer and the Merger; The Merger Agreement and Certain Other Agreements" and "Plans for the Company; Other Matters" of the Offer to Purchase is incorporated herein by reference.

(f)-(g) The information set forth in the "INTRODUCTION" and "Effect of the Offer on the Market for the Shares; Stock Listing; Exchange Act Registration; Margin Regulations" of the Offer to Purchase is incorporated herein by reference.

ITEM 6. INTEREST IN SECURITIES OF THE SUBJECT COMPANY.

(a)-(b) The information set forth in the "INTRODUCTION," "Certain Information Concerning Parent and Purchaser" and "Background of the Offer; Purpose of the Offer and the Merger; The Merger Agreement and Certain Other Agreements" of the Offer to Purchase is incorporated herein by reference.

ITEM 7. CONTRACTS, ARRANGEMENTS, UNDERSTANDINGS OR RELATIONSHIPS WITH RESPECT TO THE SUBJECT COMPANY'S SECURITIES.

The information set forth in the "INTRODUCTION," "Source and Amount of Funds," "Background of the Offer; Purpose of the Offer and the Merger; The Merger Agreement and Certain Other Agreements," "Plans for the Company; Other Matters" and "Fees and Expenses" of the Offer to Purchase is incorporated herein by reference.

ITEM 8. PERSONS RETAINED, EMPLOYED OR TO BE COMPENSATED.

The information set forth in "Fees and Expenses" of the Offer to Purchase is incorporated herein by reference.

ITEM 9. FINANCIAL STATEMENTS OF CERTAIN BIDDERS.

Not applicable.

ITEM 10. ADDITIONAL INFORMATION.

(a) Except as disclosed in Items 3 and 7 above, there are no present or proposed material contracts, arrangements, understandings or relationships between Purchaser or Parent, or to the best knowledge of Purchaser and Parent, any of the persons listed in Schedule I to the Offer to Purchase, and the Company or any of its executive officers, directors, controlling persons or subsidiaries.

(b)-(c) The information set forth in the "INTRODUCTION," "Conditions to the Offer" and "Certain Legal Matters" of the Offer to Purchase is incorporated herein by reference.

(d) The information set forth in "Effect of the Offer on the Market for the Shares; Stock Listing; Exchange Act Registration; Margin Regulations" and "Certain Legal Matters" of the Offer to Purchase is incorporated herein by reference.

(e) None.

(f) The information set forth in the Offer to Purchase and the Letter of Transmittal, copies of which are attached hereto as Exhibits (a)(1) and (a)(2), respectively, to the extent not otherwise incorporated herein by reference, is incorporated herein by reference.

ITEM 11. MATERIALS TO BE FILED AS EXHIBITS.

(a)(1) Offer to Purchase, dated October 2, 1998.

(a)(2) Letter of Transmittal.

(a)(3) Notice of Guaranteed Delivery.

(a)(4) Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.

(a)(5) Letter to Clients for use by Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.

(a)(6) Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9.

(a)(7) Press Release of Parent dated September 28, 1998.

(a)(8) Press Release of Parent dated October 2, 1998.

(a)(9) Summary Advertisement.

(b) None.

(c)(1) Agreement and Plan of Merger, dated as of September 27, 1998, by and among Parent, Purchaser and the Company.

(c)(2) Confidentiality Agreement, dated as of April 2, 1998, by and between Parent and the Company (as amended on June 23, 1998).

(d) None.

(e) Not applicable.

(f) None.

SIGNATURE

After due inquiry and to the best of its knowledge and belief, the undersigned certifies that the information set forth in this statement is true, complete and correct.

Dated: October 2, 1998

NEW HIAC II CORP.

BY: /s/ PHILLIP H. WALDOKS

-----  
NAME: PHILLIP H. WALDOKS  
TITLE: Senior Vice  
President -- Corporate Legal  
Affairs and Secretary

HASBRO, INC.

BY: /s/ PHILLIP H. WALDOKS

-----  
NAME: PHILLIP H. WALDOKS  
TITLE: Senior Vice  
President -- Corporate Legal  
Affairs and Secretary

## INDEX TO EXHIBITS

EXHIBIT -----	SEQUENTIAL PAGE NO. -----
(a)(1)	Offer to Purchase, dated October 2, 1998.
(a)(2)	Letter of Transmittal.
(a)(3)	Notice of Guaranteed Delivery.
(a)(4)	Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.
(a)(5)	Letter to Clients for use by Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.
(a)(6)	Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9.
(a)(7)	Press Release of Parent dated September 28, 1998.
(a)(8)	Press Release of Parent dated October 2, 1998.
(a)(9)	Summary Advertisement.
(c)(1)	Agreement and Plan of Merger, dated as of September 27, 1998, by and among Parent, Purchaser and the Company.
(c)(2)	Confidentiality Agreement, dated as of April 2, 1998, by and between Parent and the Company (as amended on June 23, 1998).
(d)	None.
(e)	Not Applicable.
(f)	None.

## OFFER TO PURCHASE FOR CASH

ALL OUTSTANDING SHARES OF COMMON STOCK  
(INCLUDING THE ASSOCIATED PREFERRED STOCK PURCHASE RIGHTS)

OF

GALOOB TOYS, INC.  
AT

\$12.00 NET PER SHARE  
BY

NEW HIAC II CORP.,  
A WHOLLY OWNED SUBSIDIARY OF

HASBRO, INC.

THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON FRIDAY, OCTOBER 30, 1998, UNLESS THE OFFER IS EXTENDED.

THE OFFER IS BEING MADE PURSUANT TO AN AGREEMENT AND PLAN OF MERGER, DATED AS OF SEPTEMBER 27, 1998, BY AND AMONG HASBRO, INC. ("PARENT"), NEW HIAC II CORP. ("PURCHASER") AND GALOOB TOYS, INC. (THE "COMPANY"). THE BOARD OF DIRECTORS OF THE COMPANY HAS UNANIMOUSLY APPROVED THE MERGER AGREEMENT AND THE TRANSACTIONS CONTEMPLATED THEREBY, INCLUDING THE OFFER AND THE MERGER (EACH AS DEFINED HEREIN), AND HAS UNANIMOUSLY DETERMINED THAT THE OFFER AND THE MERGER ARE FAIR TO, AND IN THE BEST INTERESTS OF, THE COMPANY'S STOCKHOLDERS AND UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS ACCEPT THE OFFER AND TENDER THEIR SHARES PURSUANT TO THE OFFER.

THE OFFER IS CONDITIONED UPON, AMONG OTHER THINGS, THERE BEING VALIDLY TENDERED AND NOT WITHDRAWN PRIOR TO THE EXPIRATION DATE (AS DEFINED HEREIN) THAT NUMBER OF SHARES WHICH, WHEN ADDED TO THE SHARES BENEFICIALLY OWNED BY PARENT OR PURCHASER (IF ANY), REPRESENTS AT LEAST A MAJORITY OF THE SHARES OUTSTANDING ON A FULLY DILUTED BASIS (EXCLUDING THE WARRANTS (AS DEFINED HEREIN)) ON THE DATE SHARES ARE ACCEPTED FOR PAYMENT. THE OFFER IS ALSO SUBJECT TO THE OTHER CONDITIONS SET FORTH IN THIS OFFER TO PURCHASE. SEE SECTION 14.

-----  
IMPORTANT

Any stockholder desiring to tender all or any portion of such stockholder's Shares (as defined herein) should either (i) complete and sign the enclosed Letter of Transmittal (or a facsimile thereof) in accordance with the Instructions in the Letter of Transmittal, have such stockholder's signature thereon guaranteed (if required by Instruction 1 to the Letter of Transmittal), mail or deliver the Letter of Transmittal (or a facsimile thereof) and any other required documents to the Depositary (as defined herein) and either deliver the certificates for such Shares to the Depositary or tender such Shares pursuant to the procedure for book-entry transfer set forth in Section 3 of this Offer to Purchase or (ii) request such stockholder's broker, dealer, commercial bank, trust company or other nominee to effect the transaction for such stockholder. Any stockholder whose Shares are registered in the name of a broker, dealer, commercial bank, trust company or other nominee must contact such broker, dealer, commercial bank, trust company or other nominee to tender such Shares.

Any stockholder who desires to tender Shares and whose certificates evidencing such Shares are not immediately available, or who cannot comply with the procedures for book-entry transfer on a timely basis, or who cannot deliver all required documents to the Depositary prior to the expiration of the Offer, may tender such Shares by following the procedures for guaranteed delivery set forth in Section 3 of this Offer to Purchase.

Questions and requests for assistance may be directed to the Information Agent (as defined herein) at its address and telephone number set forth on the back cover of this Offer to Purchase. Requests for additional copies of this Offer to Purchase, the Letter of Transmittal, the Notice of Guaranteed Delivery and other tender offer materials may be directed to the Information Agent or brokers, dealers, commercial banks or trust companies.

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The Information Agent for the Offer is:  
D.F. KING & CO., INC.

October 2, 1998

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SCHEDULE I	
INFORMATION CONCERNING DIRECTORS AND EXECUTIVE OFFICERS OF PARENT AND PURCHASER.....	I-1

To the Holders of Common Stock of  
GALOOB TOYS, INC.:

#### INTRODUCTION

New HIAC II Corp., a Delaware corporation ("Purchaser") and a wholly owned subsidiary of Hasbro, Inc., a Rhode Island corporation ("Parent"), hereby offers to purchase all outstanding shares of common stock, par value \$0.01 per share (the "Common Stock"), including the associated preferred stock purchase rights issued pursuant to the Rights Agreement (as defined below) (the "Rights" and, together with the Common Stock, the "Shares"), of Galoob Toys, Inc., a Delaware corporation (the "Company"), at a price of \$12.00 per Share, net to the seller in cash, without interest (the "Offer Price"), upon the terms and subject to the conditions set forth in this Offer to Purchase and in the related Letter of Transmittal (which, as amended or supplemented from time to time, collectively constitute the "Offer").

Tendering stockholders of record who tender Shares directly will not be obligated to pay brokerage fees or commissions or, except as set forth in Instruction 6 of the Letter of Transmittal, stock transfer taxes on the purchase of Shares by Purchaser pursuant to the Offer. Stockholders who hold their Shares through a bank or broker should check with such institution as to whether they charge any service fees. Purchaser will pay all fees and expenses of BankBoston, N.A., which is acting as the Depository (in such capacity, the "Depository") and D.F. King & Co., Inc., which is acting as Information Agent (in such capacity, the "Information Agent"), incurred in connection with the Offer and in accordance with the terms of the agreements entered into between Purchaser and/or Parent and each such person. See Section 16.

THE BOARD OF DIRECTORS OF THE COMPANY (THE "COMPANY BOARD") HAS UNANIMOUSLY APPROVED THE MERGER AGREEMENT AND THE TRANSACTIONS CONTEMPLATED THEREBY, INCLUDING THE OFFER AND THE MERGER, AND HAS UNANIMOUSLY DETERMINED THAT THE OFFER AND THE MERGER ARE FAIR TO, AND IN THE BEST INTERESTS OF, THE COMPANY'S STOCKHOLDERS AND UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS ACCEPT THE OFFER AND TENDER THEIR SHARES PURSUANT TO THE OFFER.

Allen & Company Incorporated ("Allen & Company"), financial advisor to the Company, has delivered to the Company Board its opinion, dated as of September 27, 1998 (the "Financial Advisor Opinion"), to the effect that, as of such date and based upon and subject to certain assumptions and matters stated therein, the consideration to be received by the holders of Shares (other than Parent and its affiliates) in the Offer and the Merger was fair, from a financial point of view, to such holders. A copy of the Financial Advisor Opinion is attached as an exhibit to the Company's Solicitation/Recommendation Statement on Schedule 14D-9 (the "Schedule 14D-9"), which has been filed by the Company with the Securities and Exchange Commission (the "Commission") in connection with the Offer and which is being mailed to holders of Shares herewith. Holders of Shares are urged to, and should, read the Financial Advisor Opinion carefully.

THE OFFER IS CONDITIONED UPON, AMONG OTHER THINGS, THERE BEING VALIDLY TENDERED AND NOT WITHDRAWN PRIOR TO THE EXPIRATION DATE THAT NUMBER OF SHARES WHICH, WHEN ADDED TO THE SHARES BENEFICIALLY OWNED BY PARENT OR PURCHASER (IF ANY), REPRESENTS AT LEAST A MAJORITY OF THE SHARES OUTSTANDING ON A FULLY DILUTED BASIS (EXCLUDING THE WARRANTS) ON THE DATE SHARES ARE ACCEPTED FOR PAYMENT (THE "MINIMUM CONDITION"). THE OFFER IS ALSO SUBJECT TO THE OTHER CONDITIONS SET FORTH IN THIS OFFER TO PURCHASE. SEE SECTION 14. As used in this Offer to Purchase, "fully diluted basis" takes into account the exercise of all outstanding options and other rights and securities exercisable into shares of Common Stock (excluding the Warrants). The Company has represented and warranted to Parent and Purchaser that, as of September 27, 1998, there were 18,127,864 Shares issued and outstanding, 2,048,222 Shares were issuable pursuant to the exercise of options ("Options"), 1,450,000 Shares were issuable pursuant to the exercise of warrants expiring October 14, 2009, held by Lucasfilm Ltd. (the "Lucasfilm Ltd. Warrants"), and 2,130,000 Shares were issuable pursuant to the exercise of warrants expiring October 14, 2009, held by Lucas Licensing Ltd. (the

"Lucas Licensing Ltd. Warrants" and, together with the Lucasfilm Ltd. Warrants and an obligation of the Company to issue 24,299 additional warrants to Lucasfilm Ltd. and Lucas Licensing Ltd., the "Warrants"). The Merger Agreement provides, among other things, that the Company will not, without the prior written consent of Parent, issue any additional Shares (except upon the exercise of outstanding Options). See Section 11. Based on the foregoing and assuming the issuance of 2,048,222 Shares issuable upon the exercise of outstanding Options, Purchaser believes that the Minimum Condition will be satisfied if 10,088,044 Shares are validly tendered and not withdrawn prior to the Expiration Date.

The Offer is being made pursuant to an Agreement and Plan of Merger, dated as of September 27, 1998 (the "Merger Agreement"), by and among Parent, Purchaser and the Company. Pursuant to the Merger Agreement and the Delaware General Corporation Law, as amended (the "DGCL"), as soon as practicable after the completion of the Offer and satisfaction or waiver, if permissible, of all conditions, including the purchase of Shares pursuant to the Offer (sometimes referred to herein as the "consummation" of the Offer) and the approval and adoption of the Merger Agreement by the stockholders of the Company (if required by applicable law), Purchaser shall be merged with and into the Company (the "Merger") and the Company will be the surviving corporation in the Merger (the "Surviving Corporation"). At the effective time of the Merger (the "Effective Time"), each Share then outstanding, other than Shares held by (i) the Company or any of its subsidiaries, (ii) Parent or any of its subsidiaries including Purchaser and (iii) stockholders who properly perfect their dissenters' rights under the DGCL, will be converted into the right to receive \$12.00 in cash or any higher price per Share paid in the Offer (the "Merger Consideration"), without interest. The Merger Agreement is more fully described in Section 11.

The Merger Agreement provides that, upon the purchase by Purchaser of at least a majority of the Shares pursuant to the Offer and from time to time thereafter, Parent shall be entitled to designate such number of directors, rounded up to the next whole number, on the Company Board so that the percentage of Parent's nominees on the Company Board equals the percentage of outstanding Shares beneficially owned by Parent and its affiliates. The Company shall, at such time, upon the request of Purchaser promptly use its best efforts to take all action necessary to cause such persons designated by Parent to be elected to the Company Board, if necessary, by increasing the size of the Company Board or securing resignations of incumbent directors or both.

Consummation of the Merger is conditioned upon, among other things, the approval and adoption by the requisite vote of stockholders of the Company of the Merger Agreement and the Merger, if required by applicable law and the Company's Certificate of Incorporation (the "Certificate of Incorporation"). See Section 11. Under the DGCL and pursuant to the Certificate of Incorporation, the affirmative vote of the holders of a majority of the outstanding Shares is the only vote of any class or series of the Company's capital stock that would be necessary to approve the Merger Agreement and the Merger at a meeting of the Company's stockholders. If the Minimum Condition is satisfied and Purchaser purchases at least a majority of the outstanding Shares in the Offer, Purchaser will be able to effect the Merger without the affirmative vote of any other stockholder. Pursuant to the Merger Agreement, Parent and Purchaser have agreed to vote the Shares acquired by them pursuant to the Offer in favor of the Merger. See Section 12. The Merger Agreement is more fully described in Section 11.

Under Section 253 of the DGCL, if a corporation owns at least 90% of the outstanding shares of each class of a subsidiary corporation, the corporation holding such stock may merge such subsidiary into itself, or itself into such subsidiary, without any action or vote on the part of the board of directors or the stockholders of such other corporation (a "short-form merger"). In the event that Purchaser acquires in the aggregate at least 90% of the outstanding Shares pursuant to the Offer or otherwise, then, at the election of Parent, a short-form merger could be effected without any further approval of the Company Board or the stockholders of the Company. In the Merger Agreement, Parent, Purchaser and the Company have agreed that, notwithstanding that all conditions to the Offer are satisfied or waived as of the scheduled Expiration Date, Purchaser may extend the Offer for a period not to exceed ten (10) business days, subject to certain conditions, if the Shares tendered pursuant to the Offer are less than 90% of the outstanding Shares. Even if Purchaser does not own 90% of the outstanding Shares following consummation of the Offer, Parent or Purchaser could seek to purchase additional shares in the open market or otherwise in order to reach the 90% threshold and employ a short-form merger. The per share consideration paid for any Shares so acquired in open market purchases may be greater or less than the Offer Price. Parent presently intends to effect a short-form merger, if permitted to do so under the DGCL, pursuant to which Purchaser will be merged with and into the Company. See Section 12.

The Company has distributed one Right for each outstanding Share pursuant to the Preferred Stock Rights Agreement, dated as of January 17, 1990, by and between the Company and Mellon Securities Trust Company, as Rights Agent (the "Rights Agreement"). The Company has represented in the Merger Agreement that it has taken all action which may be necessary under the Rights Agreement so that (i) the Offer is deemed to be an Approved Transaction (as defined in the Rights Agreement) and (ii) the execution and delivery of the Merger Agreement (and any amendments thereto) and the consummation of the Merger and the transactions contemplated thereby will not cause (x) Parent and/or Purchaser to constitute an Acquiring Person (as defined in the Rights Agreement), (y) a Distribution Date, Section 13 Event, Triggering Event or a Stock Acquisition Date (as each such term is defined in the Rights Agreement) to occur or (z) the Rights (as defined in the Rights Agreement) to become exercisable pursuant to Section 11(a)(ii) of the Rights Agreement or otherwise.

THIS OFFER TO PURCHASE AND THE RELATED LETTER OF TRANSMITTAL CONTAIN IMPORTANT INFORMATION AND SHOULD BE READ CAREFULLY BEFORE ANY DECISION IS MADE WITH RESPECT TO THE OFFER.

## THE OFFER

## 1. TERMS OF THE OFFER.

Upon the terms and subject to the conditions of the Offer (including, if the Offer is extended or amended, the terms and conditions of such extension or amendment), Purchaser will accept for payment and pay for all Shares validly tendered prior to the Expiration Date, and not withdrawn in accordance with Section 4. The term "Expiration Date" shall mean 12:00 Midnight, New York City time, on Friday, October 30, 1998, unless and until Purchaser, in accordance with the terms of the Merger Agreement, shall have extended the period of time during which the Offer is open, in which event the term "Expiration Date" shall mean the latest time and date at which the Offer, as so extended by Purchaser, shall expire. In the Merger Agreement, Parent and Purchaser have agreed that if all conditions to Purchaser's obligation to accept for payment and pay for Shares pursuant to the Offer are not satisfied on the scheduled Expiration Date, Purchaser may, in its sole discretion, extend the Offer for additional periods; provided, however, that Purchaser may not extend the Offer beyond March 1, 1999, without the consent of the Company.

The Offer is conditioned upon the satisfaction of the Minimum Condition, the expiration or termination of all waiting periods imposed by the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), and the other conditions set forth in Section 14. If such conditions are not satisfied prior to the Expiration Date, Purchaser reserves the right, subject to the terms of the Merger Agreement and subject to complying with applicable rules and regulations of the Commission, to (i) decline to purchase any Shares tendered in the Offer and terminate the Offer and return all tendered Shares to the tendering stockholders, (ii) waive any or all conditions to the Offer (except the Minimum Condition) and, to the extent permitted by applicable law, purchase all Shares validly tendered, (iii) extend the Offer and, subject to the right of stockholders to withdraw Shares until the Expiration Date, retain all Shares which have been tendered during the period or periods for which the Offer is extended or (iv) subject to the next sentence, amend the Offer. The Merger Agreement provides that Purchaser will not decrease the Offer Price, change the form of consideration to be paid in the Offer, waive the Minimum Condition, decrease the number of Shares sought in the Offer, amend any other condition to the Offer in any manner materially adverse to the holders of the Shares or impose additional conditions to the Offer without the written consent of the Company. Purchaser has agreed that if all of the conditions set forth in Section 14 have not been satisfied on any scheduled Expiration Date then, provided that all such conditions are reasonably capable of being satisfied, Purchaser shall extend the Offer from time to time until such conditions are satisfied or waived, provided that Purchaser shall not be required to extend the Offer beyond March 1, 1999.

The Merger Agreement requires Purchaser to accept for payment and pay for all Shares validly tendered and not withdrawn pursuant to the Offer if all conditions to the Offer are satisfied on the Expiration Date. However, if, immediately prior to the scheduled Expiration Date, all conditions to the Offer are satisfied but the number of Shares tendered and not withdrawn pursuant to the Offer constitutes less than 90% of the Shares outstanding, Purchaser may extend the Offer for a period not to exceed ten (10) business days so long as Purchaser irrevocably waives the satisfaction of any of the conditions to the Offer (other than the Minimum Condition and the condition set forth in paragraph (b) of Section 14 hereof) that subsequently may not be satisfied during such extension of the Offer. As used in this Offer to Purchase, "business day" has the meaning set forth in Rule 14d-1 under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Any extension, amendment or termination of the Offer will be followed as promptly as practicable by public announcement thereof, the announcement in the case of an extension to be issued no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled Expiration Date in accordance with Rules 14d-4(c), 14d-6(d) and 14e-1(d) under the Exchange Act. Without limiting the obligation of Purchaser under such Rules or the manner in which Purchaser may choose to make any public announcement, Purchaser currently intends to make announcements by issuing a press release to the Dow Jones News Service.

If Purchaser extends the Offer, or if Purchaser (whether before or after its acceptance for payment of Shares) is delayed in its purchase of, or payment for, Shares or is unable to pay for Shares pursuant to the

Offer for any reason, then, without prejudice to Purchaser's rights under the Offer, the Depositary may retain tendered Shares on behalf of Purchaser, and such Shares may not be withdrawn except to the extent tendering stockholders are entitled to withdrawal rights as described in Section 4. However, the ability of Purchaser to delay the payment for Shares which Purchaser has accepted for payment is limited by Rule 14e-1(c) under the Exchange Act, which requires that a bidder pay the consideration offered or return the securities deposited by, or on behalf of, holders of securities promptly after the termination or withdrawal of the Offer.

If Purchaser makes a material change in the terms of the Offer or the information concerning the Offer or waives a material condition of the Offer, Purchaser will disseminate additional tender offer materials and extend the Offer to the extent required by Rules 14d-4(c), 14d-6(d) and 14e-1 under the Exchange Act. The minimum period during which the Offer must remain open following material changes in the terms of the Offer or information concerning the Offer, other than a change in price or a change in percentage of securities sought, will depend upon the facts and circumstances then existing, including the relative materiality of the changed terms or information. In a public release, the Commission has stated its view that an offer must remain open for a minimum period of time following a material change in the terms of the Offer and that waiver of a material condition, such as the Minimum Condition, is a material change in the terms of the Offer. The release states that an offer should remain open for a minimum of five (5) business days from the date a material change is first published, or sent or given to security holders and that, if material changes are made with respect to information not materially less significant than the offer price and the number of shares being sought, a minimum of ten (10) business days may be required to allow adequate dissemination and investor response. The requirement to extend the Offer will not apply to the extent that the number of business days remaining between the occurrence of the change and the then-scheduled Expiration Date equals or exceeds the minimum extension period that would be required because of such amendment. If, prior to the Expiration Date, Purchaser increases the consideration offered to holders of Shares pursuant to the Offer, such increased consideration will be paid to all holders whose Shares are purchased in the Offer whether or not such Shares were tendered prior to such increase.

The Company has provided Purchaser with the Company's stockholder lists and security position listings for the purpose of disseminating the Offer to holders of Shares. This Offer to Purchase and the related Letter of Transmittal will be mailed to record holders of Shares and will be furnished to brokers, dealers, banks and similar persons whose names, or the names of whose nominees, appear on the stockholder lists or, if applicable, who are listed as participants in a clearing agency's security position listing, for subsequent transmittal to beneficial owners of Shares.

## 2. ACCEPTANCE FOR PAYMENT AND PAYMENT.

Upon the terms and subject to the conditions of the Offer (including, if the Offer is extended or amended, the terms and conditions of any such extension or amendment), Purchaser will accept for payment and will pay for, as soon as practicable after the Expiration Date, all Shares validly tendered prior to the Expiration Date and not properly withdrawn in accordance with Section 4.

For purposes of the Offer, Purchaser will be deemed to have accepted for payment, and thereby purchased, Shares properly tendered to Purchaser and not withdrawn, if, as and when Purchaser gives oral or written notice to the Depositary of Purchaser's acceptance for payment of such Shares. Payment for Shares accepted for payment pursuant to the Offer will be made by deposit of the purchase price therefor with the Depositary, which will act as agent for tendering stockholders for the purpose of receiving payment from Purchaser and transmitting payment to tendering stockholders. In all cases, payment for Shares accepted for payment pursuant to the Offer will be made only after timely receipt by the Depositary of (i) certificates for such Shares (or a timely Book Entry Confirmation (as defined below) with respect thereto), (ii) a Letter of Transmittal (or facsimile thereof), properly completed and duly executed, with any required signature guarantees, or, in the case of a book-entry transfer, an Agent's Message (as defined below) and (iii) any other documents required by the Letter of Transmittal. Accordingly, payment may be made to tendering stockholders at different times if delivery of the Shares and other required documents occur at different times. The per share consideration paid to any holder of Shares pursuant to the Offer will be the highest per share consideration paid to any other holder of such Shares pursuant to the Offer.

UNDER NO CIRCUMSTANCES WILL INTEREST BE PAID ON THE PURCHASE PRICE TO BE PAID BY PURCHASER FOR THE SHARES, REGARDLESS OF ANY EXTENSION OF THE OFFER OR ANY DELAY IN MAKING SUCH PAYMENT.

The Purchaser expressly reserves the right, in its sole discretion, to delay acceptance for payment of, or payment for, Shares in order to comply in whole or in part with any applicable law. If Purchaser is delayed in its acceptance for payment of, or payment for, Shares or is unable to accept for payment or pay for Shares pursuant to the Offer for any reason, then, without prejudice to Purchaser's rights under the Offer (including such rights as are set forth in Sections 1 and 14) (but subject to compliance with Rule 14e-1(c) under the Exchange Act), the Depositary may, nevertheless, on behalf of Purchaser, retain tendered Shares, and such Shares may not be withdrawn except to the extent tendering stockholders are entitled to exercise, and duly exercise, withdrawal rights as described in Section 4.

If any tendered Shares are not purchased pursuant to the Offer for any reason, or if certificates are submitted representing more Shares than are tendered, certificates evidencing Shares not tendered or not accepted for purchase will be returned to the tendering stockholder, or such other person as the tendering stockholder shall specify in the Letter of Transmittal, as promptly as practicable following the expiration, termination or withdrawal of the Offer. In the case of Shares delivered by book-entry transfer into the Depositary's account at the Book-Entry Transfer Facility pursuant to the procedures set forth in Section 3, such Shares will be credited to such account maintained at the Book-Entry Transfer Facility as the tendering stockholder shall specify in the Letter of Transmittal, as promptly as practicable following the expiration, termination or withdrawal of the Offer. If no such instructions are given with respect to Shares delivered by book-entry transfer, any such Shares not tendered or not purchased will be returned by crediting the account at the Book-Entry Transfer Facility designated in the Letter of Transmittal as the account from which such Shares were delivered.

Purchaser reserves the right to transfer or assign, in whole or, from time to time, in part, to one or more of its affiliates, the right to purchase Shares tendered pursuant to the Offer, but any such transfer or assignment will not relieve Purchaser of its obligations under the Offer and will in no way prejudice the rights of tendering stockholders to receive payment for Shares validly tendered and accepted for payment pursuant to the Offer.

### 3. PROCEDURES FOR TENDERING SHARES.

**Valid Tender.** For Shares to be validly tendered pursuant to the Offer, either (i) a properly completed and duly executed Letter of Transmittal (or facsimile thereof), together with any required signature guarantees, or in the case of a book-entry transfer, an Agent's Message, and any other required documents, must be received by the Depositary at one of its addresses set forth on the back cover of this Offer to Purchase prior to the Expiration Date and either certificates evidencing tendered Shares must be received by the Depositary at one of such addresses or such Shares must be delivered to the Depositary pursuant to the procedures for book-entry transfer set forth below and a Book-Entry Confirmation must be received by the Depositary, in each case prior to the Expiration Date, or (ii) the tendering stockholder must comply with the guaranteed delivery procedures described below.

**Book-Entry Transfer.** The Depositary will establish an account with respect to the Shares at The Depositary Trust Company (the "Book-Entry Transfer Facility") for purposes of the Offer within two (2) business days after the date of this Offer to Purchase. Any financial institution that is a participant in the Book-Entry Transfer Facility's system may make book-entry delivery of Shares by causing the Book-Entry Transfer Facility to transfer such Shares into the Depositary's account in accordance with such Book-Entry Transfer Facility's procedures for such transfer. However, although delivery of Shares may be effected through book-entry transfer into the Depositary's account at the Book-Entry Transfer Facility, the Letter of Transmittal (or facsimile thereof), properly completed and duly executed, with any required signature guarantees, or an Agent's Message, and any other required documents must, in any case, be transmitted to, and received by, the Depositary at one of its addresses set forth on the back cover of this Offer to Purchase prior to the Expiration Date, or the tendering stockholder must comply with the guaranteed delivery procedures described below. The confirmation of a book-entry transfer of Shares into the Depositary's account at the Book-Entry Transfer Facility as described above is referred to herein as a "Book-Entry Confirmation."

DELIVERY OF THE LETTER OF TRANSMITTAL AND ANY OTHER REQUIRED DOCUMENTS TO THE BOOK-ENTRY TRANSFER FACILITY WILL NOT CONSTITUTE DELIVERY TO THE DEPOSITARY.

The term "Agent's Message" means a message transmitted by the Book-Entry Transfer Facility to, and received by, the Depositary and forming a part of a Book-Entry Confirmation, which states that such Book-Entry Transfer Facility has received an express acknowledgment from the participant in such Book-Entry Transfer Facility tendering the Shares that such participant has received and agrees to be bound by the terms of the Letter of Transmittal and that Purchaser may enforce such agreement against such participant.

THE METHOD OF DELIVERY OF SHARES, THE LETTER OF TRANSMITTAL AND ALL OTHER REQUIRED DOCUMENTS, INCLUDING DELIVERY THROUGH THE BOOK-ENTRY TRANSFER FACILITY, IS AT THE ELECTION AND RISK OF THE TENDERING STOCKHOLDER. SHARES WILL BE DEEMED DELIVERED ONLY WHEN ACTUALLY RECEIVED BY THE DEPOSITARY (INCLUDING, IN THE CASE OF A BOOK-ENTRY TRANSFER, BY BOOK-ENTRY CONFIRMATION). IF DELIVERY IS BY MAIL, REGISTERED MAIL WITH RETURN RECEIPT REQUESTED, PROPERLY INSURED, IS RECOMMENDED. IN ALL CASES, SUFFICIENT TIME SHOULD BE ALLOWED TO ENSURE TIMELY DELIVERY.

Signature Guarantees. No signature guarantee is required on the Letter of Transmittal (i) if the Letter of Transmittal is signed by the registered holder(s) (which term, for purposes of this Section, includes any participant in the Book Entry Transfer Facility's systems whose name appears on a security position listing as the owner of the Shares) of Shares tendered therewith and such registered holder has not completed either the box entitled "Special Delivery Instructions" or the box entitled "Special Payment Instructions" on the Letter of Transmittal or (ii) if such Shares are tendered for the account of a financial institution (including most commercial banks, savings and loan associations and brokerage houses) that is a participant in the Security Transfer Agents Medallion Program, the New York Stock Exchange Medallion Signature Guarantee Program or the Stock Exchange Medallion Program (each, an "Eligible Institution" and, collectively, "Eligible Institutions"). In all other cases, all signatures on Letters of Transmittal must be guaranteed by an Eligible Institution. See Instructions 1 and 5 to the Letter of Transmittal. If the certificates for Shares are registered in the name of a person other than the signer of the Letter of Transmittal, or if payment is to be made, or certificates for Shares not tendered or not accepted for payment are to be returned, to a person other than the registered holder of the certificates surrendered, then the tendered certificates for such Shares must be endorsed or accompanied by appropriate stock powers, in either case, signed exactly as the name or names of the registered holders or owners appear on the certificates, with the signatures on the certificates or stock powers guaranteed as aforesaid. See Instruction 5 to the Letter of Transmittal.

Guaranteed Delivery. If a stockholder desires to tender Shares pursuant to the Offer and such stockholder's certificates for Shares are not immediately available or the procedures for book-entry transfer cannot be completed on a timely basis or time will not permit all required documents to reach the Depositary prior to the Expiration Date, such stockholder's tender may be effected if all the following conditions are met:

- (i) such tender is made by or through an Eligible Institution;
- (ii) a properly completed and duly executed Notice of Guaranteed Delivery, substantially in the form provided by Purchaser, is received by the Depositary, as provided below, prior to the Expiration Date; and
- (iii) the certificates for (or a Book-Entry Confirmation with respect to) such Shares, together with a properly completed and duly executed Letter of Transmittal (or facsimile thereof), with any required signature guarantees, or, in the case of a book-entry transfer, an Agent's Message, and any other required documents, are received by the Depositary within three (3) trading days after the date of execution of such Notice of Guaranteed Delivery. A "trading day" is any day on which the New York Stock Exchange (the "NYSE") is open for business.

The Notice of Guaranteed Delivery may be delivered by hand to the Depository or transmitted by telegram, facsimile transmission or mailed to the Depository and must include a guarantee by an Eligible Institution in the form set forth in such Notice of Guaranteed Delivery.

The valid tender of Shares pursuant to one of the procedures described above will constitute a binding agreement between the tendering stockholder and Purchaser upon the terms and subject to the conditions of the Offer.

**Appointment.** By executing the Letter of Transmittal as set forth above (including delivery through an Agent's Message), the tendering stockholder will irrevocably appoint designees of Parent as such stockholder's attorneys-in-fact and proxies in the manner set forth in the Letter of Transmittal, each with full power of substitution, to the full extent of such stockholder's rights with respect to the Shares tendered by such stockholder and accepted for payment by Purchaser and with respect to any and all non-cash dividends, distributions, rights, other Shares or other securities issued or issuable in respect of such Shares on or after September 27, 1998 (collectively, "Distributions"). All such proxies will be considered coupled with an interest in the tendered Shares. Such appointment will be effective if, as and when, and only to the extent that, Purchaser accepts for payment Shares tendered by such stockholder as provided herein. All such powers of attorney and proxies will be irrevocable and will be deemed granted in consideration of the acceptance for payment by Purchaser of Shares tendered in accordance with the terms of the Offer. Upon such appointment, all prior powers of attorney, proxies and consents given by such stockholder with respect to such Shares (and any and all Distributions) will, without further action, be revoked and no subsequent powers of attorney, proxies, consents or revocations may be given by such stockholder (and, if given, will not be deemed effective). The designees of Parent will thereby be empowered to exercise all voting and other rights with respect to such Shares (and any and all Distributions), including, without limitation, in respect of any annual or special meeting of the Company's stockholders (and any adjournment or postponement thereof), actions by written consent in lieu of any such meeting or otherwise, as each such attorney-in-fact and proxy or his substitute shall in his sole discretion deem proper. Purchaser reserves the right to require that, in order for Shares to be deemed validly tendered, immediately upon Purchaser's acceptance for payment of such Shares, Purchaser must be able to exercise full voting, consent and other rights with respect to such Shares (and any and all Distributions), including voting at any meeting of stockholders.

**Determination of Validity.** All questions as to the validity, form, eligibility (including time of receipt) and acceptance for payment of any tender of Shares will be determined by Purchaser, in its sole discretion, which determination will be final and binding. Purchaser reserves the absolute right to reject any or all tenders of any Shares determined by it not to be in proper form or the acceptance for payment of which, or payment for which, may, in the opinion of Purchaser's counsel, be unlawful. Purchaser also reserves the absolute right, in its sole discretion, subject to the provisions of the Merger Agreement, to waive any defect or irregularity in any tender of Shares of any particular stockholder, whether or not similar defects or irregularities are waived in the case of other stockholders. No tender of Shares will be deemed to have been validly made until all defects or irregularities relating thereto have been cured or waived. None of Purchaser, Parent, the Depository, the Information Agent or any other person will be under any duty to give notification of any defects or irregularities in tenders or incur any liability for failure to give any such notification. Subject to the terms of the Merger Agreement, Purchaser's interpretation of the terms and conditions of the Offer in this regard (including the Letter of Transmittal and the instructions thereto) will be final and binding.

**Backup Withholding.** Under the "backup withholding" provisions of federal income tax law, unless a tendering registered holder, or its assignee (in either case, the "Payee"), satisfies the conditions described in Instruction 10 of the Letter of Transmittal or is otherwise exempt, the cash payable as a result of the Offer may be subject to backup withholding tax at a rate of 31% of the gross proceeds. To prevent backup withholding, each Payee should complete and sign the Substitute Form W-9 provided in the Letter of Transmittal. See Instruction 10 to the Letter of Transmittal.

#### 4. WITHDRAWAL RIGHTS.

Except as otherwise provided in this Section 4 or as provided by applicable law, tenders of Shares are irrevocable. Shares tendered pursuant to the Offer may be withdrawn pursuant to the procedures set forth below at any time prior to the Expiration Date and, unless theretofore accepted for payment and paid for by Purchaser pursuant to the Offer, may also be withdrawn at any time after December 1, 1998.

To be effective, a written, telegraphic or facsimile transmission notice of withdrawal must be timely received by the Depositary at one of its addresses set forth on the back cover of this Offer to Purchase. Any such notice of withdrawal must specify the name of the person who tendered the Shares to be withdrawn, the number of Shares to be withdrawn and the name of the registered holder of the Shares to be withdrawn, if different from the name of the person who tendered the Shares. If certificates evidencing Shares to be withdrawn have been delivered or otherwise identified to the Depositary, then, prior to the physical release of such certificates, the serial numbers shown on such certificates must be submitted to the Depositary and, unless such Shares have been tendered by an Eligible Institution, the signatures on the notice of withdrawal must be guaranteed by an Eligible Institution. If Shares have been delivered pursuant to the procedures for book-entry transfer as set forth in Section 3, any notice of withdrawal must also specify the name and number of the account at the Book-Entry Transfer Facility to be credited with the withdrawn Shares and otherwise comply with such Book-Entry Transfer Facility's procedures.

Withdrawals of tendered Shares may not be rescinded, and any Shares withdrawn will thereafter be deemed not validly tendered for purposes of the Offer. However, withdrawn Shares may be retendered by again following one of the procedures described in Section 3 at any time prior to the Expiration Date.

All questions as to the form and validity (including time of receipt) of notices of withdrawal will be determined by Purchaser, in its sole discretion, which determination will be final and binding. None of Purchaser, Parent, the Depositary, the Information Agent or any other person will be under any duty to give notification of any defects or irregularities in any notice of withdrawal or incur any liability for failure to give any such notification.

#### 5. CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES.

The following is a general summary of certain U.S. federal income tax consequences of the Offer and the Merger relevant to a beneficial holder of Shares whose Shares are tendered and accepted for payment pursuant to the Offer or whose Shares are converted to cash in the Merger (a "Holder"). The discussion is based on the Internal Revenue Code of 1986, as amended (the "Code"), regulations issued thereunder, judicial decisions and administrative rulings, all of which are subject to change, possibly with retroactive effect. The following does not address the U.S. federal income tax consequences to all categories of Holders that may be subject to special rules (e.g., holders who acquired their Shares pursuant to the exercise of employee stock options or other compensation arrangements with the Company, holders who perfect their appraisal rights under the DGCL, foreign holders, insurance companies, tax-exempt organizations, dealers in securities and persons who have acquired the Shares as part of a straddle, hedge, conversion transaction or other integrated investment), nor does it address the federal income tax consequences to persons who do not hold the Shares as "capital assets" within the meaning of Section 1221 of the Code (generally, property held for investment). Holders should consult their own tax advisors regarding the U.S. federal, state, local and foreign income and other tax consequences of the Offer and the Merger.

The receipt of cash for Shares pursuant to the Offer or the Merger will be a taxable transaction for U.S. federal income tax purposes and may also be a taxable transaction under applicable state, local and foreign income and other tax laws. In general, a Holder who sells Shares pursuant to the Offer or receives cash in exchange for Shares pursuant to the Merger will recognize gain or loss for federal income tax purposes equal to the difference, if any, between the amount of cash received and the Holder's adjusted tax basis in the Shares sold pursuant to the Offer or surrendered for cash pursuant to the Merger. Gain or loss will be determined separately for each block of Shares (i.e., Shares acquired at the same cost in a single transaction) tendered pursuant to the Offer or surrendered for cash pursuant to the Merger. Such gain or loss will be long-term capital gain or loss if the Holder has held the Shares for more than one (1) year at the time of the

consummation of the Offer or the Merger. Under recently adopted amendments to the Code, capital gains recognized by an individual investor (or an estate or certain trusts) upon a disposition of a Share that has been held for more than one year generally will be subject to a maximum tax rate of 20% or, in the case of a Share that has been held for one year or less, will be subject to tax at ordinary income rates. Certain limitations apply to the use of capital losses.

#### 6. PRICE RANGE OF THE SHARES; DIVIDENDS.

The Shares are traded through the NYSE under the symbol "GAL". The following table sets forth, for each of the fiscal quarters indicated, the high and low reported closing sales price per Share on the NYSE.

	COMMON STOCK	
	HIGH	LOW
Fiscal Year Ended December 31, 1996		
First Quarter ended March 31, 1996.....	\$20.25	\$10.50
Second Quarter ended June 30, 1996.....	28.25	18.88
Third Quarter ended September 30, 1996.....	30.50	22.38
Fourth Quarter ended December 31, 1996.....	33.25	14.00
Fiscal Year Ended December 31, 1997		
First Quarter ended March 31, 1997.....	\$19.75	\$12.63
Second Quarter ended June 30, 1997.....	19.63	16.25
Third Quarter ended September 30, 1997.....	23.81	13.56
Fourth Quarter ended December 31, 1997.....	17.81	9.19
Fiscal Year Ending December 31, 1998		
First Quarter ended March 31, 1998.....	\$10.06	\$ 8.13
Second Quarter ended June 30, 1998.....	11.69	8.69
Third Quarter ended September 30, 1998.....	11.44	6.88

On September 25, 1998, the last full trading day prior to the public announcement of the execution of the Merger Agreement by the Company, Parent and Purchaser, the last reported closing sales price of the Shares on the NYSE was \$8.00 per Share. On October 1, 1998, the last full trading day prior to the commencement of the Offer, the last reported sales price of the Shares on the NYSE was \$11.13 per Share. Stockholders are urged to obtain a current market quotation for the Shares.

The Company did not declare or pay any cash dividends during any of the periods indicated in the above table. In addition, under the terms of the Merger Agreement, the Company is not permitted to declare or pay dividends with respect to the Shares without the prior written consent of Parent and Parent does not intend to consent to any such declaration or payment.

#### 7. EFFECT OF THE OFFER ON THE MARKET FOR THE SHARES; STOCK LISTING; EXCHANGE ACT REGISTRATION; MARGIN REGULATIONS.

Market for the Shares. The purchase of Shares by the Purchaser pursuant to the Offer will reduce the number of holders of Shares and the number of Shares that might otherwise trade publicly and, depending upon the number of Shares so purchased, could adversely affect the liquidity and market value of the remaining Shares held by the public.

Stock Listing. The Shares are listed on the NYSE. Depending upon the aggregate market value and the per share price of any Shares not purchased pursuant to the Offer, the Shares may no longer meet the requirements for continued listing on the NYSE. According to the NYSE's published guidelines, the NYSE would consider delisting the Shares if, among other things, the number of record holders of at least 100 or more Shares should fall below 1,200, the number of publicly held Shares (exclusive of holdings of officers and directors of the Company and their immediate families and other concentrated holdings of 10% or more)

should fall below 600,000, or the aggregate market value of the publicly held Shares should fall below \$5,000,000. According to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997, there were approximately 1,258 holders of record of Shares as of March 2, 1998. The Company has represented that, as of September 27, 1998, 18,127,864 Shares were issued and outstanding.

If the NYSE were to delist the Shares, the market therefor could be adversely affected. It is possible that such Shares would continue to trade on other securities exchanges or in the over-the-counter market, and that price quotations would be reported by such exchanges or through the Nasdaq or other sources. The extent of the public market for the Shares and the availability of such quotations would, however, depend upon the number of stockholders and/or the aggregate market value of such Shares remaining at such time, the interest in maintaining a market in such Shares on the part of securities firms, the possible termination of registration of such Shares under the Exchange Act and other factors. Purchaser cannot predict whether the reduction in the number of Shares that might otherwise trade publicly would have an adverse or beneficial effect on the market price for, or marketability of, the Shares or whether it would cause future market prices to be greater or less than the Offer Price.

Exchange Act Registration. The Shares are currently registered under the Exchange Act. Registration of the Shares under the Exchange Act may be terminated upon application of the Company to the Commission if the Shares are neither listed on a national securities exchange nor held by 300 or more holders of record. Termination of registration of the Shares under the Exchange Act would substantially reduce the information required to be furnished by the Company to its stockholders and to the Commission and would make certain provisions of the Exchange Act no longer applicable to the Company, such as the short-swing profit recovery provisions of Section 16(b), the requirement of furnishing a proxy statement pursuant to Section 14(a) in connection with stockholders' meetings and the related requirement of furnishing an annual report to stockholders and the requirements of Rule 13e-3 under the Exchange Act with respect to "going private" transactions. Furthermore, the ability of "affiliates" of the Company and persons holding "restricted securities" of the Company to dispose of such securities pursuant to Rule 144 or Rule 144A promulgated under the Securities Act of 1933, as amended (the "Securities Act"), may be impaired or eliminated.

Margin Regulations. The Shares are presently "margin securities" under the regulations of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"), which status has the effect, among other things, of allowing brokers to extend credit on the collateral of the Shares. Depending upon factors similar to those described above regarding stock exchange listing and market quotations, it is possible that, following the Offer, the Shares would no longer constitute "margin securities" for the purposes of the margin regulations of the Federal Reserve Board and therefore could no longer be used as collateral for loans made by brokers. In addition, if registration of the Shares under the Exchange Act were terminated, the Shares would no longer constitute "margin securities."

Purchaser currently intends to seek delisting of the Shares from the NYSE and the termination of the registration of the Shares under the Exchange Act as soon after the completion of the Offer as the requirements for such delisting and termination are met. If the NYSE listing and the Exchange Act registration of the Shares are not terminated prior to the Merger, then the Shares will be delisted from the NYSE and the registration of the Shares under the Exchange Act will be terminated following the consummation of the Merger.

#### 8. CERTAIN INFORMATION CONCERNING THE COMPANY.

General. The information concerning the Company contained in this Offer to Purchase, including that set forth below under the caption "Selected Financial Information," has been furnished by the Company or has been taken from or based upon publicly available documents and records on file with the Commission and other public sources. Neither Parent, Purchaser nor the Information Agent assumes responsibility for the accuracy or completeness of the information concerning the Company contained in such documents and records or for any failure by the Company to disclose events which may have occurred or may affect the significance or accuracy of any such information but which are unknown to Parent, Purchaser or the Information Agent.

The Company designs, develops, markets and sells high quality toys worldwide. Founded in 1957, the Company's current product categories include: small scale vehicles, including Micro Machines(R) vehicles; entertainment-based toys, including Star Wars(TM) toys; mini-dolls, comprised of the number one mini-doll brand in 1997, Pound Puppies(R); recently introduced authentic military vehicles, figures and playsets, including Battle Squads(TM); and a series of Titanic collector fashion dolls and celebrity-based fashion dolls. The Company's first celebrity fashion doll offering is the Spice Girls(TM) line based on the British pop music group. Micro Machines(R) is a comprehensive line of miniature scale toys for boys, embracing traditional vehicle, military and male action play patterns.

Selected Financial Information. Set forth below is certain consolidated financial information with respect to the Company, excerpted or derived from the Company's Annual Reports on Form 10-K for the fiscal years ended December 31, 1997 and December 31, 1996 and its Quarterly Report on Form 10-Q for the quarter ended June 30, 1998, each as filed with the Commission pursuant to the Exchange Act.

More comprehensive financial information is included in such reports and in other documents filed by the Company with the Commission. The following summary is qualified in its entirety by reference to such reports and other documents and all of the financial information (including any related notes) contained therein. Such reports, documents and financial information may be inspected and copies may be obtained from the Commission in the manner set forth below.

## GALOOB TOYS, INC.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

	SIX MONTHS ENDED JUNE 30, (UNAUDITED)		FISCAL YEARS ENDED DECEMBER 31,		
	1998	1997	1997	1996	1995
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
<b>INCOME STATEMENT DATA:</b>					
Net revenues.....	\$ 70,280	\$ 92,954	\$239,551	\$284,905	\$220,044
Earnings (loss) from operations.....	(5,136)	(3,069)	(21,858)	23,664	12,989
Net earnings (loss).....	(2,939)	(15,441)	(29,450)	18,451	9,399
Net earnings (loss) per common share:					
Basic.....	0.04	0.73	(1.63)	(0.41)	0.62
Diluted.....	0.04	0.73	(1.63)	(0.41)	0.60
<b>BALANCE SHEET DATA:</b>					
Total Assets.....	\$195,584	\$165,777	\$207,783	\$196,905	\$106,582
Total Liabilities.....	36,274	30,969	45,753	47,114	51,912
Total Shareholders' Equity.....	159,310	134,808	162,030	149,791	54,172

Other Financial Information. During the course of the discussions between Parent and the Company that led to the execution of the Merger Agreement, the Company provided Parent with certain information about the Company and its financial performance which is not publicly available. The information provided

included financial projections for the Company as an independent company (i.e., without regard to the impact to the Company of a transaction with Parent), which information is summarized as set forth below:

	FISCAL YEAR ENDED DECEMBER 31,			
	1999	2000	2001	2002
	(IN MILLIONS)			
Net revenues.....	482.4	426.4	370.9	522.8
EBIT(1).....	96.2	78.6	57.0	106.2
Net earnings.....	57.7	50.7	39.2	70.5

(1) "EBIT" is defined as net earnings from operations before interest and taxes.

The foregoing information was prepared by the Company solely for internal use and not for publication or with a view to complying with the published guidelines of the SEC regarding projections or with the guidelines established by the American Institute of Certified Public Accountants and are included in this Offer to Purchase only because they were furnished to Parent. The foregoing information is "forward-looking" and inherently subject to significant uncertainties and contingencies, many of which are beyond the control of the Company, including industry performance, general business and economic conditions, changing competition, adverse changes in applicable laws, regulations or rules governing environmental, tax or accounting matters and other matters. Although the Company believes the assumptions used in preparing this information were reasonable when made, such assumptions are inherently subject to significant uncertainties and contingencies which are impossible to predict and beyond the Company's control. One cannot predict whether the assumptions made in preparing the foregoing information will be accurate, and accordingly, there can be no assurance, and no representation or warranty is made, that actual results will not vary materially from those described above. The inclusion of this information should not be regarded as an indication that Parent, Purchaser, the Company or anyone who received this information considered it a reliable prediction of future events, and this information should not be relied on as such. None of Parent, Purchaser, the Company or Allen & Company assumes any responsibility for the validity, reasonableness, accuracy or completeness of the projections, and the Company has made no representation to Parent or Purchaser regarding the financial information described above. The projections have not been adjusted to reflect the effects of the Merger.

Available Information. The Company is subject to the informational filing requirements of the Exchange Act and, in accordance therewith, is obligated to file reports, proxy statements and other information with the Commission relating to its business, financial condition and other matters. Information as of particular dates concerning the Company's directors and officers, their remuneration, options granted to them, the principal holders of the Company's securities and any material interests of such persons in transactions with the Company is required to be disclosed in proxy statements distributed to the Company's stockholders and filed with the Commission. Such reports, proxy statements and other information should be available for inspection at the public reference facilities of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, and at the regional offices of the Commission located at Seven World Trade Center, Suite 1300, New York, NY 10048 and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, IL 60661. Copies of such information should be obtainable by mail, upon payment of the Commission's customary charges, by writing to the Commission's principal office at 450 Fifth Street, N.W., Washington, D.C. 20549. The Commission also maintains a website on the internet at <http://www.sec.gov> that contains reports, proxy statements and other information relating to the Company which have been filed via the Commission's EDGAR System.

#### 9. CERTAIN INFORMATION CONCERNING PARENT AND PURCHASER.

Parent and Purchaser. Parent is a Rhode Island corporation and (with its subsidiaries) is a leading global designer, manufacturer and marketer of a diverse line of toy products and related items. Included in its offerings are games, including traditional board and card, hand-held electronic and interactive CD-ROM, and puzzles, preschool, boys' action and girls' toys, dolls, plush products and infant products. The Company also licenses various tradenames, characters and other property rights for use in connection with the sale by others of noncompeting toys and non-toy products.

Purchaser is a newly incorporated Delaware corporation organized in connection with the Offer and the Merger and has not carried on any significant activities other than in connection with the Offer and the Merger. All of the outstanding capital stock of Purchaser is owned directly by Parent. Until immediately prior to the time Purchaser purchases Shares pursuant to the Offer, it is not anticipated that Purchaser will have any significant assets or liabilities or engage in any significant activities other than those incident to its formation and capitalization and the transactions contemplated by the Offer and the Merger.

The principal offices of Purchaser and Parent are located at 1027 Newport Avenue, Pawtucket, Rhode Island 02861. The telephone number of Parent and Purchaser at such location is (401) 431-8697.

For certain information concerning the executive officers and directors of Parent and Purchaser, see Schedule I.

Except as set forth in this Offer to Purchase, neither Purchaser nor Parent, nor, to the best knowledge of Purchaser or Parent, any of the persons listed on Schedule I, nor any associate or majority owned subsidiary of any of the foregoing, beneficially owns or has a right to acquire any Shares, and neither Purchaser nor Parent nor, to the best of knowledge of Purchaser or Parent, any of the persons or entities referred to above, nor any of the respective executive officers, directors or subsidiaries of any of the foregoing, has effected any transaction in the Shares during the past sixty (60) days.

Except as set forth in this Offer to Purchase, neither Purchaser nor Parent has any contract, arrangement, understanding or relationship with any other person with respect to any securities of the Company, including, but not limited to, any contract, arrangement, understanding or relationship concerning the transfer or the voting of any securities of the Company, joint ventures, loan or option arrangements, puts or calls, guarantees of loans, guarantees against loss or the giving or withholding of proxies.

Except as set forth in this Offer to Purchase, none of Purchaser, Parent, any of their respective affiliates, nor, to the best knowledge of Purchaser or Parent, any of the persons listed on Schedule I, has had, since January 1, 1995, any business relationships or transactions with the Company or any of its executive officers, directors or affiliates that would be required to be reported under the rules of the Commission. Except as set forth in this Offer to Purchase, since January 1, 1995 there have been no contacts, negotiations or transactions between Purchaser, Parent, any of their respective affiliates or, to the best knowledge of Purchaser or Parent, any of the persons listed on Schedule I, and the Company or its affiliates concerning a merger, consolidation or acquisition, tender offer or other acquisition of securities, election of directors or a sale or other transfer of a material amount of assets.

Available Information. Parent is subject to the informational filing requirements of the Exchange Act and, in accordance therewith, is obligated to file reports, proxy statements and other information with the Commission relating to its business, financial condition and other matters. Information as of particular dates concerning Parent's directors and officers, their remuneration, options granted to them, the principal holders of Parent's securities and any material interests of such persons in transactions with Parent is required to be disclosed in proxy statements distributed to Parent's stockholders and filed with the Commission. Such reports, proxy statements and other information should be available for inspection at the public reference facilities of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, and at the regional offices of the Commission located at Seven World Trade Center, Suite 1300, New York, NY 10048 and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, IL 60661. Copies of such information should be obtainable by mail, upon payment of the Commission's customary charges, by writing to the Commission's principal office at 450 Fifth Street, N.W., Washington, D.C. 20549. The Commission also maintains a website at <http://www.sec.gov> that contains reports, proxy statements and other information relating to Parent which have been filed via the EDGAR System. Such materials should also be available at the offices of the American Stock Exchange ("Amex"), 86 Trinity Place, New York, NY 10006.

#### 10. SOURCES AND AMOUNT OF FUNDS.

The Offer is not conditioned upon any financing arrangements. The total amount of funds required by Purchaser to consummate the Offer and the Merger, including the fees and expenses of the Offer and the

Merger, is estimated to be approximately \$227 million. Purchaser will obtain all such funds from Parent in the form of capital contributions and/or loans. Parent will provide such funds through a combination of its cash on hand and short term borrowings, including but not limited to, commercial paper.

11. BACKGROUND OF THE OFFER; PURPOSE OF THE OFFER AND THE MERGER; THE MERGER AGREEMENT AND CERTAIN OTHER AGREEMENTS.

Contacts with the Company; Background of the Offer.

On several occasions between January 1995 and February 1998, senior executive officers of Parent contacted Mark D. Goldman, the President, Chief Executive Officer and a Director of the Company, and suggested that the companies explore the possibility of a business combination. None of these contacts led to any agreements or understandings.

In February 1998, Alfred J. Verrecchia, Executive Vice President and President -- Global Operations of Parent, telephoned Mr. Goldman and again suggested that the companies explore the possibility of a business combination. On April 2, 1998, Mr. Verrecchia and Mr. Goldman met in New York and executed a confidentiality agreement. Subsequently, during April 1998, representatives of Parent reviewed preliminary due diligence materials supplied by Allen & Company, the Company's investment bankers.

On May 1, 1998, in response to a request by the Company, Parent sent the Company a letter which indicated an interest in continuing to explore the possibility of a business combination with the Company. The Company provided Lucasfilm Ltd. and Lucas Licensing Ltd. (collectively "Lucas") with a copy of the Company's confidentiality agreement with Parent. Lucas is the owner and licensor of certain property related to the Star Wars motion pictures and whose consent is required for any transfer of the license held by the Company with respect to such property or the continuation of such license upon a change in control of the Company. On June 23, 1998, the Company and Parent amended their confidentiality agreement to address certain confidentiality concerns of Lucas. On July 21, 1998, Parent entered into a confidentiality agreement with Lucas and subsequently conducted certain additional due diligence regarding the Company's agreements with Lucas and engaged in discussions with Lucas regarding the transfer of the rights under such agreements to Parent should Parent and the Company consummate a business combination.

In September 1998, Parent intensified its due diligence investigation of the Company. On September 3, 1998, senior officers of Parent and of the Company met in New York to review the Company's products in development. Intensive discussions took place between Parent, the Company and their respective legal representatives beginning on the week of September 14, 1998 and continuing through the following week.

On September 25, 1998, Parent and Lucas entered into agreements whereby, among other things, in exchange for warrants (with an exercise price of \$35.00 per share) to acquire an aggregate of 4,000,000 shares of common stock, par value \$0.50 per share, of Parent and conditioned on consummation of the Offer, (i) Lucas' warrants to acquire shares of common stock of the Company would be exchanged for such Parent warrants and (ii) Parent's existing agreements with Lucas would be amended to add rights currently held by the Company under the Company's existing agreements with Lucas. The Parent warrants are not exercisable prior to the initial theatrical release in the United States of the first prequel theatrical motion picture to the Star Wars trilogy. The Parent warrants would remain exercisable, with respect to 2,400,000 shares of Parent common stock through the eleventh anniversary of the grant date, and with respect to 1,600,000 shares of Parent common stock through the twelfth anniversary of the grant date. As a result of Parent entering into these agreements with Lucas, no additional action on the part of Lucas is required in connection with the consummation of the Offer or the Merger, provided the Merger is consummated by March 31, 1998.

On September 27, 1998, the Merger Agreement was executed and delivered by Parent, Purchaser and the Company. On September 28, 1998, Parent announced in a press release the signing of the Merger Agreement. On October 2, 1998, pursuant to the terms of the Merger Agreement, Parent and Purchaser commenced the Offer.

Purpose of the Offer and the Merger. The purpose of the Offer and the Merger is to enable Parent to acquire control of, and the entire equity interest in, the Company. The Offer is being made pursuant to the Merger Agreement and is intended to increase the likelihood that the Merger will be effected. The purpose of the Merger is to acquire all of the outstanding Shares not purchased pursuant to the Offer.

Stockholders of the Company who sell their Shares in the Offer will cease to have any equity interest in the Company and any right to participate in its earnings and future growth. If the Merger is consummated, non-tendering stockholders will no longer have an equity interest in the Company and instead will have only the right to receive cash consideration pursuant to the Merger Agreement or to exercise statutory appraisal rights under Section 262 of the DGCL. See Section 12. Similarly, after selling their Shares in the Offer or the subsequent Merger, stockholders of the Company will not bear the risk of any decrease in the value of the Company.

The primary benefits of the Offer and the Merger to the stockholders of the Company are that such stockholders are being afforded an opportunity to sell all of their Shares for cash at a price which represents a premium of approximately 50% over the closing sales price of the Shares on September 25, 1998, the last full trading day prior to the initial public announcement that the Company, Purchaser and Parent had executed the Merger Agreement.

#### Merger Agreement

The following is a summary of certain provisions of the Merger Agreement. This summary is not a complete description of the terms and conditions of the Merger Agreement and is qualified in its entirety by reference to the full text of the Merger Agreement filed with the Commission as an exhibit to the Schedule 14D-1 and is incorporated herein by reference. Capitalized terms not otherwise defined below shall have the meanings set forth in the Merger Agreement. The Merger Agreement may be examined, and copies obtained, as set forth in Section 9 of this Offer to Purchase.

**Representations and Warranties.** In the Merger Agreement, the Company has made customary representations and warranties to Parent and Purchaser with respect to, among other things, corporate organization, subsidiaries, capital stock, options or other rights to acquire Shares, authority to enter into the Merger Agreement, required consents, no conflicts between the Merger Agreement and applicable laws and certain agreements to which the Company or its assets may be subject, financial statements, filings with the Commission, disclosures in proxy statement and tender offer documents, absence of certain changes or events, litigation, absence of changes in benefit plans, employee benefit plans, tax matters, no non-deductible payments, compliance with applicable laws, environmental matters, intellectual property, owned and leased real property, material contracts, labor and employment matters, product liability, applicability of state takeover statutes, votes required to approve the Merger Agreement, brokers' and finders' fees, receipt of the Financial Advisor Opinion, Year 2000, Company Rights Agreement and absence of questionable payments.

In the Merger Agreement, each of Parent and Purchaser has made customary representations and warranties to the Company with respect to, among other things, corporate organization, authority to enter into the Merger Agreement, required consents, no conflicts between the Merger Agreement and the certificate of incorporation and by-laws of Parent and Purchaser or laws applicable to Parent or Purchaser, disclosures in proxy statement and tender offer documents, prior activities by Purchaser, brokers' and finders' fees and financing.

**Conditions to the Merger.** The respective obligations of Parent and Purchaser, on the one hand, and the Company, on the other hand, to effect the Merger are subject to the satisfaction of each of the following conditions, any and all of which may be waived in whole or in part by the Company, Parent or Purchaser, as the case may be, to the extent permitted by applicable law: (i) the Merger Agreement shall have been approved and adopted by the requisite vote of the holders of Shares, if required by applicable law and the Certificate of Incorporation, in order to consummate the Merger; (ii) any waiting period applicable to the Merger under the HSR Act shall have expired or been terminated; (iii) no statute, rule, regulation, order, decree or injunction shall have been enacted, promulgated or issued by any governmental entity precluding, restraining, enjoining or prohibiting consummation of the Merger; and (iv) Parent, Purchaser or their affiliates shall have purchased Shares pursuant to the Offer.

**The Company Board.** The Merger Agreement provides that promptly after (i) the purchase of and payment for any Shares by Purchaser or any of its affiliates pursuant to the Offer as a result of which Purchaser and its affiliates own beneficially at least a majority of the then outstanding Shares and (ii) compliance with Section 14(f) of the Exchange Act and Rule 14f-1 promulgated thereunder, whichever

shall occur later, Parent shall be entitled to designate such number of directors, rounded up to the next whole number, on the Company Board as is equal to the product of the total number of directors on such Board (giving effect to the increase in the size of such Board) multiplied by the percentage that the number of Shares beneficially owned by Purchaser (including Shares so accepted for payment) bears to the total number of Shares then outstanding. In furtherance thereof, the Company shall, upon request of Parent and in compliance with Section 14(f) of the Exchange Act and Rule 14f-1 promulgated thereunder, use its best efforts promptly either to increase the size of the Company Board or to secure the resignations of such number of its incumbent directors, or both, as is necessary to enable such designees of Parent to be so elected or appointed to the Company Board, and the Company shall take all actions available to the Company to cause such designees of Parent to be so elected or appointed. At such time, the Company shall, if requested by Parent, also take all action necessary to cause Persons designated by Parent to constitute at least the same percentage (rounded up to the next whole number) as is on the Company Board of (i) each committee of the Company Board, (ii) each board of directors (or similar body) of each subsidiary of the Company and (iii) each committee (or similar body) of each such board.

The Merger Agreement provides that, notwithstanding the foregoing, the parties thereto shall use their respective reasonable best efforts to ensure that at least two of the members of the Board shall, at all times prior to the Effective Time be, Continuing Directors. From and after the time, if any, that Parent's designees constitute a majority of the Company Board, any amendment or modification of the Merger Agreement, any amendment to the Certificate of Incorporation or By-Laws inconsistent with the Merger Agreement, any termination of the Merger Agreement by the Company, any extension of time for performance of any of the obligations of Parent or Purchaser under the Merger Agreement, any waiver of any condition to the Company's obligations under the Merger Agreement or any of the Company's rights under the Merger Agreement or other action by the Company under the Merger Agreement may be effected only by the action of a majority of the Continuing Directors of the Company, which action shall be deemed to constitute the action of any committee specifically designated by the Company Board to approve the actions contemplated by the Merger Agreement and the Transactions and the full Company Board; provided, that, if there shall be no Continuing Directors, such actions may be effected by majority vote of the entire Company Board, except that no such action shall amend the terms of the Merger Agreement or modify the terms of the Offer or the Merger in a manner materially adverse to the holders of Shares.

Stockholders' Meeting. If required by applicable Law in order to consummate the Merger, the Company, acting through the Company Board, shall, in accordance with applicable Law, its Certificate of Incorporation and By-laws: (i) as promptly as practicable following the acceptance for payment and purchase of Shares by Purchaser pursuant to the Offer, duly call, give notice of, convene and hold a special meeting of its stockholders (the "Special Meeting") for the purposes of considering and taking action upon the approval of the Merger and the approval and adoption of the Merger Agreement; (ii) prepare and file with the Commission a preliminary proxy or information statement relating to the Merger and the Merger Agreement and (x) obtain and furnish the information required to be included in the Proxy Statement (as defined below) and, after consultation with Parent, respond promptly to any comments made by the Commission with respect to the preliminary proxy or information statement and cause a definitive proxy or information statement, including any amendment or supplement thereto (the "Proxy Statement") to be mailed to its stockholders at the earliest practicable date; provided that no amendment or supplement to the Proxy Statement will be made by the Company without consultation with Parent and its counsel and (y) use its reasonable best efforts to obtain the necessary approvals of the Merger and the Merger Agreement by its stockholders; and (iii) unless the Merger Agreement has been terminated in accordance with the provisions of the section summarized under "Termination" below, subject to its rights pursuant to the section summarized under "No Solicitation" below, include in the Proxy Statement the recommendation of the Company Board that stockholders of the Company vote in favor of the approval of the Merger and the approval and adoption of the Merger Agreement. Parent has agreed to vote, or cause to be voted, all of the Shares then owned by it, Purchaser or any of its other subsidiaries in favor of the approval of the Merger and the approval and adoption of the Merger Agreement.

Options. The Merger Agreement provides that immediately prior to the Effective Time, each then outstanding Option, whether or not then vested or exercisable, shall be cancelled by the Company and in consideration of such cancellation and except to the extent that Parent or the Purchaser and the holder of any

such Option otherwise agree, the Company (or, at Parent's option, the Purchaser) shall pay to such holders of Options an amount in respect thereof equal to the product of (A) the excess, if any, of the Offer Price over the exercise price of each such Option and (B) the number of Shares previously subject to the Option immediately prior to its cancellation (such payment to be net of withholding taxes and without interest).

The Merger Agreement provides that the Company shall use its reasonable best efforts to take all actions necessary and appropriate so that all stock option or other equity based plans maintained with respect to the Shares ("Option Plans"), shall terminate as of the Effective Time and the provisions in any other Benefit Plan providing for the issuance, transfer or grant of any capital stock of the Company or any interest in respect of any capital stock of the Company shall be deleted as of the Effective Time, and the Company shall use its best efforts to ensure that following the Effective Time no holder of an Option or any participant in any Option Plan shall have any right thereunder to acquire any capital stock of the Company, Parent, Purchaser or the Surviving Corporation. In addition, the Company has agreed to use its reasonable best efforts to obtain all necessary consents from, and mail any required notices to, holders of Options and amend the terms of the applicable Option Plans, in each case as is necessary to give effect to the foregoing.

Interim Operations. The Merger Agreement provides that after the date of the Merger Agreement and prior to the time the designees of Parent have been elected to or appointed to, and shall constitute a majority of, the Company Board pursuant to the applicable provisions of the Merger Agreement (the "Appointment Date"), and except (i) as expressly contemplated by the Merger Agreement, (ii) as set forth in the applicable section of the disclosure schedule thereto or (iii) as agreed in writing by Parent:

(a) the Company shall and shall cause its Subsidiaries to carry on their respective businesses in the ordinary course;

(b) the Company shall and shall cause its Subsidiaries to use all reasonable best efforts consistent with good business judgment to preserve intact their current business organizations, keep available the services of their current officers and key employees and preserve their relationships consistent with past practice with desirable customers, suppliers, licensors, licensees, distributors and others having business dealings with them;

(c) neither the Company nor any of its Subsidiaries shall, directly or indirectly, amend its Certificate of Incorporation or By-laws or similar organizational documents;

(d) Representatives of the Company and its Subsidiaries shall confer at such times as Parent may reasonably request with one or more representatives of Parent to report material operational matters and the general status of ongoing operations;

(e) neither the Company nor any of its Subsidiaries shall: (i)(A) declare, set aside or pay any dividend or other distribution payable in cash, stock or property with respect to the Company's capital stock or that of its Subsidiaries, except that a wholly-owned Subsidiary of the Company may declare and pay a dividend or make advances to its parent or the Company or (B) redeem, purchase or otherwise acquire directly or indirectly any of the Company's capital stock or that of its Subsidiaries; (ii) issue, sell, pledge, dispose of or encumber any additional shares of, or securities convertible into or exchangeable for, or options, warrants, calls, commitments or rights of any kind to acquire, any shares of capital stock of any class of the Company or its Subsidiaries, other than Shares issued upon the exercise of Options outstanding on the date of the Merger Agreement in accordance with the Option Plans as in effect on the date of the Merger Agreement or additional warrants issued in accordance with the terms of the Warrants; or (iii) split, combine or reclassify the outstanding capital stock of the Company or of any of the Subsidiaries of the Company;

(f) neither the Company nor any of its Subsidiaries shall enter into any agreement or arrangement with respect to the distribution of any of the Company's products;

(g) neither the Company nor any of its Subsidiaries shall acquire or agree to acquire (A) by merging or consolidating with, or by purchasing a substantial portion of the assets of, or by any other

manner, any business or any corporation, partnership, joint venture, association or other business organization or division thereof (including entities which are subsidiaries of the Company) or (B) any assets, including real estate, except purchases in the ordinary course of business consistent with past practice;

(h) neither the Company nor any of its Subsidiaries shall make any new capital expenditure or expenditures in excess of \$50,000 individually or \$500,000 in the aggregate;

(i) neither the Company nor any of its Subsidiaries shall, except in the ordinary course of business and except as otherwise permitted by the Merger Agreement, amend or terminate any Company Material Contract where such amendment or termination would have a Material Adverse Effect on the Company, or waive, release or assign any material rights or claims;

(j) neither the Company nor any of its Subsidiaries shall transfer, lease, license, sell, mortgage, pledge, dispose of, or encumber any property or assets other than in the ordinary course of business and consistent with past practice;

(k) neither the Company nor any of its Subsidiaries shall: (i) enter into any employment or severance agreement with or grant any severance or termination pay to any officer, director or key employee of the Company or any its Subsidiaries; or (ii) hire or agree to hire any new or additional key employees or officers;

(l) neither the Company nor any of its Subsidiaries shall, except as required to comply with applicable Law or expressly provided in the Merger Agreement, (A) adopt, enter into, terminate, amend or increase the amount or accelerate the payment or vesting of any benefit or award or amount payable under any Benefit Plan or other arrangement for the current or future benefit or welfare of any director, officer or current or former employee, except to the extent necessary to coordinate any such Benefit Plans with the terms of the Merger Agreement, (B) increase in any manner the compensation or fringe benefits of, or pay any bonus to, any director, officer or employee provided that employees with annual compensation of \$100,000 or less may receive increases of not more than 5.0% on the anniversary date of their employment in the ordinary course of business and consistent with past practice, (C) pay any benefit not provided for under, or contemplated by, any Benefit Plan, (D) grant any awards under any bonus, incentive, performance or other compensation plan or arrangement or Benefit Plan (including the grant of stock options, stock appreciation rights, stock-based or stock-related awards, performance units or restricted stock, or the removal of existing restrictions in any Benefit Plans or agreements or awards made thereunder) or (E) take any action to fund or in any other way secure the payment of compensation or benefits under any employee plan, agreement, contract or arrangement or Benefit Plan;

(m) neither the Company nor any of its Subsidiaries shall: (i) incur or assume any long-term debt or, except in the ordinary course of business, incur or assume any short-term indebtedness in amounts not consistent with past practice; (ii) incur or modify any material indebtedness or other liability except as set forth on the applicable section of the disclosure schedule to the Merger Agreement; (iii) assume, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for the obligations of any other person, except in the ordinary course of business and consistent with past practice; (iv) make any loans, advances or capital contributions to, or investments in, any other person (other than to wholly owned Subsidiaries of the Company or customary loans or advances to employees in the ordinary course of business in accordance with past practice); or (v) settle any material claims other than in the ordinary course of business, in accordance with past practice and without admission of liability;

(n) neither the Company nor any of its Subsidiaries shall change any of the accounting principles used by it unless required by GAAP, the SEC or Law;

(o) neither the Company nor any of its Subsidiaries shall make any tax election, amend any material tax return, make a claim for any material tax refund or settle or compromise any material tax liability (whether with respect to amount or timing);

(p) neither the Company nor any of its Subsidiaries shall pay, discharge or satisfy any claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge or satisfaction of any such claims, liabilities or obligations in the ordinary course of business and consistent with past practice, of any such claims, liabilities or obligations which are reflected or reserved against in, or contemplated by, the consolidated financial statements (or the notes thereto) of the Company and its consolidated Subsidiaries; or except in the ordinary course of business consistent with past practice, waive the benefits of, or agree to modify in any manner, any confidentiality, standstill or similar agreement to which the Company or any of its Subsidiaries is a party;

(q) neither the Company nor any of its Subsidiaries shall (by action or inaction) amend, renew, terminate or cause to be extended any lease, agreement or arrangement relating to any of the leased properties or enter into any lease, agreement or arrangement with respect to real property;

(r) neither the Company nor any of its Subsidiaries will enter into an agreement, contract, commitment or arrangement to do any of the foregoing, or to authorize, recommend, propose or announce an intention to do any of the foregoing; and

(s) neither the Company nor any of its Subsidiaries shall take any action that would result in (i) any of its representations and warranties that are qualified as to materiality becoming untrue, (ii) any of such representations and warranties that are not qualified as to materiality becoming untrue in any material respect or (iii) any of the conditions to the Offer, as set forth in the Merger Agreement, not being satisfied (subject to the Company's right to take action specifically permitted by the Merger Agreement).

No Solicitation. Pursuant to the Merger Agreement, the Company has agreed that it shall not, nor shall it permit any of its Subsidiaries to, nor shall it authorize (and shall use its best efforts not to permit) any officer, director or employee of, or any investment banker, attorney or other advisor or representative of, the Company or any of its subsidiaries to, (i) solicit or initiate, or encourage, directly or indirectly, any inquires or the submission of, any Takeover Proposal (as defined below), (ii) participate in any discussions or negotiations regarding, or furnish to any Person any information or data with respect to or access to the properties of, or take any other action to knowingly facilitate the making of any proposal that constitutes, or may reasonably be expected to lead to, any Takeover Proposal or (iii) enter into any agreement with respect to any Takeover Proposal or approve or resolve to approve any Takeover Proposal; provided that nothing contained in the applicable provisions of the Merger Agreement shall prohibit the Company or the Company Board from (A) taking and disclosing to the Company's stockholders a position with respect to a tender or exchange offer by a third party pursuant to Rules 14d-9 and 14e-2 promulgated under the Exchange Act, or (B) making such disclosure to the Company's stockholders as, in the good faith judgment of the Company Board, after receiving advice from outside counsel, is required under, or is necessary to comply with, applicable Law, provided that the Company may not, except as permitted by the following paragraph, withdraw or modify, or propose to withdraw or modify, its position with respect to the Offer or the Merger or approve or recommend, or propose to approve or recommend any Takeover Proposal, or enter into any agreement with respect to any Takeover Proposal. Upon execution of the Merger Agreement, the Company will immediately cease any existing activities, discussions or negotiations with any parties conducted prior to the date of the Merger Agreement with respect to any of the foregoing. Notwithstanding the foregoing, prior to the time of acceptance of Shares for payment pursuant to the Offer, the Company may withdraw or modify its recommendation of the Offer, furnish information concerning its business, properties or assets to any Person or group and may negotiate and participate in discussions and negotiations with such Person or group concerning a Takeover Proposal if: (x) such Person or group has submitted a Superior Proposal; and (y) in the opinion of the Company Board such action is required to discharge the Board's fiduciary duties to the Company's stockholders under applicable law, determined only after receipt of advice from independent legal counsel to the Company that the failure to provide such information or access or to engage in such discussions or negotiations may cause the Company's Board to violate its fiduciary duties to the Company's stockholders under applicable law. The Company will promptly (but in no case later than 24 hours) notify Parent of the existence of any proposal, discussion, negotiation or inquiry received by the Company regarding any Takeover Proposal, and the Company will promptly communicate to Parent the terms of any proposal, discussion, negotiation or inquiry which it may receive regarding any Takeover Proposal (and will promptly provide to Parent copies of any written materials received by the Company in connection with such proposal,

discussion, negotiation or inquiry) and the identity of the party making such proposal or inquiry or engaging in such discussion or negotiation. The Company will promptly provide to Parent any non-public information concerning the Company provided to any other Person in connection with any Takeover Proposal which was not previously provided to Parent. The Company will keep Parent informed of the status and details of any such Takeover Proposal and of any amendments or proposed amendments to any Takeover Proposal and will promptly notify Parent (but in no case later than 24 hours) of any determination by the Company Board that a Superior Proposal has been made.

Pursuant to the Merger Agreement, except as set forth in this paragraph, neither the Company Board nor any committee thereof shall (i) withdraw or modify, or propose to withdraw or modify, in a manner adverse to Parent or Purchaser, the approval or recommendation by the Company Board or any such committee of the Offer, the Merger Agreement or the Merger, (ii) approve or recommend, or propose to approve or recommend, any Takeover Proposal or (iii) enter into any agreement with respect to any Takeover Proposal. Notwithstanding the foregoing, subject to compliance with this paragraph prior to the time of acceptance for payment of Shares pursuant to the Offer, the Company Board may withdraw or modify its approval or recommendation of the Offer, the Merger Agreement or the Merger, approve or recommend a Superior Proposal, or enter into an agreement with respect to a Superior Proposal, in each case at any time after the third business day following Parent's receipt of written notice from the Company advising Parent that the Company Board has received a Superior Proposal which it intends to accept, specifying the material terms and conditions of such Superior Proposal and, identifying the person making such Superior Proposal, but only if the Company shall have caused its financial and legal advisors to negotiate with Parent to make such adjustments to the terms and conditions of the Merger Agreement as would enable the Company to proceed with the Transactions on such adjusted terms. The term "Takeover Proposal" means any bona fide proposal or offer, whether in writing or otherwise, from any Person other than Parent, Purchaser or any affiliates thereof (a "Third Party") to acquire beneficial ownership (as defined under Rule 13(d) of the Exchange Act) of all or a material portion of the assets of the Company and its Subsidiaries on a consolidated basis or 30% or more of any class of equity securities of the Company pursuant to a merger, consolidation or other business combination, sale of shares of capital stock, sale of assets, tender offer, exchange offer or similar transaction with respect to the Company, including any single or related multi-step transaction or series of related transactions, which is structured to permit such Third Party to acquire beneficial ownership of any material portion of the assets of or 30% or more of the equity interest in the Company. The term "Superior Proposal" means an unsolicited Takeover Proposal on terms which the Company Board determines in good faith to be more favorable to the Company's stockholders than the Offer and the Merger (based on advice from the Company's independent financial advisor that the value of the consideration provided for in such proposal is superior to the value of the consideration provided for in the Offer and the Merger), for which financing, to the extent required, is then committed or which, in the good faith reasonable judgment of the Company Board, based on advice from the Company's independent financial advisor, is reasonably capable of being financed by such Third Party and which, in the good faith reasonable judgment of the Company Board is reasonably likely to be consummated within a period of time not materially longer in duration than the period of time reasonably believed to be necessary to consummate the Offer and the Merger.

Termination. The Merger Agreement may be terminated and the Merger contemplated therein may be abandoned at any time prior to the Effective Time, whether before or after approval of matters presented in connection with the Merger by the stockholders of the Company:

(a) By the mutual written consent of Parent and the Company; provided, however, that if Parent shall have a majority of the directors pursuant to the applicable provisions of the Merger Agreement, such consent of the Company may only be given if approved by the Continuing Directors.

(b) By either of Parent or the Company if (i) a statute, rule or executive order shall have been enacted, entered or promulgated prohibiting the Transactions on the terms contemplated by the Merger Agreement or (ii) any governmental entity shall have issued an order, decree or ruling or taken any other action (which order, decree, ruling or other action the parties to the Merger Agreement shall use their reasonable efforts to lift), in each case permanently restraining, enjoining or otherwise prohibiting the

Transactions contemplated by the Merger Agreement and such order, decree, ruling or other action shall have become final and non-appealable.

(c) By either of Parent or the Company if the Effective Time shall not have occurred on or before March 31, 1999, provided, however, that if the Effective Time shall not have occurred by such date solely as a result of the failure of the condition summarized in clause (iii) under the heading "Conditions to the Merger" above by reason of the entry of a preliminary injunction, the Merger Agreement may not be terminated pursuant to this paragraph (c) until June 30, 1999; provided, further, that the party seeking to terminate the Merger Agreement pursuant to this paragraph (c) shall not have breached in any material respect its obligations under the Merger Agreement in any manner that shall have been the cause of, or resulted in, the failure to consummate the Merger on or before such date;

(d) By the Company: (i) if the Company has entered into an agreement with respect to a Superior Proposal or has approved or recommended a Superior Proposal in accordance with the applicable provisions of the Merger Agreement, provided the Company has complied with all provisions thereof, including the notice provisions therein, and that it simultaneously terminates the Merger Agreement and makes simultaneous payment to the Parent of the Termination Fee; or (ii) if Parent or Purchaser shall have terminated the Offer or the Offer expires without Parent or Purchaser, as the case may be, purchasing any Shares pursuant thereto; provided that the Company may not terminate the Merger Agreement pursuant to this clause (d)(ii) if the Company is in material breach of the Merger Agreement; or (iii) if Parent, Purchaser or any of their affiliates shall have failed to commence the Offer on or prior to five business days following the date of the initial public announcement of the Offer, provided, that the Company may not terminate the Merger Agreement pursuant to this clause (d) (iii) if the Company is in material breach of the Merger Agreement; or (iv) if there shall be a material breach by either Parent or Purchaser of any of its representations, warranties, covenants or agreements contained in the Merger Agreement, except where such breach does not have a material adverse effect on the ability of Parent or Purchaser to consummate the Offer or the Merger.

(e) By Parent or Purchaser: (i) (A) if prior to the purchase of the Shares pursuant to the Offer, the Company Board shall have withdrawn, or modified or changed in a manner adverse to Parent or Purchaser its approval or recommendation of the Offer, the Merger Agreement or the Merger or shall have recommended or approved a Takeover Proposal, or (B) there shall have been a material breach of any provision of the section of the Merger Agreement summarized under "No Solicitation" above, Parent shall have given at least five (5) days' written notice of such breach and such breach shall not have been cured within such five (5) day period; or (ii) if due to an occurrence that if occurring after the commencement of the Offer would result in a failure to satisfy any of the conditions set forth in Section 14 below, Parent or Purchaser shall have terminated the Offer without Parent or Purchaser purchasing any Shares thereunder, provided that Parent or Purchaser may not terminate the Merger Agreement pursuant to this clause (e) (ii) if Parent or Purchaser is in material breach of the Merger Agreement; or (iii) if, due to an occurrence that if occurring after the commencement of the Offer would result in a failure to satisfy any of the conditions set forth in the Section 14 below, Parent, Purchaser or any of their affiliates shall have failed to commence the Offer on or prior to five (5) business days following the date of the initial public announcement of the Offer; provided that Parent or Purchaser may not terminate the Merger Agreement pursuant to this clause (e)(iii) if Parent or Purchaser is in material breach of the Merger Agreement; or (iv) if any Person or "group" (as defined in Section 13(d)(3) of the Exchange Act), other than Parent, Purchaser or their affiliates or any group of which any of them is a member, shall have acquired beneficial ownership (as determined pursuant to Rule 13d-3 promulgated under the Exchange Act) of 30% or more of the Shares; or (v) if there shall be a breach by the Company of any of its representations, warranties, covenants or agreements contained in the Merger Agreement and such breach (without giving effect to any limitation as to "knowledge," "materiality" or "material adverse effect" set forth therein) individually, or together with any other breaches, has a Material Adverse Effect on the Company.

Termination Fee. Pursuant to the Merger Agreement, if (x) Parent or Purchaser terminates the Merger Agreement pursuant to clauses (e)(i) or (e)(iv) under the heading "Termination" above or (y) the

Company terminates this Agreement pursuant to clause (d)(i) under the heading "Termination" above, then in each case, the Company shall pay, or cause to be paid to Parent, at the time of termination, an amount equal to \$6,000,000 (the "Termination Fee"). In addition, if the Merger Agreement is terminated by Parent pursuant to clause (e)(v) under the heading "Termination" above (other than by reason of a breach of the section in the Merger Agreement summarized under "No Solicitation" above) and at the time of such termination, Parent is not in material breach of the Merger Agreement, then the Company shall pay to Parent, at the time of termination, and an amount equal to Parent's and Purchaser's actual and reasonably documented out-of-pocket expenses incurred by Parent or Purchaser in connection with the Offer, the Merger, the Merger Agreement and the consummation of the Transactions, including, without limitation, the fees and expenses payable to all banks, investment banking firms, and other financial institutions and Persons and their respective agents and counsel incurred in connection with acting as Parent's or Purchaser's financial advisor with respect to, or arranging or committing to provide or providing any financing for, the Transactions (the "Expenses") and, if the breach referred to in clause (e)(v) under the heading "Termination" above was a willful breach and if the Company shall thereafter, within nine (9) months after such termination, enter into an agreement with respect to a Takeover Proposal, then the Company shall pay the Termination Fee (less any Expenses previously paid by the Company to Parent pursuant to this section) concurrently with entering into any such agreement. Any payments required to be made pursuant to this Section shall be made by wire transfer of same day funds to an account designated by Parent.

Indemnification. The Merger Agreement provides that Parent, and from and after the Effective Time, the Surviving Corporation, shall indemnify, defend and hold harmless each person who is now, or has been at any time prior to September 27, 1998 or who becomes prior to the Effective Time, an officer, director, employee or agent of the Company or any of its Subsidiaries (the "Indemnified Parties") against all losses, claims, damages, costs, expenses (including reasonable attorneys' fees and expenses), liabilities or judgments or amounts of or in connection with any threatened or actual claim, action, suit, proceeding or investigation based on or arising out of the fact that such person is or was serving in such person's capacity as a director, officer, employee or agent of the Company or any of its Subsidiaries, whether pertaining to any matter existing or occurring at or prior to the Effective Time or any acts or omissions occurring or existing at or prior to the Effective Time and whether asserted or claimed prior to, or at or after, the Effective Time ("Indemnified Liabilities"), including all Indemnified Liabilities based on, or arising out of, or pertaining to the Merger Agreement or the Transactions, in each case to the fullest extent a corporation is permitted under the DGCL and the Certificate of Incorporation or By-Laws as currently in effect to indemnify such persons (and the Company and the Surviving Corporation, as the case may be, will pay expenses promptly after statements thereof are received, to each Indemnified Party to the fullest extent permitted by Delaware law, subject to delivery of the undertaking described below). Without limiting the foregoing, in the event any such claim, action, suit, proceeding or investigation is brought against any Indemnified Party (whether arising before or after the Effective Time), (i) such Indemnified Party may retain counsel satisfactory to the Indemnified Party and reasonably satisfactory to the Company (and reasonably satisfactory to the Surviving Corporation after the Effective Time) and the Company (or after the Effective Time, the Surviving Corporation) will pay all reasonable fees and expenses of such counsel for the Indemnified Parties promptly as statements and supporting documentation thereof are received; and (ii) the Company (or after the Effective Time, the Surviving Corporation) will use all reasonable best efforts to assist in the vigorous defense of any such matter, provided that neither the Company nor the Surviving Corporation will be liable for any settlement effected without its prior written consent which written consent will not unreasonably be withheld. Any Indemnified Party, upon learning of any such claim, action, suit, proceeding or investigation, will notify the Company (or after the Effective Time, the Surviving Corporation) promptly (but the failure so to notify will not relieve a party from any liability which it may have under this provision except to the extent such failure materially prejudices such party's position with respect to such claims), and will deliver to the Company (or after the Effective Time, the Surviving Corporation) the undertaking contemplated by Section 145(e) of the DGCL. The Indemnified Parties as a group may retain only one law firm (and one local counsel) to represent them with respect to each such matter unless there is, under applicable standards of professional conduct, an existing or potential conflict on any significant issue between the positions of any two or more Indemnified Parties in which case such additional counsel reasonably acceptable to the Indemnified Parties, the Company

or, after the Effective Time, the Surviving Corporation as may be required may be retained by the Indemnified Parties at the cost and expense of the Company (or Surviving Corporation). Furthermore, the provisions with respect to indemnification set forth in the Certificate of Incorporation and By-Laws of the Surviving Corporation will not be amended following the Effective Time in any way that would materially and adversely affect the rights thereunder of individuals who at any time prior to the Effective Time were directors, officers, employees or agents of the Company in respect of actions or omissions occurring at or prior to the Effective Time.

The Merger Agreement provides that for a period of three (3) years after the Effective Time, Parent shall cause the Surviving Corporation to maintain in effect, if available, directors' and officers' liability insurance covering those persons who are currently covered by the Company's directors' and officers' liability insurance policy with respect to acts prior to the Effective Time (a copy of which has been made available to Parent) on terms (including the amounts of coverage and the amounts of deductibles, if any) that are no less favorable to the terms now applicable to them under the Company's current policies; provided, however, that in no event shall Parent or the Surviving Corporation be required to expend in excess of 150% of the annual premium currently paid by the Company for such coverage; and provided further, that if the premium for such coverage exceeds such amount, Parent or the Surviving Corporation shall purchase a policy with the greatest coverage available for such 150% of the annual premium. The Merger Agreement further provides that the foregoing indemnification provisions shall survive the consummation of the Merger at the Effective Time, are intended to benefit the Company, the Surviving Corporation and the Indemnified Parties, shall be binding on all successors and assigns of the Surviving Corporation and shall be enforceable by the Indemnified Parties.

#### Confidentiality Agreement

The following is a summary of certain provisions of the Confidentiality Agreement entered into on April 2, 1998 by Parent and the Company, as amended on June 23, 1998 (the "Confidentiality Agreement"). This summary is not a complete description of the terms and conditions of the Confidentiality Agreement and is qualified in its entirety by reference to the full text of the Confidentiality Agreement filed with the Commission as an exhibit to the Schedule 14D-1 and is incorporated herein by reference. Capitalized terms not otherwise defined below shall have the meanings set forth in the Confidentiality Agreement. The Confidentiality Agreement may be examined, and copies obtained, as set forth in Section 9 of this Offer to Purchase.

Pursuant to the terms of the Confidentiality Agreement that Parent and Purchaser entered into on April 2, 1998, the Company and Parent agreed to provide, among other things, for the confidential treatment of their discussions regarding the Offer and the Merger and the exchange of certain confidential information concerning the Company. Parent further agreed that (i) for a period of one (1) year from the date the Confidentiality Agreement was entered into by and between Parent and Purchaser, neither Parent nor any of its subsidiaries would directly or indirectly solicit for employment any officer or employee of the Company, subject to certain exceptions and (ii) through December 31, 1999, Parent will not, subject to certain exceptions, (a) acquire any securities or property of the Company, (b) propose to enter into any merger or business combination or purchase a material portion of the assets of the Company other than a confidential proposal made to the Company Board without any public disclosure by Parent, (c) participate in any solicitations of proxies, (d) participate in a "group" (within the meaning of Section 13(d)(3) of the Exchange Act) with respect to any securities of the Company, (e) seek to control or influence the management, Company Board or policies of the Company, (f) disclose any intention, plan or arrangement inconsistent with any of the foregoing or (g) advise, assist or encourage any other persons in connection with any of the foregoing. On June 23, 1998, Parent and the Company amended the Confidentiality Agreement in connection with Parent's negotiations with Lucas.

#### 12. PLANS FOR THE COMPANY; OTHER MATTERS.

##### Plans for the Company

Parent is conducting a detailed review of the Company and its business and operations with a view towards determining how to optimally realize any potential synergies which exist between the operations of the

Company and those of Parent. Such review is not expected to be completed until after the consummation of the Merger, and, following such review, Parent will consider what, if any, changes would be desirable in light of the circumstances then existing.

If, as and to the extent that Purchaser acquires control of the Company, Parent and Purchaser intend to conduct a detailed review of the Company and its assets, corporate structure, capitalization, operations, properties, policies, management and personnel and to consider and determine what, if any, changes would be desirable in light of the circumstances which then exist. Such changes could include, among other things, changes in the Company's business, corporate structure, certificate of incorporation, by-laws, capitalization, management or dividend policy.

Assuming the Minimum Condition is satisfied and Purchaser purchases Shares pursuant to the Offer, Parent intends to promptly exercise its rights under the Merger Agreement to obtain majority representation on, and control of, the Company Board. See "Merger Agreement-Company Board" above. Parent will exercise such rights by causing the Company to elect to the Company Board Messrs. Alan G. Hassenfeld, Alfred J. Verrecchia and Harold P. Gordon. Information with respect to such directors is contained in Schedule I hereto and in the Schedule 14D-9. The Merger Agreement provides that, upon the purchase of and payment for any Shares by Parent or any of its subsidiaries pursuant to the Offer, Parent shall be entitled to designate such number of directors, rounded up to the next whole number, on the Company Board such that the percentage of its designees on the Company Board shall equal the percentage of the outstanding Shares beneficially owned by Parent and its affiliates. See Section 11. The Merger Agreement provides that the directors of Purchaser and the officers of the Company at the Effective Time of the Merger will, from and after the Effective Time, be the initial directors and officers, respectively, of the Surviving Corporation.

Purchaser or an affiliate of Purchaser may, following the consummation or termination of the Offer, seek to acquire additional Shares through open market purchases, privately negotiated transactions, a tender offer or exchange offer or otherwise, upon such terms and at such prices as it shall determine, which may be more or less than the price to be paid pursuant to the Offer. Purchaser and its affiliates also reserve the right to dispose of any or all Shares acquired by them, subject to the terms of the Merger Agreement.

Except as disclosed in this Offer to Purchase, and except as may be effected in connection with the integration of operations referred to above, neither Parent nor Purchaser has any present plans or proposals that would result in an extraordinary corporate transaction, such as a merger, reorganization, liquidation, relocation of operations, or sale or transfer of a material amount of assets, involving the Company or any of its subsidiaries, or any material changes in the Company's capitalization, corporate structure, business or composition of its management or the Company Board.

Stockholder Approval. Under the DGCL, the approval of the Company Board and the affirmative vote of the holders of a majority of the outstanding Shares are required to adopt and approve the Merger Agreement and transactions contemplated thereby. The Company has represented in the Merger Agreement that the execution and delivery of the Merger Agreement by the Company and the consummation by the Company of the transactions contemplated by the Merger Agreement have been duly authorized by all necessary corporate action on the part of the Company, subject to the approval of the Merger by the Company's stockholders in accordance with the DGCL. In addition, the Company has represented that the affirmative vote of the holders of a majority of the outstanding Shares is the only vote of the holders of any class or series of the Company's capital stock which is necessary to approve the Merger Agreement and the transactions contemplated thereby, including the Merger. Therefore, unless the Merger is consummated pursuant to the short-form merger provisions under the DGCL described below (in which case no further corporate action by the stockholders of the Company will be required to complete the Merger), the only remaining required corporate action of the Company will be the approval of the Merger Agreement and the transactions contemplated thereby by the affirmative vote of the holders of a majority of the Shares. The Merger Agreement provides that Parent will vote, or cause to be voted, all of the Shares then owned by Parent, Purchaser or any of Parent's other subsidiaries and affiliates in favor of the approval of the Merger and the adoption of the Merger Agreement. In the event that Parent, Purchaser and Parent's other subsidiaries acquire in the aggregate at least a majority of the Shares entitled to vote on the approval of the Merger and the

Merger Agreement, they would have the ability to effect the Merger without the affirmative votes of any other stockholders.

Short-Form Merger. Section 253 of the DGCL provides that, if a corporation owns at least 90% of the outstanding shares of each class of another corporation, the corporation holding such stock may merge itself into such corporation without any action or vote on the part of the board of directors or the stockholders of such other corporation (a "short-form merger"). In the event that Parent, Purchaser and any other subsidiaries of Parent acquire in the aggregate at least 90% of the outstanding Shares, pursuant to the Offer or otherwise, then, at the election of Parent, a short-form merger could be effected without any approval of the Company Board or the stockholders of the Company, subject to compliance with the provisions of Section 253 of the DGCL. In the Merger Agreement, Parent, Purchaser and the Company have agreed that, notwithstanding that all conditions to the Offer are satisfied or waived as of the scheduled Expiration Date, Purchaser may extend the Offer for a period not to exceed ten (10) business days, subject to certain conditions, if the Shares tendered pursuant to the Offer are less than 90% of the outstanding Shares so long as Purchaser irrevocably waives the satisfaction of any of the conditions to the Offer (other than the Minimum Condition and the condition set forth in paragraph (b) of Section 14 hereof) that subsequently may not be satisfied during such extension of the Offer. Even if Parent and Purchaser do not own 90% of the outstanding Shares following consummation of the Offer, Parent and Purchaser could seek to purchase additional shares in the open market or otherwise in order to reach the 90% threshold and employ a short-form merger. The per share consideration paid for any Shares so acquired may be greater or less than that paid in the Offer. Parent presently intends to effect a short-form merger if permitted to do so under the DGCL.

Appraisal Rights. Holders of the Shares do not have appraisal rights in connection with the Offer. However, if the Merger is consummated, holders of the Shares at the Effective Time will have certain rights pursuant to the provisions of Section 262 of the DGCL including the right to dissent and demand appraisal of, and to receive payment in cash of the fair value of, their Shares. Under Section 262 of the DGCL, dissenting stockholders of the Company who comply with the applicable statutory procedures will be entitled to receive a judicial determination of the fair value of their Shares (exclusive of any element of value arising from the accomplishment or expectation of the Merger) and to receive payment of such fair value in cash, together with a fair rate of interest thereon, if any. Any such judicial determination of the fair value of the Shares could be based upon factors other than, or in addition to, the price per Share to be paid in the Merger or the market value of the Shares. The value so determined could be more or less than the price per Share to be paid in the Merger.

THE FOREGOING SUMMARY OF THE RIGHTS OF DISSENTING STOCKHOLDERS UNDER THE DGCL DOES NOT PURPORT TO BE A COMPLETE STATEMENT OF THE PROCEDURES TO BE FOLLOWED BY STOCKHOLDERS DESIRING TO EXERCISE ANY APPRAISAL RIGHTS AVAILABLE UNDER THE DGCL. THE PRESERVATION AND EXERCISE OF APPRAISAL RIGHTS REQUIRE STRICT ADHERENCE TO THE APPLICABLE PROVISIONS OF THE DGCL.

Rule 13e-3. The Commission has adopted Rule 13e-3 under the Exchange Act which is applicable to certain "going private" transactions and which may under certain circumstances be applicable to the Merger or another business combination following the purchase of Shares pursuant to the Offer in which Purchaser seeks to acquire the remaining Shares not held by it. Purchaser believes, however, that Rule 13e-3 will not be applicable to the Merger because it is anticipated that the Merger would be effected within one (1) year following consummation of the Offer and in the Merger stockholders would receive the same price per Share as paid in the Offer. If Rule 13e-3 were applicable to the Merger, it would require, among other things, that certain financial information concerning the Company, and certain information relating to the fairness of the proposed transaction and the consideration offered to minority stockholders in such a transaction, be filed with the Commission and disclosed to minority stockholders prior to consummation of the transaction.

### 13. DIVIDENDS AND DISTRIBUTIONS.

As described above, the Merger Agreement provides that from September 27, 1998 until such time as the designees of Parent have been elected to, and shall constitute a majority of, the Company Board, without the

prior written consent of Parent, neither the Company nor any of its subsidiaries shall: (i)(A) declare, set aside or pay any dividend or other distribution payable in cash, stock or property with respect to the Company's capital stock or that of its subsidiaries, except that a wholly owned subsidiary of the Company may declare and pay a dividend or make advances to its parent or the Company or (B) redeem, purchase or otherwise acquire directly or indirectly any of the Company's capital stock or that of its subsidiaries; (ii) issue, sell, pledge, dispose of or encumber any additional shares of, or securities convertible into or exchangeable for, or options, warrants, calls, commitments or rights of any kind to acquire, any shares of capital stock of any class of the Company or its subsidiaries, other than Shares issued upon the exercise of Options outstanding on September 27, 1998 in accordance with the Option Plans as in effect on September 27, 1998 or additional warrants issued in accordance with the terms of the Warrants; or (iii) split, combine or reclassify the outstanding capital stock of the Company or of any of the subsidiaries of the Company.

#### 14. CONDITIONS TO THE OFFER.

The Offer is subject to the Minimum Condition being satisfied by the Expiration Date or such later date as the Offer may be extended in accordance with the terms of the Merger Agreement. Purchaser has agreed that if all of the conditions set forth herein have not been satisfied on any scheduled Expiration Date then, provided that all such conditions are reasonably capable of being satisfied, Purchaser shall extend the Offer from time to time until such conditions are satisfied or waived, provided that Purchaser shall not be required to extend the Offer beyond March 1, 1999. Notwithstanding any other provision of the Offer, subject to the terms of the Merger Agreement, Purchaser shall not be required to accept for payment or pay for any Shares if (i) any applicable waiting period under the HSR Act has not expired or been terminated or (ii) at any time on or after the date of the Merger Agreement and prior to the Expiration Date, any of the following events shall occur:

(a) there shall be threatened or pending any suit, action or proceeding by a federal, state or foreign governmental entity (other than a suit, action or proceeding based on facts solely relating to Parent or Purchaser), (i) in connection with the Transactions, seeking to prohibit or impose any material limitations on Parent's or Purchaser's ownership or operation (or that of any of their respective Subsidiaries or Affiliates) of all or a material portion of their or the Company's businesses or assets, (ii) in connection with the Transactions, seeking to compel Parent or Purchaser or their respective Subsidiaries and Affiliates to dispose of or hold separate any material portion of the business or assets of the Company or Parent and their respective Subsidiaries, in each case taken as a whole, (iii) challenging the acquisition by Parent or Purchaser of any Shares pursuant to the Offer, (iv) seeking to restrain or prohibit the making or consummation of the Offer or the Merger or the performance of any of the other Transactions, (v) seeking to obtain from the Company any damages that would be reasonably likely to have a Material Adverse Effect on the Company, (vi) seeking to impose material limitations on the ability of Purchaser, or rendering Purchaser unable, to accept for payment, pay for or purchase some or all of the Shares pursuant to the Offer and the Merger, (vii) seeking to impose material limitations on the ability of Purchaser or Parent effectively to exercise full rights of ownership of the Shares, including, without limitation, the right to vote the Shares purchased by it on all matters properly presented to the Company's stockholders, or (viii) which otherwise is reasonably likely to have a Material Adverse Effect on the Company or, as a result of the Transactions, Parent and its Subsidiaries; or

(b) there shall be any statute, rule, regulation, judgment, order or injunction enacted, entered, enforced, promulgated or deemed applicable to the Offer or the Merger, or any other action shall be taken by any Governmental Entity, other than the application to the Offer or the Merger of applicable waiting periods under the HSR Act, that is reasonably likely to result, directly or indirectly, in any of the consequences referred to in clauses (i) through (viii) of paragraph (a) above; or

(c) there shall have occurred and be continuing (1) any general suspension of trading in, or limitation on prices for, securities on the New York Stock Exchange for a period in excess of three (3) hours (excluding suspensions or limitations resulting solely from physical damage or interference with such exchanges not related to market conditions), (2) a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States (whether or not mandatory) by any

Governmental Entity, (3) any limitation or proposed limitation (whether or not mandatory) by any United States governmental authority or agency that has a material adverse effect generally on the extension of credit by banks or other financial institutions, (4) any change in general financial bank or capital market conditions such that banks are unwilling to extend credit to A-1/P-1 borrowers generally, or (5) any decline in either the Dow Jones Industrial Average or the Standard & Poor's Index of 500 Industrial Companies by an amount in excess of 25% measured from the close of business on the date of the Merger Agreement; or

(d) the representations and warranties of the Company (without giving effect to any limitation as to "knowledge" set forth in the Merger Agreement) set forth in the Merger Agreement shall not be true and accurate as of the date of consummation of the Offer as though made on or as of such date (except for those representations and warranties that address matters only as of a particular date or only with respect to a specific period of time which need only be true and accurate as of such date or with respect to such period) or the Company shall have breached or failed to perform or comply with any obligation, agreement or covenant required by the Merger Agreement to be performed or complied with by it except, in each case where the failure of such representations and warranties to be true and accurate (without giving effect to any limitation as to "knowledge" "materiality" or "material adverse effect" set forth therein), or the failure to perform or comply with such obligations, agreements or covenants, do not, individually or in the aggregate, have a Material Adverse Effect on the Company or a materially adverse effect on the ability to consummate the Offer or the Merger; or

(e) there shall have occurred any events or changes which have had or which are reasonably likely to have or constitute, individually or in the aggregate, a Material Adverse Effect on the Company; or

(f) the Company Board (i) shall have withdrawn, or modified or changed in a manner adverse to Parent or Purchaser (including by amendment of the Schedule 14D-9) its recommendation of the Offer, the Merger Agreement, or the Merger, (ii) shall have recommended a Takeover Proposal or (iii) shall have adopted any resolution to effect any of the foregoing; or

(g) any Person or "group" (as defined in Section 13(d)(3) of the Exchange Act), other than Parent, Purchaser or their affiliates or any group of which any of them is a member, shall have acquired beneficial ownership (as determined pursuant to Rule 13d-3 promulgated under the Exchange Act) of 30% or more of the Shares; or

(h) the Merger Agreement shall have been terminated in accordance with its terms;

which in the sole good faith judgment of Parent or Purchaser, in any such case, and regardless of the circumstances (including any action or inaction by Parent or Purchaser) giving rise to such condition makes it inadvisable to proceed with the Offer and/or with such acceptance for payment of or payments for Shares.

The foregoing conditions (other than the Minimum Condition) are for the sole benefit of Parent and Purchaser and may be waived by Parent or Purchaser, in whole or in part, at any time and from time to time, in the sole discretion of Parent or Purchaser. The failure by Parent or Purchaser at any time to exercise any of the foregoing rights shall not be deemed a waiver of any right and each such right shall be deemed an ongoing right which may be asserted at any time and from time to time.

#### 15. CERTAIN LEGAL MATTERS.

General. Except as described in this Section 15, based on information provided by the Company, none of the Company, Purchaser or Parent is aware of any license or regulatory permit that appears to be material to the business of the Company and its subsidiaries, taken as a whole, that might be adversely affected by the acquisition of Shares by Parent or Purchaser pursuant to the Offer, the Merger or otherwise, except as set forth above, of any approval or other action by any governmental, administrative or regulatory agency or authority, domestic or foreign, that would be required prior to the acquisition of Shares by Purchaser pursuant to the Offer, the Merger or otherwise. Should any such approval or other action be required, Purchaser and Parent presently contemplate that such approval or other action will be sought, except as described below under "State Antitakeover Statutes." While, except as otherwise described in this Offer to Purchase,

Purchaser does not presently intend to delay the acceptance for payment of, or payment for, Shares tendered pursuant to the Offer pending the outcome of any such matter, there can be no assurance that any such approval or other action, if needed, would be obtained or would be obtained without substantial conditions or that failure to obtain any such approval or other action might not result in consequences adverse to the Company's business or that certain parts of the Company's business might not have to be disposed of, or other substantial conditions complied with, in the event that such approvals were not obtained or such other actions were not taken or in order to obtain any such approval or other action. If certain types of adverse action are taken with respect to the matters discussed below, Purchaser could decline to accept for payment, or pay for, any Shares tendered. See Section 14 for certain conditions to the Offer, including conditions with respect to governmental actions.

State Antitakeover Statutes. Section 203 of the DGCL, in general, prohibits a Delaware corporation, such as the Company, from engaging in a "Business Combination" (defined as a variety of transactions, including mergers) with an "Interested Stockholder" (defined generally as a person that is the beneficial owner of 15% or more of the outstanding voting stock of the subject corporation) for a period of three years following the date that such person became an Interested Stockholder unless, prior to the date such person became an Interested Stockholder, the board of directors of the corporation approved either the Business Combination or the transaction that resulted in the stockholder becoming an Interested Stockholder. The provisions of Section 203 of the DGCL are not applicable to any of the transactions contemplated by the Merger Agreement, since the Merger Agreement and the transactions contemplated thereby were approved by the Company Board prior to the execution thereof.

A number of states have adopted laws and regulations that purport to apply to attempts to acquire corporations that are incorporated in such states, or whose business operations have substantial economic effects in such states, or which have substantial assets, security holders, employees, principal executive offices or principal places of business in such states. In *Edgar v. MITE Corp.*, the Supreme Court of the United States (the "Supreme Court") invalidated on constitutional grounds the Illinois Business Takeover statute, which, as a matter of state securities law, made certain corporate acquisitions more difficult. However, in 1987, in *CTS Corp. v. Dynamics Corp. of America*, the Supreme Court held that the State of Indiana may, as a matter of corporate law and, in particular, with respect to those aspects of corporate law concerning corporate governance, constitutionally disqualify a potential acquiror from voting on the affairs of a target corporation without the prior approval of the remaining stockholders. The state law before the Supreme Court was by its terms applicable only to corporations that had a substantial number of stockholders in the state and were incorporated there.

Parent and Purchaser do not believe that the antitakeover laws and regulations of any state other than the State of Delaware will by their terms apply to the Offer, and, except as set forth above with respect to Section 203 of the DGCL, neither Parent nor Purchaser has attempted to comply with any state antitakeover statute or regulation. Purchaser reserves the right to challenge the applicability or validity of any state law purportedly applicable to the Offer and nothing in this Offer to Purchase or any action taken in connection with the Offer is intended as a waiver of such right. If it is asserted that any state antitakeover statute is applicable to the Offer and an appropriate court does not determine that it is inapplicable or invalid as applied to the Offer, Purchaser might be required to file certain information with, or to receive approvals from, the relevant state authorities, and Purchaser might be unable to accept for payment or pay for Shares tendered pursuant to the Offer or may be delayed in consummating the Offer. In such case, Purchaser may not be obligated to accept for payment, or pay for, any Shares tendered pursuant to the Offer. See Section 14.

Antitrust. The Offer and the Merger are subject to the HSR Act, which provides that certain acquisition transactions may not be consummated unless certain information has been furnished to the Antitrust Division of the Department of Justice (the "DOJ") and the Federal Trade Commission (the "FTC") and certain waiting period requirements have been satisfied.

Parent and the Company have filed their Notification and Report Forms with respect to the Offer under the HSR Act. The waiting period under the HSR Act with respect to the Offer will expire at 11:59 p.m., New York City time, on the fifteenth day after the date Parent's form was filed unless early termination of the

waiting period is granted. However, the DOJ or the FTC may extend the waiting period by requesting additional information or documentary material from Parent or the Company. If such a request is made, such waiting period will expire at 11:59 p.m., New York City time, on the tenth day after substantial compliance by Parent with such request. Only one extension of the waiting period pursuant to a request for additional information is authorized by the HSR Act. Thereafter, such waiting period may be extended only by court order or with the consent of Parent. In practice, complying with a request for additional information or material can take a significant amount of time. In addition, if the DOJ or the FTC raises substantive issues in connection with a proposed transaction, the parties frequently engage in negotiations with the relevant governmental agency concerning possible means of addressing those issues and may agree to delay consummation of the transaction while such negotiations continue. The Purchaser will not accept for payment Shares tendered pursuant to the Offer unless and until the waiting period requirements imposed by the HSR Act with respect to the Offer have been satisfied. See Section 14.

The FTC and the DOJ frequently scrutinize the legality under the Antitrust Laws of transactions such as Purchaser's acquisition of Shares pursuant to the Offer and the Merger. At any time before or after Purchaser's acquisition of Shares, the DOJ or the FTC could take such action under the Antitrust Laws as it deems necessary or desirable in the public interest, including seeking to enjoin the acquisition of Shares pursuant to the Offer or otherwise seeking divestiture of Shares acquired by Purchaser or divestiture of substantial assets of Parent or its subsidiaries. Private parties, as well as state governments, may also bring legal action under the Antitrust Laws under certain circumstances. Based upon an examination of information provided by the Company relating to the businesses in which Parent and the Company are engaged, Parent and Purchaser believe that the acquisition of Shares by Purchaser will not violate the Antitrust Laws. Nevertheless, there can be no assurance that a challenge to the Offer or other acquisition of Shares by Purchaser on antitrust grounds will not be made or, if such a challenge is made, of the result. See Section 14 for certain conditions to the Offer, including conditions with respect to litigation and certain government actions.

As used in this Offer to Purchase, "Antitrust Laws" shall mean and include the Sherman Act, as amended, the Clayton Act, as amended, the HSR Act, the Federal Trade Commission Act, as amended, and all other Federal and state statutes, rules, regulations, orders, decrees, administrative and judicial doctrines, and other laws that are designed or intended to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade.

Federal Reserve Board Regulations. Regulations G, U and X (the "Margin Regulations") of the Federal Reserve Board restrict the extension or maintenance of credit for the purpose of buying or carrying margin stock, including the Shares, if the credit is secured directly or indirectly by margin stock. Such secured credit may not be extended or maintained in an amount that exceeds the maximum loan value of all the direct and indirect collateral securing the credit, including margin stock and other collateral. The financing of the Offer will not be directly or indirectly secured by the Shares or other securities which constitute margin stock. Accordingly, all financing for the Offer will be in full compliance with the Margin Regulations.

#### 16. FEES AND EXPENSES.

Purchaser and Parent have retained D.F. King & Co. Inc. to serve as the Information Agent and BankBoston, N.A. to serve as the Depositary in connection with the Offer. The Information Agent may contact holders of Shares by personal interview, mail, telephone, telex, telegraph and other methods of electronic communication and may request brokers, dealers, commercial banks, trust companies and other nominees to forward the Offer materials to beneficial holders. The Information Agent and the Depositary will each receive reasonable and customary compensation for their services, be reimbursed for certain reasonable out-of-pocket expenses and be indemnified against certain liabilities in connection with their services, including certain liabilities and expenses under the federal securities laws.

Except as set forth above, neither Parent nor Purchaser will pay any fees or commissions to any broker or dealer or other person or entity in connection with the solicitation of tenders of Shares pursuant to the Offer.

Brokers, dealers, banks and trust companies will be reimbursed by Purchaser for customary mailing and handling expenses incurred by them in forwarding the Offer materials to their customers.

17. MISCELLANEOUS.

Purchaser is not aware of any state where the making of the Offer is prohibited by administrative or judicial action pursuant to any valid state statute. If Purchaser becomes aware of any valid state statute prohibiting the making of the Offer or the acceptance of the Shares pursuant thereto, Purchaser shall make a good faith effort to comply with such statute or seek to have such statute declared inapplicable to the Offer. If, after such good faith effort, Purchaser cannot comply with such state statute, the Offer will not be made to (nor will tenders be accepted from or on behalf of) holders of Shares in such state.

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION ON BEHALF OF PARENT OR PURCHASER NOT CONTAINED HEREIN OR IN THE LETTER OF TRANSMITTAL AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED.

Purchaser and Parent have filed with the Commission the Schedule 14D-1 pursuant to Rule 14d-3 under the Exchange Act, together with exhibits, furnishing certain additional information with respect to the Offer. In addition, the Company has filed with the Commission the Schedule 14D-9 pursuant to Rule 14d-9 under the Exchange Act, setting forth its recommendation with respect to the Offer and the reasons for its recommendation and furnishing certain additional related information. Such Schedules and any amendments thereto, including exhibits, should be available for inspection and copies should be obtainable in the same manner set forth in Section 9 of this Offer to Purchase (except that such material will not be available at the regional offices of the Commission).

NEW HIAC II CORP.

October 2, 1998

## SCHEDULE I

INFORMATION CONCERNING DIRECTORS AND EXECUTIVE OFFICERS OF  
PARENT AND PURCHASER

1. DIRECTORS AND EXECUTIVE OFFICERS OF PARENT. The following table sets forth the name and present principal occupation or employment, and material occupations, positions, offices or employments for the past five years, of each director and executive officer of Parent. Unless otherwise indicated, each such person is a citizen of the United States of America and the business address of each such person is c/o Hasbro, Inc. 1027 Newport Avenue, Pawtucket, RI 02861. Unless otherwise indicated, each occupation set forth opposite an individual's name refers to employment with Parent. Unless otherwise indicated, each such person has held his or her present occupation as set forth below, or has been an executive officer at Parent for the past five years.

NAME -----	PRESENT PRINCIPAL OCCUPATION OR EMPLOYMENT; MATERIAL POSITIONS HELD DURING THE PAST FIVE YEARS -----
DONAL A. BARKSDALE.....	Mr. Barksdale has been Chief Information Officer since 1997. Prior thereto, he was Senior Director of Applications Development at Anheuser Busch from 1996 to 1997. Prior thereto, he was Vice President and Director of Information Systems at General Electric Company.
ALAN R. BATKIN..... Director since 1992	Mr. Batkin is Vice Chairman of Kissinger Associates, Inc. (geopolitical strategic consulting firm) and a director of PEC Israel Economic Corporation. Mr. Batkin is a member of both the Executive Committee and the Compensation and Stock Option Committee.
HAROLD P. GORDON..... Director since 1988	Mr. Gordon has been Vice Chairman of the Board since 1995. Prior thereto, he was a Partner at Stikeman, Elliott (law firm). He is a director of Alliance Communications Corporation, Fonorola Inc. and G.T.C. Transcontinental Group, Ltd. Mr. Gordon is a citizen of Canada.
ALEX GRASS..... Director since 1981	Mr. Grass has been the Chairman of the Executive Committee of Rite Aid Corporation (drug store chain) since 1995. Prior thereto, he was the Chairman of the Board and Chief Executive Officer of Rite Aid Corporation. He is Chairman of the Board of SuperRite Corporation. Mr. Grass is a member of both the Audit Committee and the Compensation and the Stock Option Committee.
ALAN G. HASSENFELD..... Director since 1978	Mr. Hassenfeld has been Chairman of the Board, President and Chief Executive Officer since 1989. Mr. Hassenfeld is Chairman of the Executive Committee.
SYLVIA K. HASSENFELD..... Director since 1983	Mrs. Hassenfeld is the former Chairman of the Board since 1996 and from 1993 through 1996, she was the Chairman of the Board of the American Jewish Joint Distribution Committee, Inc. ("JDC"). Prior thereto, she was President of JDC. Mrs. Hassenfeld is Chair of the Nominating and Governance Committee.
RICHARD B. HOLT.....	Mr. Holt has been Senior Vice President and Controller since 1992.
VIRGINIA H. KENT.....	Ms. Kent has been President of Global Brands and Product Development since 1996. Prior thereto, she was General Manager, Girls/Boys/Nerf from 1994 to 1996. Prior thereto, she was Senior Vice President of Marketing for the Kenner Products Division.

PRESENT PRINCIPAL OCCUPATION OR EMPLOYMENT;  
MATERIAL POSITIONS HELD DURING THE PAST FIVE YEARS  
-----

NAME -----	
ADAM KLEIN.....	Mr. Klein has been President of Global Marketing & Strategy since 1998. Prior thereto, he was Executive Vice President -- Global Strategy & Development from 1996 to 1998. Prior thereto, he was President, Klein & Co., a consulting firm specializing in managing strategic change.
MARIE JOSEE KRAVIS..... Director since 1995	Mrs. Kravis has been a Senior Fellow of the Hudson Institute (public policy analysis) since 1994. Prior thereto, she was Executive Director of the Hudson Institute of Canada. She is a Visiting Fellow of the Council on Foreign Relations. She is also a director of the Canadian Imperial Bank of Commerce, Ford Motor Company, Hollinger International, Inc., The Seagram Company, Ltd. and Unimedia Inc. Mrs. Kravis is a member of the Compensation and Stock Option Committee. Mrs. Kravis is a citizen of the United States, Canada and Switzerland.
CLAUDINE B. MALONE..... Director since 1992	Ms. Malone is the President of Financial and Management Consulting, Inc., and a director of Dell Computer Corporation, Hannaford Brothers Co., Houghton Mifflin Company, Lafarge Corp., The Limited, Inc., Lowe's Companies, Inc., Mallinckrodt Group, Inc., Science Applications International Corporation and Union Pacific Resources Corporation. Ms. Malone is a member of the Audit Committee.
MORRIS W. OFFIT..... Director since 1995	Mr. Offit is Chairman and Chief Executive Officer of Offitbank (investment management) and a director of Cantel Industries, Inc. and Mercantile Bankshares Corporation. Mr. Offit is a member of the Audit Committee.
JOHN T. O'NEILL.....	Mr. O'Neill has been Executive Vice President and Chief Financial Officer since 1989. Mr. O'Neill is a Trustee of the Galaxy Funds.
NORMA T. PACE..... Director since 1984	Mrs. Pace has been the President of Paper Analytics Associates (economic consulting) since 1995. She is also the Senior Economic Advisor for the WEFA Group (economic consulting and planning). She is a director of Englehard Corporation. Mrs. Pace is both the Chair of the Audit Committee and a member of the Executive Committee.
CYNTHIA S. REED.....	Mrs. Reed has been Senior Vice President and General Counsel since 1995. Prior thereto, she was Vice President -- Legal.
E. JOHN ROSENWALD, JR..... Director since 1983	Mr. Rosenwald is the Vice Chairman of the Board of The Bear Stearns Companies Inc. (investment bankers) and a director of Cendant Corporation. Mr. Rosenwald is a member of the Executive Committee.

PRESENT PRINCIPAL OCCUPATION OR EMPLOYMENT;  
MATERIAL POSITIONS HELD DURING THE PAST FIVE YEARS  
-----

NAME -----	
CARL SPIELVOGEL..... Director since 1992	Mr. Spielvogel has been the Chairman and Chief Executive Officer of Carl Spielvogel Associates, Inc. (international investments) since 1997. Prior thereto, he was Chairman of the Board and Chief Executive Officer of United Auto Group, Inc. (operator of multiple-franchise auto dealerships) from 1994 to 1997. Prior thereto, Mr. Spielvogel was Chairman of the Board and Chairman of the Executive Committee of Backer Spielvogel Bates Worldwide, Inc. (advertising) during 1994. Prior thereto, he was Chairman and Chief Executive Officer of Backer Spielvogel Bates Worldwide, Inc. He is a director of Data Broadcasting Inc. Mr. Spielvogel is Chairman of the Compensation and Stock Option Committee.
PRESTON ROBERT TISCH..... Director since 1993	Mr. Tisch has been the Co-Chairman and Co-Chief Executive Officer of Loews Corporation since 1994. Prior thereto, he was President and Co-Chief Executive Officer of Loews Corporation. He is also a director of Bulova Watch Company, Inc., CNA Financial Corporation, Loews Corporation, Rite Aid Corporation and Chairman of the Board of the N.Y. Football Giants. Mr. Tisch is a member of the Nominating and Governance Committee.
MARTIN R. TRUEB.....	Mr. Trueb has been Senior Vice President and Treasurer since 1997. Prior thereto, Mr. Trueb was Assistant Treasurer of Amway Corporation from 1995 to 1997. Prior thereto, he was Director of International Treasury at RJR Nabisco, Inc.
ALFRED J. VERRECCHIA..... Director since 1992	Mr. Verrecchia has been the Executive Vice President and President -- Global Operations since 1996. Prior thereto, he was Chief Operating Officer of Domestic Toy Operations. Mr. Verrecchia is also a director of Old Stone Corporation.
GEORGE B. VOLANAKIS.....	Mr. Volanakis has been President of European Sales and Marketing since 1998. Prior thereto, he was President and CEO of the ERTL Company Inc. (a toy and hobby manufacturer and marketer). Mr. Volanakis is a director of Zindart Ltd.
PHILLIP H. WALDOKS.....	Mr. Waldoks has been Senior Vice President -- Corporate Legal Affairs and Secretary since 1995. Prior thereto, he was Senior Vice President -- Corporate Legal Affairs.
E. DAVID WILSON.....	Mr. Wilson has been President of Hasbro Americas since 1996. Prior thereto, he was President of the Hasbro Games Group from 1995 to 1996. Prior thereto, he was President of Milton Bradley Company.
PAUL WOLFOWITZ..... Director since 1995	Mr. Wolfowitz has been the Dean of Paul H. Nitze School of Advanced International Studies at the Johns Hopkins University since 1994. Prior thereto, he was a Distinguished Visiting Fellow, at the National Defense University and the George F. Kennan Professor of National Security Strategy, at the National War College during 1993. Prior thereto, Mr. Wolfowitz was Undersecretary of Defense for Policy, U.S. Department of Defense. Prior thereto, he was U.S. Ambassador to the Republic of Indonesia. He is a director of eleven mutual funds of the Dreyfus Corporation. Mr. Wolfowitz is a member of the Nominating and Governance Committee.

2. DIRECTORS AND EXECUTIVE OFFICERS OF PURCHASER. The following table sets forth the name and present principal occupation or employment, and material occupations, positions, offices or employments for the past five years, of each director and executive officer of Purchaser. Other than Mr. Gordon, who is a Canadian citizen, each such person is a citizen of the United States of America, and the business address of each such person is c/o Hasbro, Inc., 1027 Newport Avenue, Pawtucket, RI 02861. Unless otherwise indicated, each occupation set forth opposite an individual's name refers to employment with Parent. Unless otherwise indicated, each such person has held his or her present occupation as set forth below, or has been an executive officer at Parent, or the organization indicated, for the past five years.

NAME -----	PRESENT PRINCIPAL OCCUPATION OR EMPLOYMENT; MATERIAL POSITIONS HELD DURING THE PAST FIVE YEARS -----
ALAN G. HASSENFELD.....	Director and President of the Purchaser. See Part 1 of this Schedule I.
ALFRED J. VERRECCHIA.....	Director and Executive Vice President and President -- Global Operations of the Purchaser. See Part 1 of this Schedule I.
HAROLD P. GORDON.....	Director and Executive Vice President of the Purchaser. See Part 1 of this Schedule I.
JOHN T. O'NEILL.....	Executive Vice President and Chief Financial Officer of the Purchaser. See Part 1 of this Schedule I.
RICHARD B. HOLT.....	Senior Vice President and Controller of the Purchaser. See Part 1 of this Schedule I.
CYNTHIA S. REED.....	Senior Vice President and General Counsel of the Purchaser. See Part 1 of this Schedule I.
MARTIN R. TRUEB.....	Senior Vice President and Treasurer of the Purchaser. See Part 1 of this Schedule I.
PHILLIP H. WALDOKS.....	Senior Vice President -- Corporate Legal Affairs and Secretary of the Purchaser. See Part 1 of this Schedule I.

Facsimile copies of the Letter of Transmittal, properly completed and duly executed, will be accepted. The Letter of Transmittal, certificates for Shares and any other required documents should be sent or delivered by each stockholder of the Company or his broker, dealer, commercial bank, trust company or other nominee to the Depository, at the applicable address set forth below:

The Depository for the Offer is:

BANKBOSTON, N.A.

By Mail:  
BankBoston, N.A.  
Attention: Corporate  
Reorganization  
P.O. Box 8029  
Boston, MA 02266-8029

By Hand:  
Securities Transfer & Reporting  
Services, Inc.  
c/o Boston EquiServe L.P.  
1 Exchange Plaza  
55 Broadway, 3rd Floor  
New York, NY 10006

By Overnight Delivery:  
BankBoston, N.A.  
Attention: Corporate  
Reorganization  
150 Royall Street  
Canton, MA 02021

By Facsimile Transmission: (781) 575-2233 or (781) 575-2232

(For Eligible Institutions Only)

Confirm Facsimile by Telephone: (800) 733-5001

Any questions or requests for assistance or additional copies of this Offer to Purchase, the Letter of Transmittal, the Notice of Guaranteed Delivery and the other tender offer materials may be directed to the Information Agent at the address and telephone number set forth below. Stockholders may also contact their broker, dealer, commercial bank, trust company or other nominee for assistance concerning the Offer.

The Information Agent for the Offer is:

D.F. KING & CO., INC.  
77 Water Street  
New York, New York 10005  
CALL TOLL FREE: (800) 755-3107

## LETTER OF TRANSMITTAL

TO TENDER SHARES OF COMMON STOCK  
(INCLUDING THE ASSOCIATED PREFERRED STOCK PURCHASE RIGHTS)

OF

GALOOB TOYS, INC.  
PURSUANT TO THE OFFER TO PURCHASE  
DATED OCTOBER 2, 1998

OF

NEW HIAC II CORP.,  
A WHOLLY OWNED SUBSIDIARY OF  
HASBRO, INC.

THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK  
CITY TIME, ON FRIDAY, OCTOBER 30, 1998, UNLESS THE OFFER IS EXTENDED.

The Depositary for the Offer is:

BANKBOSTON, N.A.

By Mail:  
BankBoston, N.A.  
Attention: Corporate  
Reorganization  
P.O. Box 8029  
Boston, MA 02266-8029

By Hand:  
Securities Transfer & Reporting  
Services, Inc.  
c/o Boston EquiServe L.P.  
1 Exchange Plaza  
55 Broadway, 3rd Floor  
New York, NY 10006

By Overnight Delivery:  
BankBoston, N.A.  
Attention: Corporate  
Reorganization  
150 Royall Street  
Canton, MA 02021

By Facsimile Transmission: (781) 575-2233 or (781) 575-2233

(For Eligible Institutions Only)

Confirm Facsimile by Telephone: (800) 733-5001

DELIVERY OF THIS LETTER OF TRANSMITTAL TO AN ADDRESS OTHER THAN AS SET  
FORTH ABOVE, OR TRANSMISSION OF INSTRUCTIONS VIA FACSIMILE TO A NUMBER OTHER  
THAN AS SET FORTH ABOVE, WILL NOT CONSTITUTE A VALID DELIVERY TO THE DEPOSITARY.

THE INSTRUCTIONS CONTAINED WITHIN THIS LETTER OF TRANSMITTAL SHOULD BE READ  
CAREFULLY BEFORE THIS LETTER OF TRANSMITTAL IS COMPLETED.

This Letter of Transmittal is to be used by stockholders of Galoob Toys,  
Inc. if certificates for Shares (as such term is defined below) are to be  
forwarded herewith or, unless an Agent's Message (as defined in Instruction 2  
below) is utilized, if delivery of Shares is to be made by book-entry transfer  
to an account maintained by the Depositary at the Book-Entry Transfer Facility  
(as defined in and pursuant to the procedures set forth in Section 3 of the  
Offer to Purchase). Stockholders who deliver Shares by book-entry transfer are  
referred to herein as "Book-Entry Stockholders" and other stockholders who  
deliver shares are referred to herein as "Certificate Stockholders."

Stockholders whose certificates for Shares are not immediately available or  
who cannot deliver either the certificates for, or a Book-Entry Confirmation (as  
defined in Section 3 of the Offer to Purchase) with respect to, their Shares and  
all other documents required hereby to the Depositary prior to the Expiration  
Date (as defined in Section 1 of the Offer to Purchase) must tender their Shares  
pursuant to the guaranteed delivery procedures set forth in Section 3 of the  
Offer to Purchase. See Instruction 2. DELIVERY OF DOCUMENTS TO THE BOOK-ENTRY  
TRANSFER FACILITY WILL NOT CONSTITUTE DELIVERY TO THE DEPOSITARY.

[ ] CHECK HERE IF TENDERED SHARES ARE BEING DELIVERED BY BOOK-ENTRY TRANSFER TO THE DEPOSITARY'S ACCOUNT AT THE BOOK-ENTRY TRANSFER FACILITY AND COMPLETE THE FOLLOWING (ONLY PARTICIPANTS IN THE BOOK-ENTRY TRANSFER FACILITY MAY DELIVER SHARES BY BOOK-ENTRY TRANSFER):

Name of Tendering Institution

Account Number

Transaction Code Number

[ ] CHECK HERE IF TENDERED SHARES ARE BEING DELIVERED PURSUANT TO A NOTICE OF GUARANTEED DELIVERY PREVIOUSLY SENT TO THE DEPOSITARY AND COMPLETE THE FOLLOWING:

Name(s) of Registered Owner(s)

Window Ticket Number (if any)

Date of Execution of Notice of Guaranteed Delivery

Name of Institution that Guaranteed Delivery

If delivered by Book-Entry Transfer, check box: [ ]

Account Number

Transaction Code Number

DESCRIPTION OF SHARES TENDERED

NAME(S) AND ADDRESS(ES) OF REGISTERED HOLDER(S)  
(PLEASE FILL IN, IF BLANK, EXACTLY AS NAME(S)  
APPEAR(S) ON SHARE CERTIFICATE(S))

SHARES TENDERED  
(ATTACH ADDITIONAL SIGNED LIST IF NECESSARY)

CERTIFICATE NUMBER(S)(1)	TOTAL NUMBER OF SHARES REPRESENTED BY CERTIFICATE(S)(1)	NUMBER OF SHARES TENDERED(2)
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Total Shares

(1) NEED NOT BE COMPLETED BY BOOK-ENTRY STOCKHOLDERS.

(2) UNLESS OTHERWISE INDICATED, IT WILL BE ASSUMED THAT ALL SHARES REPRESENTED BY SHARE CERTIFICATES DELIVERED TO THE DEPOSITARY ARE BEING TENDERED HEREBY. SEE INSTRUCTION 4.

NOTE: SIGNATURES MUST BE PROVIDED BELOW.

PLEASE READ THE INSTRUCTIONS SET FORTH IN THIS LETTER OF TRANSMITTAL CAREFULLY.

Ladies and Gentlemen:

The undersigned hereby tenders to New HIAC II Corp., a Delaware corporation ("Purchaser") and a wholly owned subsidiary of Hasbro, Inc., a Rhode Island corporation ("Parent"), the above-described shares of common stock, par value \$0.01 per share (the "Common Stock"), including the associated preferred stock purchase rights (the "Rights" and, together with the Common Stock, the "Shares"), of Galoob Toys, Inc., a Delaware corporation (the "Company"), pursuant to Purchaser's offer to purchase all of the outstanding Shares at a price of \$12.00 per Share, net to the seller in cash, without interest thereon (the "Offer Price") upon the terms and subject to the conditions set forth in the Offer to Purchase dated October 2, 1998, and in this Letter of Transmittal (which, together with any amendments or supplements thereto or hereto, collectively constitute the "Offer"). The undersigned understands that Purchaser reserves the right to transfer or assign, in whole at any time, or in part from time to time, to one or more of its affiliates, the right to purchase all or any portion of the Shares tendered pursuant to the Offer, but any such transfer or assignment will not relieve Purchaser of its obligations under the Offer and will in no way prejudice the rights of tendering stockholders to receive payment for Shares validly tendered and accepted for payment pursuant to the Offer. Receipt of the Offer is hereby acknowledged.

The Company has distributed one Right for each outstanding Share pursuant to the Rights Agreement (as defined in the Offer to Purchase). The Rights are currently evidenced by and trade with certificates evidencing the Common Stock. The Company has taken such action so as to make the Rights Agreement inapplicable to Parent, Purchaser and their respective affiliates and associates in connection with the Transactions contemplated by the Merger Agreement (as such terms are defined in the Offer to Purchase).

The Offer is being made pursuant to an Agreement and Plan of Merger, dated as of September 27, 1998 (the "Merger Agreement"), by and among Parent, Purchaser and the Company.

Upon the terms and subject to the conditions of the Offer (and if the Offer is extended or amended, the terms of any such extension or amendment), subject to, and effective upon, acceptance for payment of, and payment for, the Shares tendered herewith in accordance with the terms of the Offer, the undersigned hereby sells, assigns and transfers to, or upon the order of, Purchaser all right, title and interest in and to all the Shares that are being tendered hereby (and any and all non-cash dividends, distributions, rights, other Shares or other securities issued or issuable in respect thereof on or after September 27, 1998 (collectively, "Distributions")) and irrevocably constitutes and appoints the Depository the true and lawful agent and attorney-in-fact of the undersigned with respect to such Shares (and all Distributions), with full power of substitution (such power of attorney being deemed to be an irrevocable power coupled with an interest), to (i) deliver certificates for such Shares (and any and all Distributions), or transfer ownership of such Shares (and any and all Distributions) on the account books maintained by the Book-Entry Transfer Facility, together, in any such case, with all accompanying evidences of transfer and authenticity, to or upon the order of Purchaser, (ii) present such Shares (and any and all Distributions) for transfer on the books of the Company, and (iii) receive all benefits and otherwise exercise all rights of beneficial ownership of such Shares (and any and all Distributions), all in accordance with the terms of the Offer.

By executing this Letter of Transmittal, the undersigned hereby irrevocably appoints Alan G. Hassenfeld, Harold P. Gordon and Alfred J. Verrecchia in their respective capacities as officers of Purchaser, and any individual who shall thereafter succeed to any such office of Purchaser, and each of them, the attorneys-in-fact and proxies of the undersigned, each with full power of substitution, to vote at any annual or special meeting of the Company's stockholders or any adjournment or postponement thereof or otherwise in such manner as each such attorney-in-fact and proxy or his substitute shall in his sole discretion deem proper with respect to, to execute any written consent concerning any matter as each such attorney-in-fact and proxy or his substitute shall in his sole discretion deem proper with respect to, and to otherwise act as each such attorney-in-fact and proxy or his substitute shall in his sole discretion deem proper with respect to, all of the Shares (and any and all Distributions) tendered hereby and accepted for payment by Purchaser. This appointment will be effective if and when, and only to the extent that, Purchaser accepts such Shares for payment pursuant to the Offer. This power of attorney and proxy are irrevocable and are granted in consideration of the acceptance for payment of such Shares in accordance with the terms of the Offer. Such acceptance for payment shall, without further action, revoke any prior powers of attorney and proxies granted by the undersigned at any time with respect to such Shares (and any and all Distributions), and no subsequent powers of attorney, proxies, consents or revocations may be given by the undersigned with respect thereto (and, if given, will not be deemed effective). Purchaser reserves the right to require that, in order for Shares or other securities to be deemed validly tendered, immediately upon Purchaser's acceptance for payment of such Shares, Purchaser must be able to exercise full voting, consent and other rights with respect to such Shares (and any and all Distributions), including voting at any meeting of the Company's stockholders.

The undersigned hereby represents and warrants that the undersigned has full power and authority to tender, sell, assign and transfer the Shares tendered hereby and all Distributions, that the undersigned owns the Shares tendered hereby within the meaning of Rule 14e-4 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that the tender of the tendered Shares complies with Rule 14e-4 under the Exchange Act, and that when the same are accepted for payment by Purchaser, Purchaser will acquire good, marketable and unencumbered title thereto and to all Distributions, free and clear of all liens, restrictions, charges and encumbrances and the same will not be subject to any adverse claims. The undersigned will, upon request, execute and deliver any additional documents deemed by the Depository or Purchaser to be necessary or desirable to complete the sale, assignment and transfer of the Shares tendered hereby and all Distributions. In addition, the undersigned shall remit and transfer promptly to the Depository for the account of Purchaser all Distributions in respect of the Shares tendered hereby, accompanied by appropriate documentation of transfer, and, pending such remittance and transfer or appropriate assurance thereof, Purchaser shall be entitled to all rights and privileges as owner of each such Distribution and may withhold the entire purchase price of the Shares tendered hereby or deduct from such purchase price, the amount or value of such Distribution as determined by Purchaser in its sole discretion.

All authority herein conferred or agreed to be conferred shall survive the death or incapacity of the undersigned, and any obligation of the undersigned hereunder shall be binding upon the heirs, executors, administrators, personal representatives, trustees in bankruptcy, successors and assigns of the undersigned. Except as stated in the Offer, this tender is irrevocable.

The undersigned understands that the valid tender of Shares pursuant to any one of the procedures described in Section 3 of the Offer to Purchase and in the Instructions hereto will constitute a binding agreement between the undersigned and Purchaser upon the terms and subject to the conditions of the Offer (and if the Offer is extended or amended, the terms or conditions of any such extension or amendment). Without limiting the foregoing, if the price to be paid in the Offer is amended in accordance with the terms of the Merger Agreement, the price to be paid to the undersigned will be the amended price notwithstanding the fact that a different price is stated in this Letter of Transmittal. The undersigned recognizes that under certain circumstances set forth in the Offer to Purchase, Purchaser may not be required to accept for payment any of the Shares tendered hereby.

Unless otherwise indicated under "Special Payment Instructions," please issue the check for the purchase price of all Shares purchased and/or return any certificates for Shares not tendered or accepted for payment in the name(s) of the registered holder(s) appearing above under "Description of Shares Tendered." Similarly, unless otherwise indicated under "Special Delivery Instructions," please mail the check for the purchase price of all Shares purchased and/or return any certificates for Shares not tendered or not accepted for payment (and any accompanying documents, as appropriate) to the address(es) of the registered holder(s) appearing above under "Description of Shares Tendered." In the event that the boxes entitled "Special Payment Instructions" and "Special Delivery Instructions" are both completed, please issue the check for the purchase price of all Shares purchased and/or return any certificates evidencing Shares not tendered or not accepted for payment (and any accompanying documents, as appropriate) in the name(s) of, and deliver such check and/or return any such certificates (and any accompanying documents, as appropriate) to, the person(s) so indicated. Unless otherwise indicated herein in the box entitled "Special Payment Instructions," please credit any Shares tendered herewith by book-entry transfer that are not accepted for payment by crediting the account at the Book-Entry Transfer Facility designated above. The undersigned recognizes that Purchaser has no obligation, pursuant to the "Special Payment Instructions," to transfer any Shares from the name of the registered holder thereof if Purchaser does not accept for payment any of the Shares so tendered.

[ ] CHECK HERE IF ANY OF THE CERTIFICATES REPRESENTING SHARES THAT YOU OWN HAVE BEEN LOST, DESTROYED OR STOLEN AND SEE INSTRUCTION 11.

NUMBER OF SHARES REPRESENTED BY LOST, DESTROYED OR STOLEN CERTIFICATES:

SPECIAL PAYMENT INSTRUCTIONS  
(SEE INSTRUCTIONS 1, 5, 6 AND 7)

To be completed ONLY if the check for the purchase price of Shares accepted for payment is to be issued in name of someone other than the undersigned, if certificates for Shares not tendered or not accepted for payment are to be issued in the name of someone other than the undersigned or if Shares tendered hereby and delivered by book-entry transfer that are not accepted for payment are to be returned by credit to an account maintained at a Book-Entry Transfer Facility other than the account indicated above.

Issue check and/or Share certificate(s) to:

Name  
-----  
(PLEASE PRINT)

Address  
-----  
(INCLUDE ZIP CODE)

-----  
(TAXPAYER IDENTIFICATION OR SOCIAL SECURITY NUMBER)  
(SEE SUBSTITUTE FORM W-9)

Credit Shares delivered by book-entry transfer and not purchased to the Book-Entry Transfer Facility account.

-----  
(ACCOUNT NUMBER)  
-----

SPECIAL DELIVERY INSTRUCTIONS  
(SEE INSTRUCTIONS 1, 5, 6 AND 7)

To be completed ONLY if certificates for Shares not tendered or not accepted for payment and/or the check for the purchase price of Shares accepted for payment is to be sent to someone other than the undersigned or to the undersigned at an address other than that shown under "Description of Shares Tendered."

Mail check and/or Share certificates to:

Name  
-----  
(PLEASE PRINT)

Address  
-----  
(INCLUDE ZIP CODE)

-----  
(TAXPAYER IDENTIFICATION OR SOCIAL SECURITY NUMBER)  
(SEE SUBSTITUTE FORM W-9)  
-----

SIGN HERE  
(ALSO COMPLETE SUBSTITUTE FORM W-9 BELOW)

-----  
-----  
(SIGNATURE(S) OF STOCKHOLDER(S))

Dated:

-----, 1998

(Must be signed by registered holder(s) exactly as name(s) appear(s) on the Share certificate(s) or on a security position listing or by person(s) authorized to become registered holder(s) by certificates and documents transmitted herewith. If signature is by trustee, executor, administrator, guardian, attorney-in-fact, officer of a corporation or other person acting in a fiduciary or representative capacity, please provide the following information and see Instruction 5.)

Name(s)  
-----  
-----

(PLEASE PRINT)

Name of Firm  
-----

Capacity (full title)  
-----

(SEE INSTRUCTION 5)

Address  
-----  
-----

(INCLUDE ZIP CODE)

Area Code and Telephone Number  
-----

Taxpayer Identification or Social Security Number  
-----

(SEE SUBSTITUTE FORM W-9)  
GUARANTEE OF SIGNATURE(S)  
(SEE INSTRUCTIONS 1 AND 5)

Authorized Signature  
-----

Name(s)  
-----  
-----

(PLEASE PRINT)

Title  
-----

Name of Firm  
-----

Address  
-----  
-----

(INCLUDE ZIP CODE)

Area Code and Telephone Number  
-----

INSTRUCTIONS  
FORMING PART OF THE TERMS AND CONDITIONS OF THE OFFER

1. **GUARANTEE OF SIGNATURES.** No signature guarantee is required on this Letter of Transmittal (a) if this Letter of Transmittal is signed by the registered holder(s) (which term, for purposes of this Section, includes any participant in any of the Book-Entry Transfer Facility's systems whose name appears on a security position listing as the owner of the Shares) of Shares tendered herewith, unless such registered holder(s) has completed either the box entitled "Special Payment Instructions" or the box entitled "Special Delivery Instructions" on the Letter of Transmittal or (b) if such Shares are tendered for the account of a financial institution (including most commercial banks, savings and loan associations and brokerage houses) that is a participant in the Security Transfer Agents Medallion Program, the New York Stock Exchange Medallion Signature Guarantee Program or the Stock Exchange Medallion Program (each, an "Eligible Institution"). In all other cases, all signatures on this Letter of Transmittal must be guaranteed by an Eligible Institution. See Instruction 5.

2. **DELIVERY OF LETTER OF TRANSMITTAL AND SHARES; GUARANTEED DELIVERY PROCEDURES.** This Letter of Transmittal is to be completed by stockholders of the Company either if Share certificates are to be forwarded herewith or, unless an Agent's Message is utilized, if delivery of Shares is to be made by book-entry transfer pursuant to the procedures set forth herein and in Section 3 of the Offer to Purchase. For a stockholder validly to tender Shares pursuant to the Offer, either (a) a properly completed and duly executed Letter of Transmittal (or facsimile thereof), together with any required signature guarantees or an Agent's Message (in connection with book-entry transfer) and any other required documents, must be received by the Depository at one of its addresses set forth herein prior to the Expiration Date and either (i) certificates for tendered Shares must be received by the Depository at one of such addresses prior to the Expiration Date or (ii) Shares must be delivered pursuant to the procedures for book-entry transfer set forth herein and in Section 3 of the Offer to Purchase and a Book-Entry Confirmation must be received by the Depository prior to the Expiration Date or (b) the tendering stockholder must comply with the guaranteed delivery procedures set forth herein and in Section 3 of the Offer to Purchase.

Stockholders whose certificates for Shares are not immediately available or who cannot deliver their certificates and all other required documents to the Depository prior to the Expiration Date or who cannot comply with the book-entry transfer procedures on a timely basis may tender their Shares by properly completing and duly executing the Notice of Guaranteed Delivery pursuant to the guaranteed delivery procedure set forth herein and in Section 3 of the Offer to Purchase.

Pursuant to such guaranteed delivery procedures, (i) such tender must be made by or through an Eligible Institution, (ii) a properly completed and duly executed Notice of Guaranteed Delivery, substantially in the form provided by Purchaser, must be received by the Depository prior to the Expiration Date and (iii) the certificates for all tendered Shares, in proper form for transfer (or a Book-Entry Confirmation with respect to all tendered Shares), together with a properly completed and duly executed Letter of Transmittal (or a facsimile thereof), with any required signature guarantees, or, in the case of a book-entry transfer, an Agent's Message, and any other required documents must be received by the Depository within three trading days after the date of execution of such Notice of Guaranteed Delivery. A "trading day" is any day on which the New York Stock Exchange is open for business.

The term "Agent's Message" means a message, transmitted by the Book-Entry Transfer Facility to, and received by, the Depository and forming a part of a Book-Entry Confirmation, which states that such Book-Entry Transfer Facility has received an express acknowledgment from the participant in such Book-Entry Transfer Facility tendering the Shares, that such participant has received and agrees to be bound by the terms of the Letter of Transmittal and that Purchaser may enforce such agreement against the participant.

The signatures on this Letter of Transmittal cover the Shares tendered hereby.

THE METHOD OF DELIVERY OF THE SHARES, THIS LETTER OF TRANSMITTAL AND ALL OTHER REQUIRED DOCUMENTS, INCLUDING DELIVERY THROUGH THE BOOK-ENTRY TRANSFER FACILITY, IS AT THE ELECTION AND RISK OF THE TENDERING STOCKHOLDER. THE SHARES WILL BE DEEMED DELIVERED ONLY WHEN ACTUALLY RECEIVED BY THE DEPOSITARY (INCLUDING, IN THE CASE OF A BOOK-ENTRY TRANSFER, BY BOOK-ENTRY CONFIRMATION). IF DELIVERY IS BY

MAIL, REGISTERED MAIL WITH RETURN RECEIPT REQUESTED, PROPERLY INSURED, IS RECOMMENDED. IN ALL CASES, SUFFICIENT TIME SHOULD BE ALLOWED TO ENSURE TIMELY DELIVERY.

No alternative, conditional or contingent tenders will be accepted, and no fractional Shares will be purchased. All tendering stockholders, by executing this Letter of Transmittal (or facsimile thereof), waive any right to receive any notice of acceptance of their Shares for payment.

3. INADEQUATE SPACE. If the space provided herein under "Description of Shares Tendered" is inadequate, the number of Shares tendered and the Share certificate numbers with respect to such Shares should be listed on a separate signed schedule attached hereto.

4. PARTIAL TENDERS. (Not applicable to stockholders who tender by book-entry transfer). If fewer than all the Shares evidenced by any Share certificate delivered to the Depository herewith are to be tendered hereby, fill in the number of Shares that are to be tendered in the box entitled "Number of Shares Tendered." In any such case, new certificate(s) for the remainder of the Shares that were evidenced by the old certificates will be sent to the registered holder, unless otherwise provided in the appropriate box on this Letter of Transmittal, as soon as practicable after the Expiration Date or the termination of the Offer. All Shares represented by certificates delivered to the Depository will be deemed to have been tendered unless otherwise indicated.

5. SIGNATURES ON LETTER OF TRANSMITTAL; STOCK POWERS AND ENDORSEMENTS. If this Letter of Transmittal is signed by the registered holder(s) of the Shares tendered hereby, the signature(s) must correspond with the name(s) as written on the face of the certificate(s) without alteration, enlargement or any change whatsoever.

If any of the Shares tendered hereby are held of record by two or more joint owners, all such owners must sign this Letter of Transmittal.

If any of the tendered Shares are registered in different names on several certificates, it will be necessary to complete, sign and submit as many separate Letters of Transmittal as there are different registrations of certificates.

If this Letter of Transmittal or any Share certificate or stock power is signed by a trustee, executor, administrator, guardian, attorney-in-fact, officer of a corporation or other person acting in a fiduciary or representative capacity, such person should so indicate when signing, and proper evidence satisfactory to Purchaser of the authority of such person so to act must be submitted.

If this Letter of Transmittal is signed by the registered holder(s) of the Shares listed and transmitted hereby, no endorsements of Share certificates or separate stock powers are required unless payment or certificates for Shares not tendered or not accepted for payment are to be issued in the name of a person other than the registered holder(s). Signatures on any such Share certificates or stock powers must be guaranteed by an Eligible Institution.

If this Letter of Transmittal is signed by a person other than the registered holder(s) of the Shares evidenced by certificates listed and transmitted hereby, the Share certificates must be endorsed or accompanied by appropriate stock powers, in either case signed exactly as the name(s) of the registered holder(s) appear(s) on the Share certificates. Signature(s) on any such Share certificates or stock powers must be guaranteed by an Eligible Institution.

6. STOCK TRANSFER TAXES. Except as otherwise provided in this Instruction 6, Purchaser will pay all stock transfer taxes with respect to the transfer and sale of any Shares to it or its order pursuant to the Offer. If, however, payment of the purchase price of any Shares purchased is to be made to, or if certificates for Shares not tendered or not accepted for payment are to be registered in the name of, any person other than the registered holder(s), or if tendered certificates are registered in the name of any person other than the person(s) signing this Letter of Transmittal, the amount of any stock transfer taxes (whether imposed on the registered holder(s) or such other person) payable on account of the transfer to such other person will be deducted from the purchase price of such Shares purchased unless evidence satisfactory to Purchaser of the payment of such taxes, or exemption therefrom, is submitted.

Except as provided in this Instruction 6, it will not be necessary for transfer tax stamps to be affixed to the Share certificates evidencing the Shares tendered hereby.

7. SPECIAL PAYMENT AND DELIVERY INSTRUCTIONS. If a check for the purchase price of any Shares accepted for payment is to be issued in the name of, and/or Share certificates for Shares not accepted for payment or not tendered are to be issued in the name of and/or returned to, a person other than the signer of this Letter of Transmittal or if a check is

to be sent, and/or such certificates are to be returned, to a person other than the signer of this Letter of Transmittal, or to an address other than that shown above, the appropriate boxes on this Letter of Transmittal should be completed. Any stockholder(s) delivering Shares by book-entry transfer may request that Shares not purchased be credited to such account maintained at the Book-Entry Transfer Facility as such stockholder(s) may designate in the box entitled "Special Payment Instructions." If no such instructions are given, any such Shares not purchased will be returned by crediting the account at the Book-Entry Transfer Facility designated above as the account from which such Shares were delivered.

8. REQUESTS FOR ASSISTANCE OR ADDITIONAL COPIES. Questions and requests for assistance or additional copies of the Offer to Purchase, this Letter of Transmittal, the Notice of Guaranteed Delivery and the Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9 may be directed to the Information Agent at its address and phone number set forth below, or from brokers, dealers, commercial banks or trust companies.

9. WAIVER OF CONDITIONS. Subject to the Merger Agreement, Purchaser reserves the absolute right in its sole discretion to waive, at any time or from time to time, any of the specified conditions of the Offer, in whole or in part, in the case of any Shares tendered.

10. BACKUP WITHHOLDING. In order to avoid "backup withholding" of federal income tax on payments of cash pursuant to the Offer, a stockholder surrendering Shares in the Offer must, unless an exemption applies, provide the Depository with such stockholder's correct taxpayer identification number ("TIN") on Substitute Form W-9 in this Letter of Transmittal and certify, under penalties of perjury, that such TIN is correct and that such stockholder is not subject to backup withholding.

Backup withholding is not an additional income tax. Rather, the amount of the backup withholding can be credited against the federal income tax liability of the person subject to the backup withholding, provided that the required information is given to the IRS. If backup withholding results in an overpayment of tax, a refund can be obtained by the stockholder upon filing an income tax return.

The stockholder is required to give the Depository the TIN (i.e., social security number or employer identification number) of the record owner of the Shares. If the Shares are held in more than one name or are not in the name of the actual owner, consult the enclosed "Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9" for additional guidance on which number to report.

The box in Part 3 of the Substitute Form W-9 may be checked if the tendering stockholder has not been issued a TIN and has applied for a TIN or intends to apply for a TIN in the near future. If the box in Part 3 is checked, the stockholder or other payee must also complete the Certificate of Awaiting Taxpayer Identification Number below in order to avoid backup withholding. Notwithstanding that the box in Part 3 is checked and the Certificate of Awaiting Taxpayer Identification Number is completed, the Depository will withhold 31% on all payments made prior to the time a properly certified TIN is provided to the Depository. However, such amounts will be refunded to such stockholder if a TIN is provided to the Depository within 60 days.

Certain stockholders (including, among others, all corporations and certain foreign individuals and entities) are not subject to backup withholding. Noncorporate foreign stockholders should complete and sign the main signature form and a Form W-8, Certificate of Foreign Status, a copy of which may be obtained from the Depository, in order to avoid backup withholding. See the enclosed "Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9" for more instructions.

11. LOST, DESTROYED OR STOLEN SHARE CERTIFICATES. If any certificate(s) representing Shares has been lost, destroyed or stolen, the stockholder should promptly notify the Depository by checking the box immediately preceding the special payment/special delivery instructions and indicating the number of Shares lost. The stockholder will then be instructed as to the steps that must be taken in order to replace the Share certificate(s). This Letter of Transmittal and related documents cannot be processed until the procedures for replacing lost, destroyed or stolen Share certificates have been followed.

IMPORTANT: THIS LETTER OF TRANSMITTAL (OR FACSIMILE HEREOF) TOGETHER WITH ANY REQUIRED SIGNATURE GUARANTEES, OR, IN THE CASE OF A BOOK-ENTRY TRANSFER, AN AGENT'S MESSAGE, AND ANY OTHER REQUIRED DOCUMENTS, MUST BE RECEIVED BY THE DEPOSITORY PRIOR TO THE EXPIRATION DATE AND EITHER CERTIFICATES FOR TENDERED SHARES MUST BE

RECEIVED BY THE DEPOSITARY OR SHARES MUST BE DELIVERED PURSUANT TO THE PROCEDURES FOR BOOK-ENTRY TRANSFER, IN EACH CASE PRIOR TO THE EXPIRATION DATE, OR THE TENDERING STOCKHOLDER MUST COMPLY WITH THE PROCEDURES FOR GUARANTEED DELIVERY.

#### IMPORTANT TAX INFORMATION

Under Federal income tax law, a stockholder whose tendered Shares are accepted for payment is required to provide the Depositary (as payer) with such stockholder's correct taxpayer identification number on Substitute Form W-9 below. If such stockholder is an individual, the taxpayer identification number is his social security number. If a tendering stockholder is subject to backup withholding, such stockholder must cross out item (2) of the Certification box on the Substitute Form W-9. If the Depositary is not provided with the correct taxpayer identification number, the stockholder may be subject to a \$50 penalty imposed by the Internal Revenue Service. In addition, payments that are made to such stockholder with respect to Shares purchased pursuant to the Offer may be subject to backup withholding.

Certain stockholders (including, among others, all corporations, and certain foreign individuals) are not subject to these backup withholding and reporting requirements. In order for a foreign individual to qualify as an exempt recipient, that stockholder must submit a statement, signed under penalties of perjury, attesting to that individual's exempt status. Such statements can be obtained from the Depositary. Exempt stockholders, other than foreign individuals, should furnish their TIN, write "Exempt" on the face of the Substitute Form W-9 below, and sign, date and return the Substitute Form W-9 to the Depositary. See the enclosed Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9 for additional instructions.

If backup withholding applies, the Depositary is required to withhold 31% of any payments made to the stockholder. Backup withholding is not an additional tax. Rather, the tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund may be obtained from the Internal Revenue Service.

#### PURPOSE OF SUBSTITUTE FORM W-9

To prevent backup withholding on payments that are made to a stockholder with respect to Shares purchased pursuant to the Offer, the stockholder is required to notify the Depositary of such stockholder's correct taxpayer identification number by completing the form contained herein certifying that the taxpayer identification number provided on Substitute Form W-9 is correct (or that such stockholder is awaiting a taxpayer identification number).

#### WHAT NUMBER TO GIVE THE DEPOSITARY

The stockholder is required to give the Depositary the social security number or employer identification number of the record owner of the Shares. If the Shares are in more than one name or are not in the name of the actual owner, consult the enclosed Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9 for additional guidance on which number to report. If the tendering stockholder has not been issued a TIN and has applied for a number or intends to apply for a number in the near future, such stockholder should write "Applied For" in the space provided for in the TIN in Part 1, and sign and date the Substitute Form W-9. If "Applied For" is written in Part I and the Depositary is not provided with a TIN within sixty (60) days, the Depositary will withhold 31% on all payments of the purchase price until a TIN is provided to the Depositary.

PAYOR'S NAME: BANKBOSTON, N.A.

SUBSTITUTE FORM W-9 DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE

PART I -- PLEASE PROVIDE YOUR TIN IN THE BOX AT RIGHT AND CERTIFY BY SIGNING AND DATING BELOW

Social Security Number (If awaiting TIN write "Applied For") OR

Employer Identification Number (If awaiting TIN write "Applied For")

PAYER'S REQUEST FOR TAXPAYER IDENTIFICATION NUMBER ("TIN")

PART 2 -- CERTIFICATE -- Under penalties of perjury, I certify that: (1) The number shown on this form is my correct Taxpayer Identification Number (or I am waiting for a number to be issued for me), and (2) I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (the "IRS") that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding.

CERTIFICATION INSTRUCTIONS -- You must cross out item (2) above if you have been notified by the IRS that you are currently subject to backup withholding because of under-reporting interest or dividends on your tax returns. However, if after being notified by the IRS that you are subject to backup withholding, you receive another notification from the IRS that you are no longer subject to backup withholding, do not cross out such item (2). (Also see instructions in the enclosed Guidelines).

SIGNATURE \_\_\_\_\_ DATE , 1998 Part 3 -- Awaiting TIN [ ]

NOTE: FAILURE TO COMPLETE AND RETURN THIS FORM MAY RESULT IN BACKUP WITHHOLDING OF 31% OF ANY CASH PAYMENTS MADE TO YOU PURSUANT TO THE OFFER. PLEASE REVIEW THE ENCLOSED GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION NUMBER ON SUBSTITUTE FORM W-9 FOR ADDITIONAL DETAILS.

YOU MUST COMPLETE THE FOLLOWING CERTIFICATE IF YOU CHECKED THE BOX IN PART 3 OF THE SUBSTITUTE FORM W-9.

CERTIFICATE OF AWAITING TAXPAYER IDENTIFICATION NUMBER

I certify under penalties of perjury that a Taxpayer Identification Number has not been issued to me, and either (1) I have mailed or delivered an application to receive a Taxpayer Identification Number to the appropriate Internal Revenue Service Center or Social Security Administration Office or (2) I intend to mail or deliver an application in the near future. I understand that if I do not provide a Taxpayer Identification Number to the Depository by the time of payment, 31% of all reportable payments made to me thereafter will be withheld, but that such amounts will be refunded to me if I provide a certified Taxpayer Identification Number to the Depository within sixty (60) days.

Signature \_\_\_\_\_

Date \_\_\_\_\_

1998

Questions and requests for assistance or additional copies of the Offer to Purchase, this Letter of Transmittal and other tender offer materials may be directed to the Information Agent at its address and telephone number set forth below:

The Information Agent for the Offer is:

D.F. KING & CO., INC.  
77 Water Street  
New York, NY 10005  
CALL TOLL FREE: (800) 755-3107

## NOTICE OF GUARANTEED DELIVERY

FOR  
TENDER OF SHARES OF COMMON STOCK  
(INCLUDING THE ASSOCIATED PREFERRED STOCK PURCHASE RIGHTS)

OF

GALOOB TOYS, INC.

TO

NEW HIAC II CORP.,

A WHOLLY OWNED SUBSIDIARY OF

HASBRO, INC.

(NOT TO BE USED FOR SIGNATURE GUARANTEES)

This Notice of Guaranteed Delivery, or a form substantially equivalent hereto, must be used to accept the Offer (as defined below) if certificates representing shares of Common Stock, par value \$0.01 per share (the "Common Stock"), including the associated preferred stock purchase rights (the "Rights" and, together with the Common Stock, the "Shares"), of Galoob Toys, Inc., a Delaware corporation, are not immediately available, if the procedure for book-entry transfer cannot be completed prior to the Expiration Date (as defined in Section 1 of the Offer to Purchase), or if time will not permit all required documents to reach the Depository prior to the Expiration Date. Such form may be delivered by hand, transmitted by facsimile transmission or mailed to the Depository. See Section 3 of the Offer to Purchase.

The Depository for the Offer is:  
BANKBOSTON, N.A.

By Hand:  
Securities Transfer & Reporting Services, Inc.  
c/o Boston EquiServe L.P.  
1 Exchange Plaza  
55 Broadway, 3rd Floor  
New York, NY 10006

By Mail:  
BankBoston, N.A.  
Attention:  
Corporate Reorganization  
P.O. Box 8029  
Boston, MA 02266-8029

By Facsimile Transmission:  
(781) 575-2233 or  
(781)575-2232  
(For Eligible Institutions Only)

By Overnight Delivery:  
BankBoston, N.A.  
Attention:  
Corporate Reorganization  
150 Royall Street  
Canton, MA 02021

Confirm Facsimile by Telephone:  
(800) 733-5001

DELIVERY OF THIS NOTICE OF GUARANTEED DELIVERY TO AN ADDRESS OTHER THAN AS SET FORTH ABOVE OR TRANSMISSION OF INSTRUCTIONS VIA FACSIMILE NUMBER OTHER THAN AS SET FORTH ABOVE WILL NOT CONSTITUTE A VALID DELIVERY.

THIS FORM IS NOT TO BE USED TO GUARANTEE SIGNATURES. IF A SIGNATURE ON A LETTER OF TRANSMITTAL IS REQUIRED TO BE GUARANTEED BY AN "ELIGIBLE INSTITUTION" UNDER THE INSTRUCTIONS THERETO, SUCH SIGNATURE GUARANTEE MUST APPEAR IN THE APPLICABLE SPACE PROVIDED IN THE SIGNATURE BOX ON THE LETTER OF TRANSMITTAL.

Ladies and Gentlemen:

The undersigned hereby tenders to New HIAC II Corp., a Delaware corporation and a wholly owned subsidiary of Hasbro, Inc., a Rhode Island corporation, upon the terms and subject to the conditions set forth in Purchaser's Offer to Purchase dated October 2, 1998 and the related Letter of Transmittal (which, together with any amendments or supplements thereto, constitute the "Offer"), receipt of which is hereby acknowledged, the number of shares set forth below of common stock, par value \$0.01 per share (the "Common Stock"), including the associated preferred stock purchase rights (the "Rights" and, together with the Common Stock, the "Shares"), of Galoob Toys, Inc., a Delaware corporation, pursuant to the guaranteed delivery procedures set forth in Section 3 of the Offer to Purchase.

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Number of Shares:  
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Certificate Nos. (if available):  
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Check box if Shares will be tendered by book-entry transfer: [ ]

Account Number:  
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Dated: , 1998

-----  
Name(s) of Record Holder(s):  
-----  
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PLEASE PRINT

Address(es):  
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-----  
-----

ZIP CODE

Area Code and Tel. No.:  
-----  
-----

Signature(s):  
-----  
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-----

GUARANTEE  
(NOT TO BE USED FOR SIGNATURE GUARANTEES)

The undersigned, a participant in the Security Transfer Agents Medallion Program, the New York Stock Exchange Medallion Signature Guarantee Program or the Stock Exchange Medallion Program, guarantees to deliver to the Depository either certificates representing the Shares tendered hereby, in proper form for transfer, or confirmation of book-entry transfer of such Shares into the Depository's accounts at The Depository Trust Company, in each case with delivery of a properly completed and duly executed Letter of Transmittal (or facsimile thereof), with any required signature guarantees, or an Agent's Message, and any other documents required by the Letter of Transmittal, within three trading days (as defined in the Offer to Purchase) after the date hereof.

The Eligible Institution that completes this form must communicate the guarantee to the Depository and must deliver the Letter of Transmittal and certificates for Shares to the Depository within the time period shown herein. Failure to do so could result in a financial loss to such Eligible Institution.

Name of Firm: -----

-----  
AUTHORIZED SIGNATURE

Address:  
-----  
-----

Name:  
-----

PLEASE PRINT  
Title:  
-----

-----  
ZIP CODE

Area Code and Tel. No.: -----

Dated:  
-----

, 1998

NOTE: DO NOT SEND CERTIFICATES FOR SHARES WITH THIS NOTICE. CERTIFICATES SHOULD BE SENT ONLY WITH YOUR LETTER OF TRANSMITTAL.

OFFER TO PURCHASE FOR CASH  
ALL OUTSTANDING SHARES OF COMMON STOCK  
(INCLUDING THE ASSOCIATED PREFERRED STOCK PURCHASE RIGHTS)

OF

GALOOB TOYS, INC.  
AT

\$12.00 NET PER SHARE

BY

NEW HIAC II CORP.,

A WHOLLY OWNED SUBSIDIARY OF

HASBRO, INC.

THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK  
CITY TIME, ON FRIDAY, OCTOBER 30, 1998, UNLESS THE OFFER IS EXTENDED.

October 2, 1998

To Brokers, Dealers, Commercial Banks,  
Trust Companies And Other Nominees:

We have been appointed by New HIAC II Corp., a Delaware corporation ("Purchaser") and a wholly owned subsidiary of Hasbro, Inc., a Rhode Island corporation ("Parent"), to act as Information Agent in connection with Purchaser's offer to purchase all outstanding shares of common stock, par value \$0.01 per share (the "Common Stock"), including the associated preferred stock purchase rights (the "Rights" and, together with the Common Stock, the "Shares"), of Galoob Toys, Inc., a Delaware corporation (the "Company"), at \$12.00 per Share, net to the seller in cash, upon the terms and subject to the conditions set forth in the Offer to Purchase dated October 2, 1998 (the "Offer to Purchase") and in the related Letter of Transmittal (which, together with any amendments or supplements thereto, constitute the "Offer") enclosed herewith. Please furnish copies of the enclosed materials to those of your clients for whose accounts you hold Shares registered in your name or in the name of your nominee.

The Offer is conditioned upon, among other things, there being validly tendered and not withdrawn prior to the Expiration Date (as defined in the Offer to Purchase) that number of Shares which, when added to the Shares beneficially owned by Parent or Purchaser (if any), represents at least a majority of the Shares outstanding on a fully diluted basis (excluding the Warrants (as defined in the Offer to Purchase)) on the date Shares are accepted for payment. The Offer is also subject to the other conditions set forth in the Offer to Purchase. See Section 14 of the Offer to Purchase.

For your information and for forwarding to your clients for whom you hold Shares registered in your name or in the name of your nominee, we are enclosing the following documents:

1. Offer to Purchase dated October 2, 1998;
2. Letter of Transmittal for your use in accepting the Offer and tendering Shares and for the information of your clients;
3. Notice of Guaranteed Delivery to be used to accept the Offer if certificates for Shares and all other required documents cannot be delivered to the Depository, or if the procedures for book-entry transfer cannot be completed, by the Expiration Date (as defined in the Offer to Purchase);
4. A letter which may be sent to your clients for whose accounts you hold Shares registered in your name or in the name of your nominee, with space provided for obtaining such clients' instructions with regard to the offer;
5. A letter to stockholders of the Company from Mark D. Goldman, President and Chief Executive Officer of the Company, together with a Solicitation/Recommendation Statement on Schedule 14D-9 dated October 2, 1998, which has been filed by the Company with the Securities and Exchange Commission;
6. Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9; and

7. A return envelope addressed to BankBoston, N.A. (the "Depository").

Upon the terms and subject to the conditions of the Offer (including, if the Offer is extended or amended, the terms and conditions of any such extension or amendment), Purchaser will accept for payment and pay for Shares which are validly tendered prior to the Expiration Date and not theretofore properly withdrawn when, as and if Purchaser gives oral or written notice to the Depository of Purchaser's acceptance of such Shares for payment pursuant to the Offer. Payment for Shares purchased pursuant to the Offer will in all cases be made only after timely receipt by the Depository of (i) certificates for such Shares, or timely confirmation of a book-entry transfer of such Shares into the Depository's account at The Depository Trust Company, pursuant to the procedures described in Section 3 of the Offer to Purchase, (ii) a properly completed and duly executed Letter of Transmittal (or a properly completed and manually signed facsimile thereof) or an Agent's Message (as defined in the Offer to Purchase) in connection with a book-entry transfer and (iii) all other documents required by the Letter of Transmittal.

Purchaser will not pay any fees or commissions to any broker or dealer or other person (other than the Depository and the Information Agent as described in the Offer to Purchase) for soliciting tenders of Shares pursuant to the Offer. Purchaser will, however, upon request, reimburse brokers, dealers, commercial banks and trust companies for customary mailing and handling costs incurred by them in forwarding the enclosed materials to their customers.

Purchaser will pay or cause to be paid all stock transfer taxes applicable to its purchase of Shares pursuant to the Offer, subject to Instruction 6 of the Letter of Transmittal.

WE URGE YOU TO CONTACT YOUR CLIENTS AS PROMPTLY AS POSSIBLE. PLEASE NOTE THAT THE OFFER AND WITHDRAWAL RIGHTS EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON OCTOBER 30, 1998, UNLESS THE OFFER IS EXTENDED.

In order to take advantage of the Offer, a duly executed and properly completed Letter of Transmittal (or facsimile thereof), with any required signature guarantees, or an Agent's Message in connection with a book-entry transfer of Shares, and any other required documents, should be sent to the Depository, and certificates representing the tendered Shares should be delivered or such Shares should be tendered by book-entry transfer, all in accordance with the Instructions set forth in the Letter of Transmittal and in the Offer to Purchase.

If holders of Shares wish to tender, but it is impracticable for them to forward their certificates or other required documents or to complete the procedures for delivery by book-entry transfer prior to the expiration of the Offer, a tender may be effected by following the guaranteed delivery procedures specified in Section 3 of the Offer to Purchase.

Any inquiries you may have with respect to the Offer should be addressed to, and additional copies of the enclosed materials may be obtained from, the Information Agent at its address and telephone number set forth on the back cover of the Offer to Purchase.

Very truly yours,

D.F. KING & CO., INC.

NOTHING CONTAINED HEREIN OR IN THE ENCLOSED DOCUMENTS SHALL CONSTITUTE YOU THE AGENT OF PARENT, PURCHASER, THE COMPANY, THE INFORMATION AGENT, THE DEPOSITARY, OR ANY AFFILIATE OF ANY OF THE FOREGOING, OR AUTHORIZE YOU OR ANY OTHER PERSON TO USE ANY DOCUMENT OR MAKE ANY STATEMENT ON BEHALF OF ANY OF THEM IN CONNECTION WITH THE OFFER OTHER THAN THE DOCUMENTS ENCLOSED HERewith AND THE STATEMENTS CONTAINED THEREIN.

OFFER TO PURCHASE FOR CASH  
ALL OUTSTANDING SHARES OF COMMON STOCK  
(INCLUDING THE ASSOCIATED PREFERRED STOCK PURCHASE RIGHTS)

OF

GALOOB TOYS, INC.  
AT  
\$12.00 NET PER SHARE IN CASH  
BY  
NEW HIAC II CORP.,  
A WHOLLY OWNED SUBSIDIARY OF  
HASBRO, INC.

THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON FRIDAY, OCTOBER 30, 1998, UNLESS THE OFFER IS EXTENDED.

To Our Clients:

October 2, 1998

Enclosed for your consideration are the Offer to Purchase dated October 2, 1998 and the related Letter of Transmittal (which, together with any amendments or supplements thereto, collectively constitute the "Offer") in connection with the offer by New HIAC II Corp., a Delaware corporation ("Purchaser"), and a wholly owned subsidiary of Hasbro, Inc., a Rhode Island corporation ("Parent"), to purchase for cash all outstanding shares of common stock, par value \$0.01 per share (the "Common Stock"), including the associated preferred stock purchase rights (the "Rights" and, together with the Common Stock, the "Shares"), of Galoob Toys, Inc., a Delaware corporation (the "Company"). We are the holder of record of Shares held for your account. A tender of such Shares can be made only by us as the holder of record and pursuant to your instructions. The enclosed Letter of Transmittal is furnished to you for your information only and cannot be used by you to tender Shares held by us for your account.

We request instructions as to whether you wish us to tender any or all of the Shares held by us for your account, upon the terms and subject to the conditions set forth in the Offer.

Your attention is invited to the following:

1. The offer price is \$12.00 per Share, net to you in cash without interest.
2. The Offer is being made for all outstanding Shares.
3. The Board of Directors of the Company has unanimously approved the Merger Agreement (as defined in the Offer to Purchase) and the transactions contemplated thereby, including the Offer and the Merger (each as defined in the Offer to Purchase), and has unanimously determined that the Offer and the Merger are fair to, and in the best interests of, the Company's stockholders and unanimously recommends that the stockholders accept the Offer and tender their Shares pursuant to the Offer.
4. The Offer and withdrawal rights expire at 12:00 Midnight, New York City time, on October 30, 1998, unless the Offer is extended.
5. The Offer is conditioned upon, among other things, there being validly tendered and not withdrawn prior to the Expiration Date (as defined in the Offer to Purchase) that number of Shares which, when added to the Shares beneficially owned by Parent or Purchaser (if any), represents at least a majority of the Shares outstanding on a fully diluted basis (excluding the Warrants (as defined in the Offer to Purchase)) on the date Shares are accepted for payment. The Offer is also subject to the other conditions set forth in the Offer to Purchase. See Section 14 of the Offer to Purchase.
6. Any stock transfer taxes applicable to the sale of Shares to Purchaser pursuant to the Offer will be paid by Purchaser, except as otherwise provided in Instruction 6 of the Letter of Transmittal.

Except as disclosed in the Offer to Purchase, Purchaser is not aware of any state in which the making of the Offer is prohibited by administrative or judicial action pursuant to any valid state statute. In any jurisdiction in which the securities, blue sky or other laws require the Offer to be made by a licensed broker or dealer, the Offer will be deemed to be made on behalf of Purchaser by one or more registered brokers or dealers licensed under the laws of such jurisdiction.

If you wish to have us tender any or all of your Shares, please so instruct us by completing, executing and returning to us the instruction form set forth on the reverse side of this letter. An envelope to return your instructions to us is enclosed. If you authorize the tender of your Shares, all such Shares will be tendered unless otherwise specified on the reverse side of this letter. Your instructions should be forwarded to us in ample time to permit us to submit a tender on your behalf prior to the expiration of the Offer.

INSTRUCTIONS WITH RESPECT TO THE  
OFFER TO PURCHASE FOR CASH  
ALL OUTSTANDING SHARES OF COMMON STOCK  
OF

GALOOB TOYS, INC.

The undersigned acknowledge(s) receipt of your letter and the enclosed Offer to Purchase dated October 2, 1998 and the related Letter of Transmittal in connection with the Offer by New HIAC II Corp., a Delaware corporation and a wholly owned subsidiary of Hasbro, Inc., a Rhode Island corporation, to purchase all outstanding shares of common stock, par value \$0.01 per share (the "Common Stock"), including the associated preferred stock purchase rights (the "Rights" and, together with the Common Stock, the "Shares"), of Galoob Toys, Inc., a Delaware corporation.

This will instruct you to tender the number of Shares indicated below (or if no number is indicated below, all Shares) held by you for the account of the undersigned, upon the terms and subject to the conditions set forth in the Offer.

Number of Shares to be Tendered:\*

Shares

Dated: \_\_\_\_\_, 1998

-----  
 -----  
 SIGNATURE(S)  
 -----  
 PRINT NAME(S)  
 -----  
 -----  
 ADDRESS(ES)  
 -----  
 -----  
 AREA CODE AND TELEPHONE NUMBER  
 -----  
 -----  
 TAX ID OR SOCIAL SECURITY NUMBER

-----  
 \* Unless otherwise indicated, it will be assumed that all Shares held by us for your account are to be tendered.



GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION  
NUMBER ON SUBSTITUTE FORM W-9

OBTAINING A NUMBER

If you don't have a TIN or you don't know your number, obtain Internal Revenue Service Form SS-5, Application for a Social Security Number Card, or Form SS-4, Application for Employer Identification Number, at your local office of the Social Security Administration or the Internal Revenue Service and apply for a number.

PAYEES EXEMPT FROM BACKUP WITHHOLDING

Payees specifically exempted from backup withholding on ALL payments include the following:

- A corporation.
- A financial institution.
- An organization exempt from tax under section 501(a) or an individual retirement plan.
- The United States or any agency or instrumentality thereof.
- A State, the District of Columbia, a possession of the United States, or any subdivision or instrumentality thereof.
- A foreign government, a political subdivision of a foreign government, or any agency or instrumentality thereof.
- An international organization or any agency, or instrumentality thereof.
- A registered dealer in securities or commodities registered in the U.S. or a possession of the U.S.
- A real estate investment trust.
- A common trust fund operated by a bank under section 584(a).
- An exempt charitable remainder trust, or a non-exempt trust described in section 4947(a)(1).
- An entity registered at all times under the Investment Company Act of 1940.
- A foreign central bank of issue.

Payments of dividends and patronage dividends not generally subject to backup withholding include the following:

- Payments to nonresident aliens subject to withholding under section 1441.
- Payments to partnerships not engaged in a trade or business in the U.S. and which have at least one nonresident partner.
- Payments of patronage dividends where the amount received is not paid in money.
- Payments made by certain foreign organizations.
- Payments made to a nominee.

Payments of interest not generally subject to backup withholding include the following:

- Payments of interest on obligations issued by individuals. Note: You may be subject to backup withholding if this interest is \$600 or more and is paid in the course of the payer's trade or business and you have not provided your correct taxpayer identification number to the payer.
- Payments of tax-exempt interest (including exempt-interest dividends under section 852).
- Payments described in section 6049(b)(5) to nonresident aliens.
- Payments on tax-free covenant bonds under section 1451.
- Payments made by certain foreign organizations.

Exempt payees described above should file Form W-9 to avoid possible erroneous backup withholding. FILE THIS FORM WITH THE PAYER. FURNISH YOUR TAXPAYER IDENTIFICATION NUMBER, WRITE "EXEMPT" ON THE FACE OF THE FORM, AND RETURN IT TO THE PAYER, IF THE PAYMENTS ARE INTEREST, DIVIDENDS, OR PATRONAGE DIVIDENDS, ALSO SIGN AND DATE THE FORM.

Certain payments other than interest, dividends, and patronage dividends, that are not subject to information reporting are also not subject to backup withholding. For details, see the regulations under sections 6041, 6041A(a), 6045, and 6050A.

PRIVACY ACT NOTICE.--Section 6109 requires most recipients of dividend, interest, or other payments to give taxpayer identification numbers to payers who must report the payments to IRS. IRS uses the numbers for identification purposes. Payers must be given the numbers whether or not recipients are required to file tax returns. Payers must generally withhold 31% of taxable interest, dividend, and certain other payments to a payee who does not furnish a

taxpayer identification number to a payer. Certain penalties may also apply.

**PENALTIES**

(1) **PENALTY FOR FAILURE TO FURNISH TAXPAYER IDENTIFICATION NUMBER.**--If you fail to furnish your taxpayer identification number to a payer, you are subject to a penalty of \$50 for each such failure unless your failure is due to reasonable cause and not to willful neglect.

(2) **FAILURE TO REPORT CERTAIN DIVIDEND AND INTEREST PAYMENTS.**--If you fail to include any portion of an includible payment for interest, dividends, or patronage dividends in gross income, such failure will be treated as being due to negligence and will be subject to a penalty of 5% on any portion of an under-payment attributable to that failure unless there is clear and convincing evidence to the contrary.

(3) **CIVIL PENALTY FOR FALSE INFORMATION WITH RESPECT TO WITHHOLDING.**--If you make a false statement with no reasonable basis which results in no imposition of backup withholding, you are subject to a penalty of \$500.

(4) **CRIMINAL PENALTY FOR FALSIFYING INFORMATION.**--Falsifying certifications or affirmations may subject you to criminal penalties including fines and/or imprisonment.

FOR ADDITIONAL INFORMATION CONTACT YOUR TAX  
CONSULTANT OR THE INTERNAL REVENUE SERVICE

FOR IMMEDIATE RELEASE:

CONTACT:

HASBRO: Wayne S. Charness (News Media) 401-727-5983  
Renita E. O'Connell (Investor Relations) 401-727-5401

GALOOB: Kathleen R. McElwee 650-952-1678 x2210

HASBRO ANNOUNCES DEFINITIVE AGREEMENT TO ACQUIRE GALOOB TOYS, INC.

Pawtucket, RI (September 28, 1998) - Hasbro, Inc. [ASE:HAS] announced today that it has entered into a definitive agreement to acquire Galoob Toys, Inc. [NYSE:GAL], an international toy manufacturer whose leading brands include Micro Machines(R) miniature-scale boys' toys, Star Wars(TM) small-scale figures and vehicles, Spice Girls(TM) fashion dolls, and Pound Puppies(R) mini-dolls. The purchase price is \$12 per common share of Galoob, payable in cash, for a total transaction value of approximately \$220 million. Closing is expected in the fourth quarter of 1998.

"Galoob is a tremendous addition to our rich brand portfolio," said Alan G. Hassenfeld, Chairman and CEO of Hasbro, Inc. "This acquisition will allow us to build critical mass worldwide in the fast-growing vehicles category by combining our popular Winner's Circle(TM) racing cars with Galoob's highly successful Micro Machines(R). We are also excited about adding Galoob's tremendously popular Spice Girls(TM) line to our portfolio," Hassenfeld continued.

"In addition, the combination of Galoob's Star Wars(TM) small-scale figures and vehicles license with Hasbro's extensive Star Wars(TM) license will allow us to further develop this global brand franchise," Hassenfeld added.

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By fully integrating the worldwide operations of Galoob into Hasbro, the Company expects to achieve economies of scale and cost savings in a variety of areas including product sourcing, manufacturing, marketing, advertising and administrative support functions. Hasbro expects the transaction will be modestly dilutive to earnings in 1998 and accretive beginning in 1999.

Mark D. Goldman, President and Chief Executive Officer of Galoob, said, "We are excited about joining Hasbro. Hasbro's global reach and resources will enormously expand the potential of Galoob's brands, especially Star Wars(TM) and Micro Machines(R)."

The merger agreement with Galoob calls for a wholly owned subsidiary of Hasbro to commence a tender offer no later than October 2, 1998 for all of Galoob's approximately 18 million outstanding common shares. The offer will be conditioned upon, among other things, the expiration or earlier termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the tender of a majority of the common shares outstanding on a diluted basis of Galoob. Following the consummation of the offer, Hasbro's subsidiary will be merged with Galoob and any remaining Galoob common shares will be converted into the right to receive \$12 per share in cash.

Founded in 1957, Galoob Toys' current product categories include miniature vehicles, led by Micro Machines(R); entertainment-based toys, led by Star Wars(TM); mini-dolls, comprised of the number one mini-doll brand in 1997, Pound Puppies(R); newly introduced authentic military vehicles, figures and playsets led by Battle Squads(TM); a series of Titanic collector fashion dolls and celebrity-based fashion dolls. The Company's first celebrity fashion doll offering is the highly successful Spice Girls(TM) line based on the British pop group. Micro Machines(R) is the most comprehensive line of miniature scale toys for boys in the world, embracing traditional vehicle, military and male action play patterns. Now in its eleventh successful year, the brand has generated over \$1 billion in retail sales in the U.S. alone.

-more-

Hasbro, Inc. is a worldwide leader in the design, manufacture and marketing of toys, games, interactive software, puzzles and infant products. Both internationally and in the U.S., its Playskool(R), Kenner(R), Tonka(R), OddzOn(R), Super Soaker(R), Milton Bradley(R), Parker Brothers(R), Tiger(TM) and Hasbro Interactive(TM) products, provide children and families with the highest quality and most recognizable toys and games in the world.

Galoob Toys, Inc. designs, develops, markets and sells high quality toys worldwide. For more information about the Company and its products, visit Galoob's World Wide Web site at <http://www.galoob.com>.

HASBRO: Certain statements contained in this release 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, the timely manufacture and shipping by the Company of new and continuing products and their acceptance by customers and consumers in a competitive product environment; economic conditions and currency fluctuations in the various markets in which the Company operates throughout the world; the continuing trend of increased concentration of the Company's revenues in the second half and fourth quarter of the year, together with increased reliance by retailers on quick response inventory management techniques, which increases the risk of underproduction of popular items, overproduction of less popular items and failure to achieve tight and compressed shipping schedules; the impact of competition on revenues, margins and other aspects of the Company's business; third party actions or approvals that could delay, modify or increase the cost of implementation of, the Company's Global Integration and Profit Enhancement program; and the risk that anticipated benefits of acquisitions may not occur or be delayed or reduced in their realization. The Company undertakes no obligation to make any revisions to the forward-looking statements contained in this release or to update them to reflect events or circumstances occurring after the date of this release.

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FOR IMMEDIATE RELEASE:

CONTACT:

-----  
HASBRO: Wayne S. Charness (News Media) 401-727-5983  
Renita E. O'Connell (Investor Relations) 401-727-5401  
  
GALOOB: Kathleen R. McElwee 650-952-1678 x2210

HASBRO ANNOUNCES COMMENCEMENT OF TENDER OFFER FOR GALOOB TOYS

PAWTUCKET, RI, October 2, 1998 -- Hasbro, Inc. [ASE:HAS] announced today that New HIAC II Corp., its wholly owned subsidiary, has commenced a cash tender offer to purchase all of the outstanding shares of Galoob Toys, Inc. [NYSE:GAL] at a price of \$12 per share.

The offer is being made pursuant to the previously announced merger agreement among New HIAC II Corp., Hasbro, Inc. and Galoob Toys, Inc. The offer is conditioned upon, among other things, the tender of at least a majority of the shares of common stock outstanding on a diluted basis and the expiration or earlier termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. The offer and withdrawal rights are scheduled to expire at 12:00 midnight, New York City time, on Friday, October 30, 1998, unless the offer is extended. D.F. King & Co., Inc. is acting as the Information Agent in connection with the offer.

In addition, Hasbro announced that it has entered into agreements with the Lucas companies whereby Hasbro's existing agreements with Lucas would be amended to add Galoob's rights, effective upon the consummation of the tender offer.

Hasbro, Inc. is a worldwide leader in the design, manufacture and marketing of toys, games, interactive software, puzzles and infant products. Both internationally and in the U.S., its Playskool(R), Kenner(R), Tonka(R), OddzOn(R), Super Soaker(R), Milton Bradley(R), Parker Brothers(R), Tiger(TM) and Hasbro Interactive(TM) products, provide children and families with the highest quality and most recognizable toys and games in the world.

Galoob Toys, Inc. designs, develops, markets and sells high quality toys worldwide. For more information about the Company and its products, visit Galoob's World Wide Web site at <http://www.galoob.com>.

This press release is neither an offer to purchase nor a solicitation of an offer to sell securities. The tender offer is made only through the Offer to Purchase and the related Letter of Transmittal which is being mailed to stockholders today. Additional copies of such documents can be obtained by contacting the Information Agent at (800) 755-3107.

This announcement is neither an offer to purchase nor a solicitation of an offer to sell Shares. The Offer is made solely by the Offer to Purchase, dated October 2, 1998, and the related Letter of Transmittal, and is being made to all holders of Shares. The Offer is not being made to (nor will tenders be accepted from or on behalf of) holders of Shares in any jurisdiction in which the making of the Offer or the acceptance thereof would not be in compliance with the laws of such jurisdiction or any administrative or judicial action pursuant thereto. In any jurisdiction where securities, blue sky or other laws require the Offer to be made by a licensed broker or dealer, the Offer shall be deemed to be made on behalf of New HIAC II Corp. by one or more registered brokers or dealers licensed under the laws of such jurisdiction.

Notice of Offer to Purchase for Cash  
All of the Outstanding Shares of Common Stock  
(Including the Associated Preferred Stock Purchase Rights)  
of  
Galoob Toys, Inc.  
at  
\$12.00 Net Per Share  
by  
New HIAC II Corp.  
a Wholly Owned Subsidiary of  
Hasbro, Inc.

New HIAC II Corp., a Delaware corporation ("Purchaser") and a wholly owned subsidiary of Hasbro, Inc., a Rhode Island corporation ("Parent"), is offering to purchase all of the outstanding shares of Common Stock, par value \$0.01 per share (the "Common Stock"), including the associated preferred stock purchase rights issued pursuant to a Rights Agreement (as defined in the Offer to Purchase) (the "Rights" and, together with the Common Stock, the "Shares") of Galoob Toys, Inc., a Delaware corporation (the "Company"), at a price of \$12.00 per Share, net to the seller in cash, without interest thereon, upon the terms and subject to the conditions set forth in the Offer to Purchase dated October 2, 1998 (the "Offer to Purchase") and in the related Letter of Transmittal (which, together with any amendments or supplements thereto, collectively constitute the "Offer").

THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON FRIDAY, OCTOBER 30, 1998, UNLESS THE OFFER IS EXTENDED.

The Offer is conditioned upon, among other things, there being validly tendered and not withdrawn prior to the Expiration Date (as defined in the Offer to Purchase) that number of Shares which, when added to the Shares beneficially owned by Parent or Purchaser (if any), represents at least a majority of the Shares outstanding on a fully diluted basis (excluding the Warrants (as defined in the Offer to Purchase)) on the date Shares are accepted for payment. The Offer is also subject to the other conditions set forth in the Offer to Purchase. See Section 14 of the Offer to Purchase.

The Offer is being made pursuant to an Agreement and Plan of Merger, dated as of September 27, 1998 (the "Merger Agreement"), by and among Parent, Purchaser and the Company. The Merger Agreement provides that, as soon as practicable after the completion of the Offer and satisfaction or waiver, if permissible, of all conditions

contained in the Merger Agreement, and in accordance with the General Corporation Law of the State of Delaware (the "DGCL"), Purchaser will be merged with and into the Company (the "Merger"). Following the consummation of the Merger, the Company will continue as the surviving corporation and will be a wholly owned subsidiary of Parent. At the effective time of the Merger (the "Effective Time"), each Share then outstanding (other than Shares held by the Company or any of its subsidiaries, in the treasury of the Company, or by Parent, Purchaser or any other subsidiary of Parent or any of its subsidiaries including Purchaser and stockholders who properly perfect their dissenters' rights under the DGCL) will be converted into the right to receive \$12.00 in cash or any higher price per Share paid in the Offer, without interest.

The Board of Directors of the Company has unanimously approved the Merger Agreement and the transactions contemplated thereby, including the Offer and the Merger, and has unanimously determined that the Offer and the Merger are fair to, and in the best interests of, the Company's Stockholders and unanimously recommends that stockholders accept the Offer and tender their Shares pursuant to the Offer.

For purposes of the Offer, Purchaser will be deemed to have accepted for payment, and thereby purchased, Shares properly tendered to Purchaser and not withdrawn as, if and when Purchaser gives oral or written notice to the Depositary (as defined in the Offer to Purchase) of its acceptance for payment of such Shares. Upon the terms and subject to the conditions of the Offer, payment for Shares accepted for payment pursuant to the Offer will be made by deposit of the purchase price therefor with the Depositary, which will act as agent for tendering stockholders for the purpose of receiving payment from Purchaser and transmitting payment to tendering stockholders. In all cases, payment for Shares accepted for payment pursuant to the Offer will be made only after timely receipt by the Depositary of (i) certificates for such Shares (or a confirmation of a book-entry transfer of such Shares into the Depositary's account at the Book-Entry Transfer Facility (as defined in the Offer to Purchase)), (ii) a Letter of Transmittal (or facsimile thereof), properly completed and duly executed, with any required signature guarantees, or, in the case of a book-entry transfer, an Agent's Message (as defined in the Offer to Purchase), and (iii) any other documents required by the Letter of Transmittal. The per Share consideration paid to any stockholder pursuant to the Offer will be the highest per Share consideration paid to any other stockholder pursuant to the Offer. Under no circumstances will interest be paid on the purchase price to be paid by Purchaser for such Shares, regardless of any extension of the Offer or any delay in making such payment.

The term "Expiration Date" shall mean 12:00 Midnight, New York City time, on Friday, October 30, 1998, unless and until Purchaser (in accordance with the terms of the

Merger Agreement), shall have extended the period of time during which the Offer is open, in which event the term "Expiration Date" shall mean the latest time and date at which the Offer, as so extended by Purchaser shall expire. Subject to the applicable rules and regulations of the Securities and Exchange Commission and to applicable law, Purchaser expressly reserves the right, in its sole discretion (subject to the terms of the Merger Agreement), at any time and from time to time, to extend for any reason the period of time during which the Offer is open, including the occurrence of any of the events specified in Section 14 of the Offer to Purchase, by giving oral or written notice of such extension to the Depositary; provided, however, that Purchaser cannot extend the Offer beyond March 1, 1999 without the consent of the Company. Any such extension will be followed by a public announcement thereof by no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled Expiration Date. During any such extension, all Shares previously tendered and not withdrawn will remain subject to the Offer, subject to the right of a tendering stockholder to withdraw such stockholder's Shares. Without limiting the manner in which Purchaser may choose to make any public announcement, Purchaser will have no obligation to publish, advertise or otherwise communicate any such announcement other than by issuing a press release to the Dow Jones News Service or otherwise as may be required by applicable law.

Except as otherwise provided below, tenders of Shares made pursuant to the Offer are irrevocable. Shares tendered pursuant to the Offer may be withdrawn at any time prior to the Expiration Date and, unless theretofore accepted for payment pursuant to the Offer, may also be withdrawn at any time after December 1, 1998, or such later time as may apply if the Offer is extended. For a withdrawal to be effective, a written, telegraphic or facsimile transmission notice of withdrawal must be timely received by the Depositary at one of its addresses set forth in the Offer to Purchase. Any such notice of withdrawal must specify the name of the person having tendered the Shares to be withdrawn, the number of Shares to be withdrawn and the name of the registered holder of the Shares to be withdrawn, if different from the name of the person who tendered the Shares. If certificates evidencing such Shares to be withdrawn have been delivered or otherwise identified to the Depositary, then, prior to the physical release of such certificates, the serial numbers shown on such certificates must be submitted to the Depositary and, unless such Shares have been tendered for the account of an Eligible Institution (as defined in the Offer to Purchase), the signatures on the notice of withdrawal must be guaranteed by an Eligible Institution. If Shares have been delivered pursuant to the procedures for book-entry transfer set forth in Section 3 of the Offer to Purchase, any notice of withdrawal must also specify the name and number of the account at the Book-Entry Transfer Facility to be credited with the withdrawn Shares and otherwise comply with the Book-Entry Transfer Facility's procedures. Withdrawals of tenders of Shares may not be rescinded, and any Shares properly withdrawn will thereafter be deemed not validly tendered for purposes of the Offer. However, withdrawn Shares may be retendered by again following one of the procedures described in Section 3 of the

Offer to Purchase at any time prior to the Expiration Date. All questions as to the form and validity (including time of receipt) of notices of withdrawal will be determined by Purchaser, in its sole discretion, whose determination will be final and binding.

The information required to be disclosed by paragraph (e)(1)(vii) of Rule 14d-6 under the Securities Exchange Act of 1934, as amended, is contained in the Offer to Purchase and is incorporated herein by reference.

The Company has provided Purchaser with the Company's stockholder lists and security position listings for the purpose of disseminating the Offer to holders of Shares. The Offer to Purchase, the related Letter of Transmittal and other relevant documents will be mailed to record holders of Shares whose names appear on the stockholder list, and will be furnished to brokers, dealers, commercial banks, trust companies and similar persons whose names, or the names of whose nominees, appear on the Company's stockholder lists, or, if applicable, who are listed as participants in a clearing agency's security position listing, for subsequent transmittal to beneficial owners of Shares.

The Offer to Purchase and the related Letter of Transmittal contain important information and should be read carefully before any decision is made with respect to the Offer.

Questions and requests for assistance or additional copies of the Offer to Purchase, Letter of Transmittal and other tender offer documents may be directed to the Information Agent (as defined in the Offer to Purchase), at its address and telephone number set forth below, and copies will be furnished promptly at Purchaser's expense. Neither of Parent or Purchaser will pay any fees or commissions to any broker or dealer or other person other than the Information Agent for soliciting tenders of Shares pursuant to the Offer.

The Information Agent for the Offer is:

D.F. King & Co., Inc.  
77 Water Street  
New York, New York 10005  
Call Toll Free: (800) 755-3107

October 2, 1998

AGREEMENT AND PLAN OF MERGER

by and among

HASBRO, INC.,

NEW HIAC II CORP.

and

GALOOB TOYS, INC.

dated as of

September 27, 1998

## AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER, dated as of September 27, 1998, by and among HASBRO, INC., a Rhode Island corporation ("Parent"), NEW HIAC II CORP., a Delaware corporation and a wholly-owned Subsidiary of Parent ("Purchaser"), and GALOBB TOYS, INC., a Delaware corporation (the "Company").

WHEREAS, the Board of Directors of each of Parent, Purchaser and the Company have approved, and deem it fair to, advisable and in the best interests of their respective stockholders to consummate, the acquisition of the Company by Parent and Purchaser upon the terms and subject to the conditions set forth herein;

WHEREAS, in furtherance thereof, it is proposed that Purchaser make a cash tender offer to acquire all shares of the issued and outstanding common stock, \$.01 par value, of the Company (the "Shares") (including the related Preferred Stock Purchase Rights (as herein defined)) for \$12.00 per share, net to the seller in cash, upon the terms and subject to the conditions set forth herein;

WHEREAS, also in furtherance of such acquisition, the Board of Directors of each of Parent, Purchaser and the Company have approved this Agreement and the Merger (as herein defined) following the Offer (as herein defined) pursuant to which Purchaser shall merge with and into the Company and outstanding Shares shall be converted into the right to receive the Offer Price (as herein defined) in cash, without interest, all in accordance with the DGCL (as herein defined) and upon the terms and subject to the conditions set forth herein;

WHEREAS, the Board of Directors of the Company has determined that the consideration to be paid for each Share in the Offer and the Merger is fair to the holders of such Shares and has resolved to recommend that the holders of such Shares tender their Shares pursuant to the Offer and approve and adopt this Agreement and the Merger upon the terms and subject to the conditions set forth herein;

WHEREAS, the Company, Parent and Purchaser desire to make certain representations, warranties, covenants and agreements in connection with the Offer and the Merger; and

NOW, THEREFORE, in consideration of the foregoing and the representations, warranties, covenants and agreements set forth herein, the parties hereto, intending to be legally bound hereby, agree as follows:

ARTICLE I

THE OFFER AND MERGER

Section 1.1 The Offer.

(a) As promptly as practicable (but in no event later than five business days after the public announcement of the execution hereof), Purchaser shall commence (within the meaning of Rule 14d-2 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) a tender offer (the "Offer") for all of the outstanding Shares (including the related Preferred Stock Purchase Rights) at a price of \$12.00 per Share, net to the seller in cash (such price, or such higher price per Share as may be paid in the Offer, being referred to herein as the "Offer Price"), subject to the conditions set forth in Annex A hereto.

(b) The obligations of Purchaser to commence the Offer and to accept for payment and to pay for any Shares validly tendered on or prior to the expiration of the Offer and not withdrawn shall be subject only to the conditions set forth in Annex A hereto; provided, that Purchaser's right in Annex A hereto to terminate the Offer shall be subject to Purchaser's obligations under this Agreement. The Offer shall be made by means of an offer to purchase (the "Offer to Purchase") containing the terms set forth in this Agreement and the conditions set forth in Annex A hereto.

(c) Purchaser expressly reserves the right to modify the terms of the Offer; provided, that, without the Company's prior written consent, Purchaser shall not decrease the Offer Price, change the form of consideration to be paid in the Offer, waive the Minimum Condition or decrease the number of Shares sought or amend any other condition of the Offer in any manner adverse to the holders of the Shares (other than with respect to insignificant changes or amendments and subject to the penultimate sentence of this Section 1.1) or impose additional conditions without the written consent of the Company; provided further, however, that, if on the initial scheduled expiration date of the Offer, which shall be 20 business days after the date that the Offer is commenced, all conditions to the Offer shall not have been satisfied or waived, Purchaser may, from time to time until such time as all

such conditions are satisfied or waived, in its sole discretion, extend the expiration date provided, however, that the expiration date of the Offer may not be extended beyond March 1, 1999. Parent and Purchaser agree that if all of the conditions set forth on Annex A hereto are not satisfied on any scheduled expiration date of the Offer then, provided that all such conditions are reasonably capable of being satisfied, Purchaser shall extend the Offer from time to time until such conditions are satisfied or waived, provided that Purchaser shall not be required to extend the Offer beyond March 1, 1999. In addition, the Offer Price may be increased and the Offer may be extended to the extent required by applicable Law in connection with such increase, in each case without the consent of the Company. Purchaser shall, on the terms and subject to the prior satisfaction or waiver of the conditions of the Offer, accept for payment and pay for Shares validly tendered as promptly as practicable; provided, however, that if, immediately prior to the initial expiration date of the Offer, the Shares validly tendered and not withdrawn pursuant to the Offer equal less than 90% of the outstanding Shares, Purchaser may extend the Offer for a period not to exceed 10 business days, notwithstanding that all conditions to the Offer are satisfied as of such expiration date of the Offer so long as Purchaser irrevocably waives the satisfaction of any of the conditions to the Offer (other than the Minimum Condition and the condition set forth in paragraph (b) of Annex A hereto) that subsequently may not be satisfied during such extension to the Offer.

#### Section 1.2 Company Actions.

(a) The Company hereby approves of and consents to the Offer and represents that the Board of Directors of the Company, at a meeting duly called and held, has (i) unanimously determined that each of the Agreement, the Offer and the Merger (as defined in Section 1.5) are fair to and in the best interests of the stockholders of the Company, (ii) unanimously approved this Agreement, the Offer, the acquisition of Shares pursuant to the Offer and the Merger for purposes of Section 203 of the DGCL (the "Section 203 Approval"), (iii) received the opinion of Allen & Company Incorporated, financial advisor to the Company, to the effect that the Offer Price to be received by holders of Shares pursuant to the Offer and the Merger Consideration (as defined herein) pursuant to the Merger is fair to the stockholders of the Company from a financial point of view, (iv) approved this Agreement and the transactions contemplated hereby including the Offer and the Merger (collectively, the "Transactions") and (v) resolved to recommend that the stockholders of the Company accept the Offer, tender their Shares thereunder to Purchaser and approve and adopt this Agreement and the Merger. The Company has been advised by each of its directors and by each executive officer who as of the

date hereof is actually aware (to the Knowledge of the Company) of the Transactions that each such Person either intends to tender pursuant to the Offer all Shares owned by such Person or vote all Shares owned by such Person in favor of the Merger.

(b) In connection with the Offer, the Company will promptly furnish or cause to be furnished to Purchaser mailing labels, security position listings and any available listings or computer files containing the names and addresses of all holders of record of the Shares as of a recent date, and shall furnish Purchaser with such additional information (including, but not limited to, updated lists of holders of the Shares and their addresses, mailing labels and lists of security positions) and such assistance as Purchaser or its agents may reasonably request in communicating the Offer to the record and beneficial holders of the Shares. Subject to the requirements of applicable Law, and except for such steps as are necessary to disseminate the Offer Documents and any other documents necessary to consummate the Merger, Purchaser and its affiliates and associates shall hold in confidence the information contained in any such labels, listings and files and all other information delivered pursuant to this Section 1.2(b), will use such information only in connection with the Offer and the Merger and, if this Agreement shall be terminated, will deliver to the Company all copies, extracts or summaries of such information in their possession or the possession of their agents.

#### Section 1.3 SEC Documents.

(a) On the date the Offer is commenced, Parent and Purchaser shall file with the United States Securities and Exchange Commission (the "SEC") a Tender Offer Statement on Schedule 14D-1 in accordance with the Exchange Act with respect to the Offer (together with all amendments and supplements thereto and including the exhibits thereto, the "Schedule 14D-1"). The Schedule 14D-1 will include, as exhibits, the Offer to Purchase and a form of letter of transmittal (collectively, together with any amendments and supplements thereto, the "Offer Documents"). Concurrently with the filing of the Schedule 14D-1 by Parent and Purchaser, the Company shall file with the SEC a Solicitation/Recommendation Statement on Schedule 14D-9 in accordance with the Exchange Act (together with all amendments and supplements thereto and including the exhibits thereto, the "Schedule 14D-9"), which shall, except as otherwise provided herein, contain the recommendation referred to in clause (v) of Section 1.2(a) hereof.

(b) Parent and Purchaser will take all steps necessary to ensure that the Offer Documents, and the Company will take all steps necessary to

ensure that the Schedule 14D-9, will comply in all material respects with the provisions of applicable Federal and state securities Laws. Each of Parent and Purchaser will take all steps necessary to cause the Offer Documents, and the Company will take all steps necessary to cause the Schedule 14D-9, to be filed with the SEC and to be disseminated to holders of the Shares, in each case as and to the extent required by applicable Federal and state securities Laws. Each of Parent and Purchaser, on the one hand, and the Company, on the other hand, will promptly correct any information provided by it for use in the Offer Documents and the Schedule 14D-9 if and to the extent that it shall have become false and misleading in any material respect and Purchaser will take all steps necessary to cause the Offer Documents, and the Company will take all steps necessary to cause the Schedule 14D-9, as so corrected to be filed with the SEC and to be disseminated to holders of the Shares, in each case as and to the extent required by applicable Federal and state securities Laws. Parent and its counsel shall be given a reasonable opportunity to review and comment upon the Schedule 14D-9 and all amendments and supplements thereto prior to their filing with the SEC or dissemination to stockholders of the Company. The Company and its counsel shall be given a reasonable opportunity to review and comment upon the Offer Documents prior to their filing with the SEC or dissemination to stockholders of the Company. The Company agrees to provide Parent and its counsel with copies of any written comments that the Company or its counsel may receive from the SEC or its staff with respect to the Schedule 14D-9 promptly after the receipt of such comments and each of Parent and Purchaser agrees to provide the Company and its counsel with copies of any written comments that Parent, Purchaser or their counsel may receive from the SEC or its staff with respect to the Offer Documents promptly after the receipt of such comments.

#### Section 1.4 Directors.

(a) Promptly after (i) the purchase of and payment for any Shares by Purchaser or any of its affiliates pursuant to the Offer as a result of which Purchaser and its affiliates own beneficially at least a majority of then outstanding Shares and (ii) compliance with Section 14(f) of the Exchange Act and Rule 14f-1 promulgated thereunder, whichever shall occur later, Parent shall be entitled to designate such number of directors, rounded up to the next whole number, on the Company's Board of Directors as is equal to the product of the total number of directors on such Board (giving effect to the increase in the size of such Board pursuant to this Section 1.4) multiplied by the percentage that the number of Shares beneficially owned by Purchaser (including Shares so accepted for payment) bears to the total number of Shares then outstanding. In furtherance thereof, the Company

shall, upon request of Parent and compliance with Section 14(f) of the Exchange Act and Rule 14f-1 promulgated thereunder, use its best efforts promptly either to increase the size of its Board of Directors or to secure the resignations of such number of its incumbent directors, or both, as is necessary to enable such designees of Parent to be so elected or appointed to the Company's Board of Directors, and the Company shall take all actions available to the Company to cause such designees of Parent to be so elected or appointed. At such time, the Company shall, if requested by Parent, also take all action necessary to cause Persons designated by Parent to constitute at least the same percentage (rounded up to the next whole number) as is on the Company's Board of Directors of (i) each committee of the Company's Board of Directors, (ii) each board of directors (or similar body) of each Subsidiary of the Company and (iii) each committee (or similar body) of each such board.

(b) The Company shall promptly take all actions required pursuant to Section 14(f) of the Exchange Act and Rule 14f-1 promulgated thereunder in order to fulfill its obligations under Section 1.4(a), including mailing to stockholders the information required by such Section 14(f) and Rule 14f-1 (or, at Parent's request, furnishing such information to Parent for inclusion in the Offer Documents initially filed with the SEC and distributed to the stockholders of the Company) as is necessary to enable Parent's designees to be elected to the Company's Board of Directors. Parent or Purchaser will supply to the Company in writing and be solely responsible for any information with respect to either of them and their nominees, officers, directors and affiliates required by such Section 14(f) and Rule 14f-1. The provisions of this Section 1.4 are in addition to and shall not limit any rights which Purchaser, Parent or any of their affiliates may have as a holder or beneficial owner of Shares as a matter of applicable Law with respect to the election of directors or otherwise.

(c) Notwithstanding the provisions of this Section 1.4, the parties hereto shall use their respective reasonable best efforts to ensure that at least two of the members of the Board shall, at all times prior to the Effective Time (as defined in Section 1.6 hereof) be, Continuing Directors. From and after the time, if any, that Parent's designees constitute a majority of the Company's Board of Directors, any amendment or modification of this Agreement, any amendment to the Company's Certificate of Incorporation or By-Laws inconsistent with this Agreement, any termination of this Agreement by the Company, any extension of time for performance of any of the obligations of Parent or Purchaser hereunder, any waiver of any condition to the Company's obligations hereunder or any of the Company's rights hereunder or other action by the Company hereunder may be effected only by

the action of a majority of the Continuing Directors of the Company, which action shall be deemed to constitute the action of any committee specifically designated by the Board of Directors of the Company to approve the actions contemplated hereby and the Transactions and the full Board of Directors of the Company; provided, that, if there shall be no Continuing Directors, such actions may be effected by majority vote of the entire Board of Directors of the Company, except that no such action shall amend the terms of this Agreement or modify the terms of the Offer or the Merger in a manner materially adverse to the holders of Shares.

Section 1.5 The Merger. (a) Subject to the terms and conditions of this Agreement, and in accordance with the DGCL, at the Effective Time (as defined in Section 1.6 hereof), the Company and Purchaser shall consummate a merger (the "Merger") pursuant to which (x) Purchaser shall be merged with and into the Company and the separate corporate existence of Purchaser shall thereupon cease and (y) the Company shall be the surviving corporation in the Merger (sometimes hereinafter referred to as the "Surviving Corporation") and shall continue to be governed by the Laws of the State of Delaware.

(b) Pursuant to the Merger, at the Effective Time, (x) the Certificate of Incorporation of the Company, as in effect immediately prior to the Effective Time, shall be the certificate of incorporation of the Surviving Corporation and (y) the By-Laws of the Company, as in effect immediately prior to the Effective Time, shall be the by-laws of the Surviving Corporation, each until thereafter changed or amended as provided therein and by the DGCL.

(c) The directors of Purchaser at the Effective Time shall be the initial directors of the Surviving Corporation until their respective successors are duly elected and qualified or until their earlier death, resignation or removal in accordance with the Surviving Corporation's certificate of incorporation and by-laws. The officers of the Company at the Effective Time shall be the initial officers of the Surviving Corporation until their respective successors are duly elected and qualified or until their earlier death, resignation or removal in accordance with the Surviving Corporation's certificate of incorporation and by-laws.

(d) The Merger shall have the effects specified in the applicable provisions of the DGCL.

Section 1.6 Effective Time. Subject to the terms and conditions of this Agreement, Parent, Purchaser and the Company will cause a certificate of merger or, if applicable, a certificate of ownership and merger (as applicable, the "Certificate of Merger"), to be executed and filed on the date of the Closing (as defined in Section 1.7) (or on such other date as Parent and the Company may agree) with the Secretary of State of Delaware (the "Secretary of State") as provided in the DGCL. The Merger shall become effective on the date on which the Certificate of Merger has been duly filed with the Secretary of State or such time as is agreed upon by the parties and specified in the Certificate of Merger, and such time is hereinafter referred to as the "Effective Time."

Section 1.7 Closing. The closing of the Merger (the "Closing") shall take place at 10:00 a.m., local time, on a date to be specified by the parties, which shall be no later than the second business day after satisfaction or waiver of all of the conditions set forth in Article VI hereof (the "Closing Date"), at the offices of Skadden, Arps, Slate, Meagher & Flom LLP, 919 Third Avenue, New York, New York, 10022, unless another date or place is agreed to in writing by the parties hereto.

## ARTICLE II

### CONVERSION OF SECURITIES

Section 2.1 Conversion of Capital Stock. As of the Effective Time, by virtue of the Merger and without any action on the part of the holders of any Shares or any shares of capital stock of Purchaser:

(a) Purchaser Capital Stock. Each issued and outstanding share of common stock, par value \$.01 per share, of Purchaser shall be converted into and become one fully paid and nonassessable share of common stock, par value \$.01 per share, of the Surviving Corporation.

(b) Cancellation of Treasury Stock and Purchaser-Owned Stock. All Shares that are owned by the Company or any Subsidiary of the Company and any Shares owned by Parent, Purchaser or any Subsidiary of Parent or Purchaser shall be cancelled and retired and shall cease to exist and no consideration shall be delivered in exchange therefor.

(c) Exchange of Shares. Each issued and outstanding Share (other than Shares to be cancelled in accordance with Section 2.1(b) and Dissenting Shares (as herein defined)) shall be converted into the right to receive the Offer Price in cash, without interest (the "Merger Consideration"). All such Shares, when so converted, shall no longer be outstanding and shall automatically be cancelled and retired and shall cease to exist, and each holder of a certificate representing any such Shares shall cease to have any rights with respect thereto, except the right to receive the Merger Consideration therefor upon the surrender of such certificate in accordance with Section 2.2, without interest.

#### Section 2.2 Exchange of Certificates.

(a) Paying Agent. Prior to the Effective Time, Parent shall designate a bank, trust company or other Person, reasonably acceptable to the Company, to act as agent for the holders of the Shares in connection with the Merger (the "Paying Agent") to receive the funds to which holders of the Shares shall become entitled pursuant to Section 2.1(c). Parent shall, from time to time, make available to the Paying Agent funds in amounts and at times necessary for the payment of the Merger Consideration as provided herein. All interest earned on such funds shall be paid to Parent.

(b) Exchange Procedures. As soon as reasonably practicable after the Effective Time, Parent shall cause the Paying Agent to mail to each holder of record of a certificate or certificates which immediately prior to the Effective Time represented outstanding Shares (the "Certificates") whose Shares were converted into the right to receive the Merger Consideration pursuant to Section 2.1, (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Paying Agent and shall be in such form not inconsistent with this Agreement as Parent may specify) and (ii) instructions for use in surrendering the Certificates in exchange for payment of the Merger Consideration. Upon surrender of a Certificate for cancellation to the Paying Agent, together with such letter of transmittal, duly executed, and such other documents as may reasonably be required by the Paying Agent, Parent shall cause the Paying Agent to pay to the holder of such Certificate the Merger Consideration, and the Certificate so surrendered shall forthwith be cancelled. In the event of a surrender of a Certificate representing Shares which are not registered in the transfer records of the Company under the name of the Person surrendering such Certificate, payment may be made to a Person other than the Person in whose name the Certificate so surrendered is registered if such Certificate

shall be properly endorsed or otherwise be in proper form for transfer and the Person requesting such payment shall pay any transfer or other Taxes required by reason of payment to a Person other than the registered holder of such Certificate or establish to the satisfaction of the Paying Agent that such tax has been paid or is not applicable. Until surrendered as contemplated by this Section 2.2, each Certificate shall be deemed at any time after the Effective Time to represent only the right to receive upon such surrender the Merger Consideration which the holder thereof has the right to receive in respect of such Certificate pursuant to the provisions of this Article II. No interest shall be paid or will accrue on the Merger Consideration payable to holders of Certificates pursuant to the provisions of this Article II.

(c) Transfer Books; No Further Ownership Rights in Shares. At the Effective Time, the stock transfer books of the Company shall be closed and thereafter there shall be no further registration of transfers of the Shares on the records of the Company. From and after the Effective Time, the holders of Certificates evidencing ownership of the Shares outstanding immediately prior to the Effective Time shall cease to have any rights with respect to such Shares, except as otherwise provided for herein or by applicable Law. If, after the Effective Time, Certificates are presented to the Surviving Corporation for any reason, they shall be cancelled and exchanged as provided in this Article II.

(d) Termination of Fund; No Liability. At any time following one year after the Effective Time, the Surviving Corporation shall be entitled to require the Paying Agent to deliver to it any funds (including any interest received with respect thereto) which had been made available to the Paying Agent and which have not been disbursed to holders of Certificates, and thereafter such holders shall be entitled to look to the Surviving Corporation (subject to abandoned property, escheat or other similar Laws) only as general creditors thereof with respect to the Merger Consideration payable upon due surrender of their Certificates, without any interest thereon. Notwithstanding the foregoing, none of Parent, the Company, the Surviving Corporation or the Paying Agent shall be liable to any holder of a Certificate for Merger Consideration delivered to a public official pursuant to any applicable abandoned property, escheat or similar Law.

(e) Lost Certificates. If any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed and, if required by the Surviving Corporation, the posting by such Person of a bond in such reasonable amount as the Surviving Corporation may direct as indemnity against any claim that

may be made against it with respect to such Certificate, the Paying Agent shall pay in exchange for such lost, stolen or destroyed Certificate the Merger Consideration pursuant to this Agreement.

Section 2.3 Withholding Taxes. Parent and Purchaser shall be entitled to deduct and withhold, or cause the Paying Agent to deduct and withhold, from the Offer Price or the Merger Consideration payable to a holder of Shares pursuant to the Offer or the Merger any withholding and stock transfer Taxes and such amounts as are required under the Code, or any applicable provision of state, local or foreign Tax law. Parent shall take appropriate steps to minimize such Taxes. To the extent that amounts are so withheld by Parent or Purchaser, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the Shares in respect of which such deduction and withholding was made by Parent or Purchaser.

Section 2.4. Stock Options. (a) Immediately prior to the Effective Time, each then outstanding option to purchase any shares of capital stock of the Company (in each case, an "Option"), whether or not then vested or exercisable, shall be cancelled by the Company and in consideration of such cancellation and except to the extent that Parent or the Purchaser and the holder of any such Option otherwise agree, the Company (or, at Parent's option, the Purchaser) shall pay to such holders of Options an amount in respect thereof equal to the product of (A) the excess, if any, of the Offer Price over the exercise price of each such Option and (B) the number of Shares previously subject to the Option immediately prior to its cancellation (such payment to be net of withholding taxes and without interest).

(b) The Company shall use its reasonable best efforts to take all actions necessary and appropriate so that all stock option or other equity based plans maintained with respect to the Shares, including, without limitation, the plans listed in Section 3.3 hereof ("Option Plans"), shall terminate as of the Effective Time and the provisions in any other Benefit Plan providing for the issuance, transfer or grant of any capital stock of the Company or any interest in respect of any capital stock of the Company shall be deleted as of the Effective Time, and the Company shall use its best efforts to ensure that following the Effective Time no holder of an Option or any participant in any Option Plan shall have any right thereunder to acquire any capital stock of the Company, Parent, Purchaser or the Surviving Corporation.

(c) Prior to the Effective Time, the Company shall use its reasonable best efforts to (i) obtain all necessary consents from, and provide (in a form acceptable to Parent) any required notices to, holders of Options and (ii) amend the terms of the applicable Option Plan, in each case as is necessary to give effect to the provisions of paragraphs (a) and (b) of this Section 2.4.

Section 2.5. Appraisal Rights. Notwithstanding anything in this Agreement to the contrary, Shares (the "Dissenting Shares") that are issued and outstanding immediately prior to the Effective Time and which are held by stock holders who did not vote in favor of the Merger and who comply with all of the relevant provisions of Section 262 of the DGCL (the "Dissenting Stockholders") shall not be converted into or be exchangeable for the right to receive the Merger Consideration, unless and until such holders shall have failed to perfect or shall have effectively withdrawn or lost their rights to appraisal under the DGCL. If any Dissenting Stockholder shall have failed to perfect or shall have effectively with drawn or lost such right, such holder's Shares shall thereupon be converted into and become exchangeable for the right to receive, as of the Effective Time, the Merger Consideration without any interest thereon. The Company shall give Parent (i) prompt notice of any written demands for appraisal of any Shares, attempted withdrawals of such demands and any other instruments served pursuant to the DGCL and received by the Company relating to stockholders' rights of appraisal, and (ii) the opportunity to direct all negotiations and proceedings with respect to demands for appraisal under the DGCL. Neither the Company nor the Surviving Corporation shall, except with the prior written consent of Parent, voluntarily make any payment with respect to, or settle or offer to settle, any such demand for payment. If any Dissenting Stockholder shall fail to perfect or shall have effectively withdrawn or lost the right to dissent, the Shares held by such Dissenting Stockholder shall thereupon be treated as though such Shares had been converted into the right to receive the Merger Consideration pursuant to Section 2.1(c).

## ARTICLE III

## REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to Parent and Purchaser as

follows:

Section 3.1 Organization, Standing and Corporate Power. Each of the Company and each of its Subsidiaries is a corporation duly organized, validly existing and in good standing under the Laws of the jurisdiction in which it is organized and has the requisite corporate power and authority to carry on its business as is now being conducted. Each of the Company and its Subsidiaries is duly qualified as a foreign corporation or licensed to do business and is in good standing in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification or licensing necessary, other than in such jurisdictions where the failure to be so qualified or licensed (individually or in the aggregate) would not have a Material Adverse Effect on the Company. The Company has delivered to Parent complete and correct copies of the Certificate of Incorporation of the Company and By-Laws of the Company, in each case as amended to the date of this Agreement, and has delivered the certificates of incorporation and by-laws or other organizational documents of its Subsidiaries that currently have operations, in each case as amended as of the date of this Agreement. Except as set forth on Schedule 3.2 of the Company Disclosure Schedule or in the Company's SEC Documents, the respective certificates of incorporation and by-laws or other organizational documents of the Subsidiaries of the Company do not contain any provision limiting or otherwise restricting the ability of the Company to control such Subsidiaries.

Section 3.2 Subsidiaries. (a) Exhibit 21.1 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and Schedule 3.2 of the disclosure schedule delivered by the Company to Parent at or prior to the execution of this Agreement (the "Company Disclosure Schedule") together include the names, jurisdictions of incorporation and capitalization of all of the Subsidiaries of the Company. Except as set forth on Schedule 3.2 of the Company Disclosure Schedule or in the Company's SEC Documents, all the outstanding shares of capital stock of, or other equity interests in, each Subsidiary of the Company have been validly issued and are fully paid and nonassessable and are owned directly or indirectly by the Company, free and clear of all Liens and free of any other restric-

tion (including any restriction on the right to vote, sell or otherwise dispose of such capital stock or other ownership interests).

(b) The Company does not directly or indirectly beneficially own any securities or other beneficial ownership interests in any other entity (including through joint ventures or partnership arrangements) other than (i) the Subsidiaries of the Company or (ii) as disclosed on Schedule 3.2 of the Company Disclosure Schedule.

Section 3.3 Capital Structure. The authorized capital stock of the Company consists of 50,000,000 Shares and 1,000,000 shares of preferred stock, par value \$1.00 per share (the "Preferred Shares") of which 50,000 shares have been designated as Series A Preferred Stock (the "Series A Preferred Shares"). As of the date hereof, (i) 18,127,864 Shares were issued and outstanding and no Preferred Shares were issued and outstanding, (ii) 511,810 Shares were reserved for issuance upon exercise of outstanding Options pursuant to the Company's Amended and Restated 1984 Employee Stock Option Plan with an exercise price range of a minimum exercise price of \$3.00 and a maximum exercise price of \$30.63, (iii) 727,912 Shares were reserved for issuance upon exercise of outstanding Options pursuant to the Company's 1994 Senior Management Stock Option Plan with an exercise price range of a minimum exercise price of \$9.00 and a maximum exercise price of \$21.25, (iv) 28,000 Shares were reserved for issuance upon exercise of outstanding Options pursuant to the 1995 Non-Employee Directors' Stock Option Plan with an exercise price range of a minimum exercise price of \$8.00 and a maximum exercise price of \$14.13, (v) 780,500 Shares were reserved for issuance upon exercise of outstanding Options pursuant to the 1996 Share Incentive Plan with an exercise price range of a minimum exercise price of \$9.25 and a maximum exercise price of \$15.75, (vi) 1,450,000 Shares were reserved for issuance upon exercise of warrants (the "Lucasfilm Ltd. Warrants"), expiring October 14, 2009, held by Lucasfilm Ltd., with an exercise price of \$15.00 per Share, (vii) 2,130,000 Shares were reserved for issuance upon exercise of warrants (the "Lucas Licensing Ltd. Warrants"), expiring October 14, 2009, held by Lucas Licensing Ltd., with an exercise price of \$15.00 per Share and (viii) no Shares were issued and are held in the Company's treasury. Except as set forth above or on Schedule 3.3 of the Company Disclosure Schedule, as of the date of this Agreement: (i) no shares of capital stock or other voting securities of the Company are issued, reserved for issuance or outstanding; (ii) there are no stock appreciation rights, phantom stock units, restricted stock grants, contingent stock grants or Benefit Plans which grant awards of any of the foregoing, and there are no other outstanding contractual rights to which

the Company is a party the value of which is based on the value of Shares; (iii) all outstanding shares of capital stock of the Company are, and all Shares which may be issued will be, when so issued, duly authorized, validly issued, fully paid and nonassessable and not subject to preemptive rights; and (iv) there are no bonds, debentures, notes or other indebtedness of the Company having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matters on which stockholders of the Company may vote. Except for the Preferred Stock Purchase Rights, and except as set forth above, as of the date of this Agreement, there are no outstanding securities, options, warrants, calls, rights, commitments, agreements, arrangements or undertakings of any kind to which the Company or any of its Subsidiaries is a party or by which any of them is bound obligating the Company or any of its Subsidiaries to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock or other voting securities of the Company or of any of its Subsidiaries or obligating the Company or any of its Subsidiaries to issue, grant, extend or enter into any such security, option, warrant, call, right, commitment, agreement, arrangement or undertaking. There are no programs in place, nor any outstanding contractual obligations of the Company or any of its Subsidiaries, to repurchase, redeem or otherwise acquire any shares of capital stock of the Company or any of its Subsidiaries. Schedule 3.3 of the Company Disclosure Schedule accurately sets forth information regarding the current exercise price, date of grant and number of granted Options for each holder of Options pursuant to any Company Option Plan. Following the Effective Time, no holder of Options will have any right to receive shares of common stock of the Surviving Corporation upon exercise of Options.

Section 3.4 Authority; Noncontravention; Company Action. The Company has the requisite corporate power and authority to enter into this Agreement and, subject to approval of this Agreement by the holders of a majority of the outstanding Shares, to consummate the Merger contemplated by this Agreement. The execution, delivery and performance of this Agreement by the Company and the consummation by the Company of the Transactions have been duly authorized by all necessary corporate action on the part of the Company, subject, in the case of the Merger, to approval of this Agreement by the holders of a majority of the outstanding Shares. This Agreement has been duly executed and delivered by the Company and, assuming this Agreement constitutes the valid and binding obligation of Parent and Purchaser, constitutes the valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except that (i) such enforcement may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar Laws now or hereafter in effect relating to creditors' rights generally and (ii)

the remedy of specific performance and injunctive relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought. Except as set forth on Schedule 3.4 of the Company Disclosure Schedule or waivers or consents that have been obtained and delivered to Parent, the execution, delivery and performance of this Agreement do not, and the consummation of the Transactions (including the changes in the composition of the Board of Directors of the Company) and compliance with the provisions of this Agreement will not, conflict with, or result in any violation of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or loss of a material benefit under, or result in the creation of any Lien upon any of the material properties or assets of the Company or any of its Subsidiaries under, or result in the termination of, or require that any consent be obtained or any notice be given with respect to, (i) the Certificate of Incorporation or By-laws of the Company or the comparable charter or organizational documents of any of its Subsidiaries, (ii) any loan or credit agreement note, bond, mortgage, indenture, lease or other agreement, instrument or Permit applicable to the Company or any of its Significant Subsidiaries or their respective properties or assets, (iii) any Law applicable to the Company or any of its Subsidiaries or their respective properties or assets or (iv) any licenses to which the Company or any of its Subsidiaries is a party, other than, in the case of clauses (ii), (iii) or (iv), any such conflicts, violations, defaults, rights, Liens, losses of a material benefit, consents or notices that, individually or in the aggregate, would not have a Material Adverse Effect on the Company and its Subsidiaries taken as a whole or the consents Parent and Purchaser have obtained as described in Section 5.14 hereof. No consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Entity is required by the Company or any of its Subsidiaries in connection with the execution and delivery of this Agreement by the Company or the consummation by the Company of the Transactions, except for (i) the filings, permits, authorizations, consents and approvals set forth in Section 3.4 of the Company Disclosure Schedule, or as may be required under, and other applicable requirements of, the Securities Act, the Exchange Act, the HSR Act, any applicable state securities or "blue sky" Laws and the DGCL, and (ii) such other consents, approvals, orders, authorizations, registrations, declarations and filings the failure of which to be obtained or made would not, individually or in the aggregate, (x) impair, in any material respect, the ability of the Company to perform its obligations under this Agreement, (y) prevent or significantly delay the consummation of the Transactions or (z) have a Material Adverse Effect on the Company and its Subsidiaries taken as a whole. The Board of Directors of the Company has taken all appropriate action so that neither Parent nor Purchaser will be an "interested stockholder" within

the meaning of Section 203 of the DGCL by virtue of Parent, Purchaser and the Company entering into this Agreement or any other agreement contemplated hereby and consummating the Transactions.

Section 3.5 SEC Documents; Financial Statements. The Company has filed all SEC Documents required to be filed by it since January 1, 1996 (the "Company's SEC Documents"). As of their respective dates, (i) the Company's SEC Documents complied in all material respects with the requirements of the Securities Act, or the Exchange Act, as the case may be, and the rules and regulations of the SEC promulgated thereunder applicable to such SEC Documents, and (ii) none of the Company's SEC Documents contained at the time of their filing any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the Company's SEC Documents, as of the dates of such SEC Documents, are true and complete and complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with generally accepted accounting principles as in effect at such time ("GAAP") in the United States applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto) and fairly presented the consolidated financial position of the Company and its consolidated Subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments). Except as set forth on Schedule 3.5 of the Company Disclosure Schedule and except as set forth in the Company's SEC Documents filed and publicly available prior to the date of this Agreement, and except for liabilities and obligations incurred in the ordinary course of business consistent with past practice since the date of the most recent consolidated balance sheet included in the Company's SEC Documents filed and publicly available prior to the date of this Agreement, neither the Company nor any of its Subsidiaries has any material liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise).

Section 3.6 Schedule 14D-9; Offer Documents; Proxy Statement. Neither the Schedule 14D-9, any other document required to be filed by the Company with the SEC in connection with the Transactions, nor any information supplied by the Company in writing for inclusion in the Offer Documents shall, at the respective times the Schedule 14D-9, any such other filings by the Company, the Offer Documents or any amendments or supplements thereto are filed with the SEC

or are first published, sent or given to stockholders of the Company, as the case may be, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements made therein, in light of the circumstances under which they are made, not misleading. The Proxy Statement will not, on the date the Proxy Statement (including any amendment or supplement thereto) is first mailed to stockholders of the Company, contain any untrue statement of a material fact, or omit to state any material fact required to be stated therein or necessary in order to make the statements made therein, in light of the circumstances under which they are made, not misleading or shall, at the time of the Special Meeting (as hereinafter defined) or at the Effective Time, omit to state any material fact necessary to correct any statement in any earlier communication in light of the circumstances in which they are made, with respect to the solicitation of proxies for the Special Meeting which shall have become false or misleading in any material respect. The Schedule 14D-9, any other document required to be filed by the Company with the SEC in connection with the Transactions and the Proxy Statement will, when filed by the Company with the SEC, comply as to form in all material respects with the applicable provisions of the Exchange Act and the rules and regulations thereunder. Notwithstanding the foregoing, the Company makes no representation or warranty with respect to the statements made in any of the foregoing documents based on and in conformity with information supplied by or on behalf of Parent or Purchaser specifically for inclusion or incorporation by reference therein.

Section 3.7 Absence of Certain Changes or Events. Except as set forth in the Company's SEC Documents or on Schedule 3.7 of the Company Disclosure Schedule, since December 31, 1997, the Company and its Subsidiaries have conducted their respective businesses only in the ordinary course, and there has not been any Material Adverse Change in the Company and its Subsidiaries, taken as a whole.

Section 3.8 Litigation. Except as set forth in the Company's SEC Documents or on Schedule 3.8 of the Company Disclosure Schedule or to the extent reserved for as reflected on the Company's financial statements for the fiscal year ended December 31, 1997, there are (i) no suits, actions or proceedings pending or, to the Knowledge of the Company, threatened against the company or any of its Subsidiaries that, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect on the Company, (ii) no complaints, lawsuits, charges or other proceedings pending or, to the Knowledge of the Company, threatened in any forum by or on behalf of any present or former employee of the Com-

pany or any of its Subsidiaries, any applicant for employment or classes of the foregoing alleging breach of any express or implied contract of employment, any applicable Law governing employment or the termination thereof or other discriminatory, wrongful or tortious conduct in connection with the employment relationship that, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect on the Company, (iii) no judgments, decrees, injunctions or orders of any Governmental Entity or arbitrator outstanding against the Company that, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect on the Company and (iv) no orders, writs, judgments, injunctions, decrees or determinations adverse to the Trademarks or the Other Intellectual Property.

Section 3.9 Absence of Changes in Benefit Plans; SEC

Disclosure. Except as disclosed on Schedule 3.9 of the Company Disclosure Schedule, there has not been any adoption or amendment by the Company or any of its Subsidiaries or any ERISA Affiliate (as defined in Section 3.10 hereof) of any Benefit Plan (as defined in Section 3.10 hereof) since December 31, 1997. Except as disclosed on Schedule 3.9 of the Company Disclosure Schedule, neither the Company nor any of its Subsidiaries has any formal plan or commitment to create any additional Benefit Plan or modify or change any existing Benefit Plan that would affect any employee or terminated employee of the Company or a Subsidiary of the Company. All employment, consulting, severance, termination, change in control or indemnification agreements, arrangements or understandings between the Company or any of its Subsidiaries and any current or former officer or director of the Company or any of its Subsidiaries which were required to be disclosed in the Company's SEC Documents at the time such documents were filed have been disclosed therein.

Section 3.10 Employee Benefits; ERISA. (a) Schedule 3.10 of

the Company Disclosure Schedule contains a true and complete list of each material bonus, deferred compensation, incentive compensation, stock purchase, stock option, employment, severance or termination pay, health insurance, supplemental unemployment benefits, profit-sharing, pension, or retirement plan, program, agreement or arrangement, and each other material (as determined in the Company's reasonable good faith) employee benefit plan, program, agreement or arrangement, other than a non-material fringe benefit plan, sponsored, maintained or contributed to or required to be contributed to by the Company or any of its Subsidiaries or by any trade or business, whether or not incorporated (an "ERISA Affiliate"), that is a member of a "controlled group" within the meaning of section 4001 of the Employee Retirement Income Security Act of 1974, as amended, and the regulations promulgated thereun-

der ("ERISA") of which the Company or a Subsidiary is a member or which is under "common control" within the meaning of Section 4001 of ERISA, with the Company or a Subsidiary, for the benefit of any employee or terminated employee of the Company, its Subsidiaries or any ERISA Affiliate, whether formal or informal (the "Benefit Plans").

(b) With respect to each Benefit Plan, the Company has made available a true and complete copy thereof (including all amendments thereto), as well as true and complete copies of the two most recent annual reports, if required under ERISA, with respect thereto; the most recent Summary Plan Description, together with each Summary of Material Modifications, if required under ERISA with respect thereto; if the Benefit Plan is funded through a trust or any third party funding vehicle, the trust or other funding agreement (including all amendments thereto) and the latest financial statements thereof; and the most recent determination letter received from the Internal Revenue Service with respect to each Benefit Plan that is intended to be qualified under section 401 of the Code.

(c) No material liability to the Pension Benefit Guaranty Corporation ("PBGC") under Title IV of ERISA has been incurred by the Company, its Subsidiaries or any ERISA Affiliate since the effective date of ERISA that has not been satisfied in full, and no condition exists that presents a material risk to the Company, its Subsidiaries or any ERISA Affiliate of incurring a liability under such Title, other than liability for premiums due the PBGC (which premiums have been paid when due). Each Benefit Plan has been operated and administered in all respects in accordance with its terms and applicable Law, including but not limited to ERISA and the Code, except for such noncompliance which would not reasonably be expected to have a Material Adverse Effect on the Company.

(d) No Benefit Plan is subject to Section 302 of the Code or Title IV of ERISA.

(e) Neither the Company, nor any Subsidiary of the Company, nor any trust created thereunder, nor, to the Knowledge of the Company, any trustee or administrator thereof has engaged in a transaction in connection with which the Company or any Subsidiary of the Company, any such trust, or any trustee or administrator thereof, or any party dealing with any Benefit Plan or any such trust could be subject to either a civil penalty assessed pursuant to section 409 or 502(i) of ERISA or a tax imposed pursuant to section 4975 or 4976 of the Code and which assessment or imposition would have a Material Adverse Effect on the Company.

(f) All Benefit Plans that are subject to the laws of any jurisdiction outside the United States are in material compliance with such applicable laws, including relevant tax laws, and the requirements of any trust deed under which they are established, except for such non-compliance which would not reasonably be expected to have a Material Adverse Effect on the Company.

(g) Each Benefit Plan which is intended to be "qualified" within the meaning of section 401(a) of the Code is so qualified and the trusts maintained thereunder are exempt from taxation under section 501(a) of the Code.

(h) Except as set forth on Schedule 3.10 of the Company Disclosure Schedule, no Benefit Plan that is subject to the laws of any jurisdiction within the United States provides health, death or medical benefits (whether or not insured) with respect to current or former employees of the Company or its Subsidiaries beyond their retirement or other termination of employment (other than (a) coverage mandated by applicable Law or (b) benefits the full cost of which is borne by the current or former employee (or his beneficiary)).

(i) Except as set forth on Schedule 3.10 of the Company Disclosure Schedule, the consummation of the Transactions, alone, will not (a) entitle any current or former employee or officer of the Company or any Subsidiary to severance pay, unemployment compensation or any other payment, (b) accelerate the time of payment or vesting, or increase the amount of compensation or benefits due any such employee or officer or (c) require the Company or any ERISA Affiliate to fund or make any payments to any trust or other funding vehicle in respect of any Benefit Plan.

(j) There are no pending, anticipated or, to the knowledge of the Company, threatened claims by or on behalf of any Benefit Plan, by any employee or beneficiary covered under any such Benefit Plan, or otherwise involving any such Benefit Plan (other than routine claims for benefits) which would result in a Material Adverse Effect on the Company.

Section 3.11 Taxes. Except as set forth on Schedule 3.11 of the Company Disclosure Schedule:

(a) Each of the Company and each of its Subsidiaries has duly and timely filed (or has had duly and timely filed on its behalf) all federal, state and local

income Tax Returns and all other material Tax Returns required to be filed by it, and all such Tax Returns are true, complete and correct in all material respects. Each of the Company and each of its Subsidiaries has either paid (or has had paid on its behalf) all Taxes due and owing by them, or the most recent financial statements contained in the Company's SEC Documents reflect adequate reserves in accordance with generally accepted accounting principles for all Taxes not yet paid, except as would not, individually or in the aggregate, have a Material Adverse Effect on the Company and its Subsidiaries taken as a whole.

(b) Each of the Company and each of its Subsidiaries has complied in all material respects with all applicable Laws relating to the payment and withholding of Taxes (including, without limitation, the withholding of Taxes pursuant to Sections 1441 and 1442 of the Code or similar provisions under any applicable foreign Laws) and have, within the time and in the manner prescribed by applicable Laws, withheld from employee wages and paid over to the proper Governmental Entity all material amounts required to be so withheld and paid over under all applicable Laws.

(c) (i) No material deficiencies for any Taxes have been threatened, proposed, asserted or assessed (either in writing or orally) to the knowledge of the Company against the Company or any of its Subsidiaries which have not been fully paid or finally settled, (ii) no Governmental Entity is conducting or has proposed in writing to conduct an audit with respect to Taxes or any Tax Returns of the Company or any of its Subsidiaries, (iii) no extension or waiver of the statute of limitations with respect to Taxes or any Tax Return has been granted by the Company or any of its Subsidiaries, which remains in effect, (iv) neither the Company nor any of its Subsidiaries is a party to any agreement or arrangement to allocate, share or indemnify another party for Taxes, (v) there are no material Liens for Taxes upon the assets of the Company or any of its Subsidiaries, except for Liens for Taxes not yet due, (vi) no jurisdiction where either the Company or any of its Subsidiaries does not file a Tax Return has asserted or otherwise made a claim that the Company or any of its Subsidiaries is required to file a Tax Return for such jurisdiction, except as would not, individually or in the aggregate, have a Material Adverse Effect on the Company and its Subsidiaries taken as a whole, (vii) neither the Company nor any of its Subsidiaries has agreed to make, or is required to make, any adjustment under Section 481(a) of the Code (or comparable provision under state, local or foreign Tax laws) by reason of a change in accounting method or otherwise and the Company and each of its Subsidiaries do not have knowledge that the Internal Revenue Service has proposed any such adjustment or change in accounting method, (viii) neither the

Company nor any of its Subsidiaries is or has been a member of an affiliated group (within the meaning of Section 1504(a) of the Code) filing a consolidated return for federal income tax purposes (or a group filing consolidated, combined or unitary income tax returns under comparable provisions of state, local or foreign laws) for any taxable period beginning on or after January 1, 1994, other than a group the common parent of which is the Company, (ix) neither the Company nor any of its Subsidiaries has filed a consent pursuant to Section 341(f) of the Code (or any predecessor provision) or agreed to have Section 341(f)(2) of the Code apply to any disposition of a subsection (f) asset (as such term is defined in Section 341(f)(4) of the Code) owned by the Company or any of its Subsidiaries, (x) the Company has filed, as a common parent corporation of an affiliated group (within the meaning of Section 1504(a) of the Code) a consolidated return for Federal income tax purposes on behalf of such affiliated group and (xii) no power of attorney has been granted by or with respect to the Company or any of its Subsidiaries with respect to any matter relating to Taxes which remains in force.

(d) Schedule 3.11(d) of the Company Disclosure Schedule sets forth a list of the Company's income Tax Returns for taxable years or periods for which the statute of limitations has not expired.

Section 3.12 No Nondeductible Payments.

(a) Except as set forth on Schedule 3.12 of the Company Disclosure Schedule, no amounts payable as a result of the Transactions under the Benefit Plans or any other plans or arrangements will be nondeductible by reason of Section 280G of the Code.

(b) Except as set forth on Schedule 3.12 of the Company Disclosure Schedule, neither the Company nor any of its Subsidiaries is a party to any contract, agreement or other arrangement which would result in the payment of amounts prior to the Effective Time that will be nondeductible by reason of Section 162(m) of the Code.

## Section 3.13 Compliance with Applicable Laws.

Except as set forth on Schedule 3.13 of the Company Disclosure

Schedule:

(a) The Company and each of its Subsidiaries have complied and are presently complying in all material respects with all applicable Laws, and neither the Company nor any of its Subsidiaries has received notification of any asserted present or past failure to so comply, except, in each case, such non-compliance that would not be reasonably expected to (x) result in a Material Adverse Effect on the Company or (y) materially impair the ability of the parties hereto to consummate the Transactions.

(b) Except as would not, individually or in the aggregate, have a Material Adverse Effect on the Company or its Subsidiaries taken as a whole, each of the Company and its Subsidiaries has in effect, or has timely filed applications for, all material Permits necessary for it to own, lease or operate its properties and assets and to carry on its business substantially as now conducted and there are no appeals nor any other actions pending to revoke any such Permits, and there has occurred no material default or violation under any such Permits.

(c) Each of the Company and its Subsidiaries is, and has been, and each of the Company's former Subsidiaries, while a Subsidiary of the Company, was in compliance in all material respects with all applicable Environmental Laws (and Permits issued thereunder), and there are no circumstances or conditions that would be reasonably likely to prevent or interfere with material compliance by the Company or its Subsidiaries in the future with Environmental Laws (or Permits issued thereunder).

(d) Neither the Company nor any Subsidiary of the Company has received any material written claim, demand, notice, complaint, court order, administrative order or request for information from any Governmental Entity or private party, alleging violation of, or asserting any noncompliance with or liability under or potential liability under, any Environmental Laws, except for matters which are no longer threatened or pending or for which the Company or its Subsidiaries are not subject to further requirements pursuant to an administrative or court order, judgment or settlement agreement.

(e) During the period of ownership or operation by the Company and its Subsidiaries of any of their respective current or previously owned or leased properties, there have been no Releases of Hazardous Material in, on, under or affecting such properties at concentrations requiring reporting, investigation, or remediation under Environmental Laws or which would otherwise pose a significant threat to human health or the environment. None of the Company or its Subsidiaries have disposed of any Hazardous Material or any other substance at other properties, in a manner that has led, or could reasonably be anticipated to lead, to a Release that could have a Material Adverse Effect on the Company and its Subsidiaries taken as a whole. Prior to the period of ownership or operation by the Company and its Subsidiaries of any of their respective current or previously owned or leased properties, to the Knowledge of the Company, no Hazardous Material was disposed of at such current or previously owned or leased properties, and there were no Releases of Hazardous Material in, on, under or affecting any such property, except for disposal or Releases that would not require investigation or remediation under Environmental Laws and do not pose a significant threat to human health or the environment.

(f) Except for leases and credit agreements entered into in the ordinary course of business, as to which no notice of a claim for indemnity or reimbursement has been received and is outstanding by the Company, neither the Company nor any of its Subsidiaries has entered into any agreement that may require it to pay to, reimburse, guarantee, pledge, defend, indemnify, or hold harmless any Person for or against any Environmental Liabilities and Costs.

(g) Neither the Company nor any of its Subsidiaries has treated, stored or disposed of "hazardous waste", as that term is defined in the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq., analogous state Laws, or the regulations promulgated thereunder, such that the Company or any of its Subsidiaries would be required to obtain a permit (as compared to a registration or identification number) under said Laws for such treatment, storage or disposal.

(h) The Company has provided to Parent true and correct copies of all environmental studies and reports in its possession or in the possession of its representative, agents or consultants, prepared within the last five years, relating to the environmental condition of the Company's and its Subsidiaries' currently owned or leased properties, including, but not limited to, the extent of any on-site contamination at any of such properties, results of investigations at such properties, remedial action plans for such properties, and asbestos surveys.

## Section 3.14 Intellectual Property.

(a) (i) Except as set forth on Schedule 3.14(a)(i) of the Company Disclosure Schedule, the Company or one of its Subsidiaries is the sole and exclusive owner of, or has the valid right to use and enforce, the Trademarks and Internet domain names, free and clear of all Liens. Schedule 3.14(a)(i) of the Company Disclosure Schedule sets forth a complete and accurate list of all such U.S., state and foreign Trademark registrations and applications and Internet domain names, registrations and applications. Except as set forth in Schedule 3.14(a)(i) of the Company Disclosure Schedule, the Company or one of its Subsidiaries currently is listed in the records of the appropriate United States, state or foreign agency as the sole owner of record for each application and registration listed on Schedule 3.14(a)(i) of the Company Disclosure Schedule that is currently owned by the Company or one of its Subsidiaries.

(ii) Except as set forth on Schedule 3.14(a)(ii) of the Company Disclosure Schedule, the Company is the sole and exclusive owner of, or has the valid right to use and enforce the Other Intellectual Property, free and clear of all Liens. Schedule 3.14(a)(ii) of the Company Disclosure Schedule sets forth a complete and accurate list of all U.S. and foreign:

- (1) patents and patent applications, and
- (2) copyright registrations and applications.

Except as set forth on Schedule 3.14(a)(ii) of the Company Disclosure Schedule, the Company or one of its Subsidiaries currently is listed in the records of the appropriate United States, state or foreign agency as the sole owner of record for each patent, patent application, copyright application, and copyright registration listed on Schedule 3.14(a)(ii) of the Company Disclosure Schedule that is currently owned by the Company or one of its Subsidiaries.

(b) The patents, applications and registrations listed on Schedules 3.14(a)(i) and 3.14(a)(ii) of the Company Disclosure Schedule are valid and subsisting, in full force and effect in all material respects, and have not been cancelled, expired or abandoned. There is no material pending, existing or, to the Company's Knowledge, threatened, opposition, interference, cancellation proceeding or other legal or governmental proceeding before any court or registration authority in any jurisdiction against the foregoing. To the Company's Knowledge, there is no

pending, existing or threatened, opposition, interference, cancellation proceeding or other legal or governmental proceeding before any court or registration authority in any jurisdiction against any of the Trademarks or any of the Other Intellectual Property owned by the Company or its Subsidiaries.

(c) Schedule 3.14(c)(i) of the Company Disclosure Schedule sets forth a complete and accurate list of all agreements granting to third parties any right to use or practice any rights under any of the Trademarks or any of the Other Intellectual Property owned by the Company. Schedule 3.14(c)(ii) of the Company Disclosure Schedule sets forth a complete and accurate list of all agreements permitting the Company or its Subsidiaries to use any third party's Trademarks or Other Intellectual Property (such agreements, together with the agreements referenced on Schedule 3.14(c)(i) of the Company Disclosure Schedule are collectively referred to herein as the "Licenses"). The Licenses are valid and binding agreements of the Company or one or more of its Subsidiaries, as applicable, enforceable in accordance with their terms, and the Company and the Subsidiaries, and to the Company's Knowledge, the other parties thereto, as applicable, are not in material breach or default thereunder.

(d) The Company has taken reasonable measures to protect the confidentiality of its material trade secrets, including requiring employees having access thereto to execute written non-disclosure agreements. To the Company's Knowledge, no trade secret or confidential know-how material to the business of the Company or any of its Subsidiaries as currently operated has been disclosed or authorized to be disclosed to any third party, other than pursuant to a non-disclosure agreement that protects the Company's or such Subsidiary's proprietary interests in and to such trade secrets and confidential know-how.

(e) To the Company's Knowledge, except as set forth on Schedule 3.14(e) of the Company Disclosure Schedule the conduct of the business of the Company and each of its Subsidiaries does not infringe upon any intellectual property right owned or controlled by any third party. Except as set forth in the Company's SEC Documents or on Schedule 3.14(e) of the Company Disclosure Schedule, there are no claims or suits pending or, to the Company's Knowledge, threatened, and neither the Company nor any of its Subsidiaries has received any written notice of a third party claim or suit:

- (i) alleging that the Company's or such Subsidiary's activities or the conduct of its business infringes upon or constitutes the unauthorized use of the proprietary rights of any third party, or
- (ii) challenging the ownership, use, validity or enforceability of the Trademarks or the Other Intellectual Property owned or used by the Company or its Subsidiaries.

(f) To the Company's Knowledge, except as set forth on Schedule 3.14(f) of the Company Disclosure Schedule, no third party is infringing upon any of the Trademarks or the Other Intellectual Property owned by the Company or any of its Subsidiaries and, except as set forth on Schedule 3.14(f) of the Company Disclosure Schedule, no such claims have been made against a third party by the Company or any of its Subsidiaries.

(g) Except as set forth on Schedule 3.14(g) of the Company Disclosure Schedule, there are no settlements, consents, judgments or orders or other agreements which restrict the Company's or any of its Subsidiaries' rights to use any of the Trademarks or the Other Intellectual Property, and no concurrent use or other agreements (aside from license and other like agreements) which restrict the Company's or any of its Subsidiaries' rights to use any of the Trademarks or the Other Intellectual Property owned by the Company or any of its Subsidiaries.

(h) Except as set forth on Schedule 3.14(h) of the Company Disclosure Schedule, the consummation of the Transactions will not result in the loss or impairment of the Company's or any of its Subsidiaries' rights to own or use any of the Trademarks or the Other Intellectual Property owned by or licensed to the Company or its Subsidiaries nor will it require the consent of any Governmental Authority or third party in respect of any such Trademarks or the Other Intellectual Property.

Section 3.15 Properties. Each of the Company and each of its Subsidiaries has sufficiently good and valid title to, or an adequate leasehold interest in, its material properties and assets (including the Real Property) in order to allow it to conduct, and continue to conduct, its business as currently conducted in all material respects. Except as set forth on Schedule 3.15 of the Company Disclosure Schedule such material tangible properties and assets (including the Real Property) are sufficiently free of Liens to allow the Company and each of its Subsidiaries to conduct, and continue to conduct, its business as currently conducted in all material

respects and the consummation of the Transactions will not alter or impair such ability in any material respect. Except as set forth on Schedule 3.15 of the Company Disclosure Schedule the Company and/or its Subsidiaries have good, valid, market able and fee simple title to all the Fee Property, free and clear of all Liens other than Liens the enforcement of which is not reasonably likely to have a material impact on the continued use (as currently used) or value of such properties.

Section 3.16 Contracts. (a) Except as set forth in the Company's SEC Documents or Schedule 3.16 of the Company Disclosure Schedule, neither the Company nor any of its Subsidiaries is a party to or bound by any (i) "material contract" (as such term is defined in Item 601(b)(10) of Regulation S-K of the SEC), (ii) non-competition agreement or any other agreement or obligation which purports to limit in any respect the manner in which, or the localities in which, all or any material portion of the business of the Company and its Subsidiaries, taken as a whole, may be conducted, (iii) transaction, agreement, arrangement or understanding with any Affiliate that would be required to be disclosed under Item 404 of regulation S-K under the Securities Act, (iv) voting or other agreement governing how any Shares shall be voted, (v) material agreement with any stockholders of the Company, (vi) acquisition, merger, asset purchase or sale agreement related to the acquisition or sale of a business or (vii) contract or other agreement which would prohibit or materially delay the consummation of the Merger or any of the Transactions (all contracts of the type described in clauses (i) - (vii) being referred to herein as "Company Material Contracts"). Each Company Material Contract is valid and binding on the Company (or, to the extent a Subsidiary of the Company is a party, such Subsidiary) and is in full force and effect. Neither the Company nor any Subsidiary of the Company is in default or knows of, or has received notice of, any violation or default under (nor, to the knowledge of the Company, does there exist any condition which with the passage of time or the giving of notice or both would result in such a violation or default under) any Company Material Contract; except as would not, individually or in the aggregate have a Material Adverse Effect on the Company.

(b) Except as disclosed in the Company's SEC Documents or on Schedule 3.16 of the Company Disclosure Schedule or as provided for in this Agreement, neither the Company nor any of its Subsidiaries is a party to any oral or written (i) employment agreements or consulting agreements (in excess of \$50,000 per year) not terminable on thirty (30) days' or less notice, (ii) union or collective bargaining agreement, (iii) agreement with any executive officer or other key employee of the Company or any of its Subsidiaries the benefits of which are

contingent or vest, or the terms of which are materially altered, upon the occurrence of a transaction involving the Company or any of its Subsidiaries of the nature contemplated by this Agreement, or (iv) agreement with respect to any executive officer or other key employee of the Company or any of its Subsidiaries providing any term of employment or compensation guarantee.

Section 3.17 Labor Relations. Except to the extent set forth in the Company's SEC Documents or Schedule 3.17 of the Company Disclosure Schedule, there is no labor strike, slowdown, stoppage or lockout actually pending, or, to the Knowledge of the Company, threatened against or affecting the Company or any of its Subsidiaries, and neither the Company nor any of its Subsidiaries is a party to or bound by any collective bargaining or similar agreement with any labor organization.

Section 3.18 Products Liability; Recalls. (a) Except as set forth in the Company's SEC Documents or on Schedule 3.18 of the Company Disclosure Schedule, (i) there is no notice, demand, claim, action, suit, inquiry, hearing, proceeding, notice of violation or investigation of a civil, criminal or administrative nature (collectively, "Notices") pending, or to the Company's Knowledge, threatened before any Governmental Entity in which a Product is alleged to have a Defect or relating to or resulting from any alleged failure to warn or from any alleged breach of express or implied warranties or representations, nor, to the Company's Knowledge, is there any valid basis for any such demand, claim, action, suit, inquiry, hearing, proceeding, notice of violation or investigation; (ii) no demand, claim, action, suit, inquiry, hearing, proceeding, notice of violation or investigation referred to in clause (i) of this Section 3.18 would, if adversely determined, have, individually or in the aggregate, a Material Adverse Effect on the Company; (iii) there has not been any recall, rework, retrofit or post-sale general consumer warning since January 1, 1993 (collectively, "Recalls") of any Product, or any investigation or consideration of or decision made by any person or entity concerning whether to undertake or not to undertake any Recalls and the Company has received no Notices from any Governmental Entity or any other person with respect to the foregoing; and (iv) to the Company's Knowledge, there are currently no material defects in design, manufacturing, materials, or workmanship, including, without limitation, any failure to warn, or any breach of express or implied warranties or representations, which involve any Product that accounts for a material portion of the Company's sales.

(b) Section 3.18 of the Company Disclosure Schedule sets forth all Notices received by the Company or its Subsidiaries since January 1, 1996 and the Company's best estimate of the reserves provided therefor.

Section 3.19 Applicability of State Takeover Statutes. The Section 203 Approval is valid and in full force and effect. Section 203 of the DGCL will not apply to the Offer, the acquisition of Shares pursuant to the Offer or the Merger. No other state takeover statute or similar statute or regulation applies or purports to apply to the Offer, the Merger or the other Transactions.

Section 3.20 Voting Requirements. In the event that Section 253 of the DGCL is inapplicable and unavailable to effectuate the Merger, the affirmative vote of the holders of a majority of all the outstanding Shares entitled to vote approving this Agreement at the Special Meeting is the only vote of the holders of any class or series of the Company's capital stock necessary to approve this Agreement and the Transactions.

Section 3.21 Brokers. No broker, investment banker, financial advisor or other Person, other than Allen & Company Incorporated, the fees and expenses of which will be paid by the Company, is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the Transactions based upon arrangements made by or on behalf of the Company. The Company has provided Parent true and correct copies of all agreements between the Company and Allen & Company Incorporated, including, without limitations, any fee arrangements.

Section 3.22 Opinion of Financial Advisor. The Company has received the opinion of Allen & Company Incorporated, to the effect that, as of the date of this Agreement, the consideration to be received in the Offer and the Merger by the Company's stockholders is fair to the Company's stockholders from a financial point of view, and a complete and correct signed copy of such opinion has been, or promptly upon receipt thereof will be, delivered to Parent. The Company has been authorized by Allen & Company Incorporated to permit the inclusion of such opinion in its entirety in the Schedule 14D-9 and the Proxy Statement, so long as such inclusion is in form and substance reasonably satisfactory to Allen & Company Incorporated and its counsel.

Section 3.23 Year 2000.

Except as set forth on Schedule 3.23 of the Company Disclosure Schedule or the Company's SEC Documents, or as would not have, individually or in the aggregate, a Material Adverse Effect on the Company:

(a) all of the Computer Programs, computer firmware, computer hardware (whether general or special purpose) and other similar or related items of automated, computerized and/or software system(s) that are used or relied on by the Company or by any of its Subsidiaries in the conduct of their respective businesses will not malfunction, will not cease to function, will not generate incorrect data, and will not provide incorrect results when processing, providing, and/or receiving (i) date-related data into and between the twentieth and twenty-first centuries and (ii) date-related data in connection with any valid date in the twentieth and twenty-first centuries; and

(b) all of the products and services sold, licensed, rendered or otherwise provided by the Company or by any of its Subsidiaries in the conduct of their respective businesses will not malfunction, will not cease to function, will not generate incorrect data and will not produce incorrect results when processing, providing and/or receiving (i) date-related data into and between the twentieth and twenty-first centuries and (ii) date-related data in connection with any valid date in the twentieth and twenty-first centuries; and neither the Company nor any of its Subsidiaries is or shall be subject to claims or liabilities arising from their failure to do so; and

(c) neither the Company nor any of its Subsidiaries has made other representations or warranties regarding the ability of any product or service sold, licensed, rendered or otherwise provided by the Company or by any of its Subsidiaries in the conduct of their respective businesses to operate without malfunction, to operate without ceasing to function, to generate correct data and to produce correct results when processing, providing and/or receiving (i) date-related data into and between the twentieth and twenty-first centuries and (ii) date-related data in connection with any valid date in the twentieth and twenty-first centuries.

Section 3.24 Company Rights Agreement. The Company and its Board of Directors have taken all action which may be necessary under the Company Rights Agreement so that the Offer is deemed to be an "Approved Transaction" (as defined in the Company Rights Agreement") and the execution and delivery of this Agreement (and any amendments thereto by the parties hereto), and the consummation of the Merger and the Transactions, will not cause (i) Parent or Purchaser to constitute an "Acquiring Person" (as defined in the Company Rights Agreement), (ii) a "Distribution Date," "Section 13 Event," "Triggering Event," or "Stock Acquisition Date" (each as defined in the Company Rights Agreement) to occur or (iii) the Rights

(as defined in the Company Rights Agreement) to become exercisable pursuant to Section 11(a)(ii) thereof or otherwise.

Section 3.25 Absence of Questionable Payments. To the Company's Knowledge, neither the Company nor any of its Subsidiaries nor any director, officer, agent, employee or other person acting on behalf of the Company or any of its Subsidiaries, has used any corporate or other funds for unlawful contributions, payments, gifts, or entertainment, or made any unlawful expenditures relating to political activity to government officials or others or established or maintained any unlawful or unrecorded funds in violation of Section 30A of the Exchange Act. To the Company's Knowledge, neither the Company nor any of its Subsidiaries nor any current director, officer, agent, employee or other person acting on behalf of the Company or any of its Subsidiaries, has accepted or received any unlawful contributions, payments, gifts, or expenditures. To the Company's Knowledge, the Company and each of its Subsidiaries which is required to file reports pursuant to Section 12 or 15(d) of the Exchange Act is in compliance with the provisions of Section 13(b) of the Exchange Act.

#### ARTICLE IV

##### REPRESENTATIONS AND WARRANTIES OF PARENT AND PURCHASER

Parent and Purchaser represent and warrant to the Company as follows:

Section 4.1 Organization, Standing and Corporate Power. Each of Parent and Purchaser is a corporation duly organized, validly existing and in good standing under the Laws of the jurisdiction in which each is incorporated and has the requisite corporate power and authority to carry on its business as now being conducted. Each of Parent and Purchaser is duly qualified or licensed to do business and is in good standing in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification or licensing necessary, other than in such jurisdictions where the failure to be so qualified or licensed (individually or in the aggregate) would not have a Material Adverse Effect on Parent.

Section 4.2 Authority; Noncontravention. Parent and Purchaser have the requisite corporate power and authority to enter into this Agreement and to consummate the Transactions. The execution and delivery of this Agreement by Parent and Purchaser and the consummation by Parent and Purchaser of the Transactions have been duly authorized by all necessary corporate action on the part of Parent and Purchaser, as applicable. This Agreement has been duly executed and delivered by Parent and Purchaser and, assuming this Agreement constitutes the valid and binding obligation of the Company, constitutes a valid and binding obligation of each such party, enforceable against each such party in accordance with its terms, except that (i) such enforcement may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar Laws now or hereafter in effect relating to creditors' rights generally and (ii) the remedy of specific performance and injunctive relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought. The execution and delivery of this Agreement do not, and the consummation of the Transactions will not, conflict with, or result in any violation of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or to loss of a material benefit under, or result in the creation of any lien upon any of the material properties or assets of Parent under, (i) the certificate of incorporation or by-laws of Parent or Purchaser, (ii) any loan or credit agreement, note, bond, indenture, lease or other agreement, instrument or Permit applicable to the Company or any of its Significant Subsidiaries or their respective properties or assets, (iii) any Law applicable to Parent or Purchaser or their respective properties or assets, other than, in the case of clause (ii) and (iii), any such conflicts, violations, defaults, rights or Liens that individually or in the aggregate would not (x) impair in any material respect the ability of Parent and Purchaser to perform their respective obligations under this Agreement or (y) prevent or impede the consummation of any of the Transactions. No consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Entity or any other Person is required by Parent or Purchaser in connection with the execution and delivery of this Agreement or the consummation by Parent or Purchaser, as the case may be, of any of the Transactions, except for (i) the filings, permits, authorizations, consents and approvals set forth in Schedule 4.2 of the disclosure schedule delivered by Parent to the Company at or prior to the execution of this Agreement (the "Parent Disclosure Schedule"), or as may be required under, and other applicable requirements of, the Securities Act, the Exchange Act, the HSR Act, any applicable state securities or "blue sky" Laws and the DGCL, and (ii) such other consents, approvals, orders, authorizations, registrations, declarations and filings the failure of which to be obtained or made would not, individually or in the

aggregate, prevent the consummation of or materially impair the ability of Parent or Purchaser to consummate the Transactions.

Section 4.3 Proxy Statement; Offer Documents. The Offer Documents and any other documents to be filed by Parent with the SEC or any other Government Entity in connection with the Merger and the other Transactions will (in the case of the Offer Documents and any such other documents filed with the SEC under the Securities Act or the Exchange Act) comply as to form in all material respects with the applicable provisions of the Exchange Act and the Securities Act, respectively, and the rules and regulations thereunder. None of the Offer Documents, any other documents required to be filed by Parent or Purchaser with the SEC in connection with the Transactions, nor any information supplied by Parent or Purchaser in writing for inclusion in the Schedule 14D-9 shall, at the respective times the Offer Documents or any amendments and supplements thereto, any such other filings by Parent or Purchaser or the Schedule 14D-9 are filed with SEC or are first published, sent or given to stockholders of the Company, as the case may be, or, in the case of the Proxy Statement, on the date the Proxy Statement is first mailed to stockholders of the Company, contain any untrue statement of a material fact, or omit to state any material fact required to be stated therein or necessary in order to make the statements made therein, in the light of the circumstances under which they are made, not misleading or shall, at the time of the Special Meeting (as defined in Section 5.3) or at the Effective Time, omit to state any material fact necessary to correct any statement in any earlier communication in light of the circumstances in which they are made, with respect to the solicitation of proxies for the Special Meeting which shall have become false or misleading in any material respect. Notwithstanding the foregoing, neither Parent nor Purchaser makes any representation or warranty with respect to the statements made in any of the foregoing documents based on and in conformity with information supplied by or on behalf of the Company specifically for inclusion or incorporation by reference therein.

Section 4.4 Operations of Purchaser. Purchaser is a wholly owned Subsidiary of Parent and was formed solely for the purpose of engaging in the Transactions and has not engaged in any business activities or conducted any operations other than in connection with the Transactions.

Section 4.5 Brokers. No broker, investment banker, financial advisor or other Person is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the Transactions based upon arrangements made by or on behalf of Parent or Purchaser.

Section 4.6 Financing.

(a) Parent or a wholly owned subsidiary thereof owns all of the outstanding capital stock of Purchaser. At all times prior to the Effective Time, no person other than Parent has owned, or will own, any of the outstanding capital stock of Purchaser. Purchaser has not incurred, and prior to the Effective Time will not incur, directly or through any Subsidiary, any liabilities or obligations for borrowed money or otherwise, except incidental liabilities or obligations not for borrowed money incurred in connection with its organization and except in connection with the Transactions.

(b) Parent and Purchaser have, and, at all times between the date hereof and the payment for Shares validly tendered and not withdrawn in the Offer or converted in the Merger, will have sufficient financial capacity to accept for payment, purchase and pay for all of the Shares validly tendered and not withdrawn pursuant to the Offer, and will have sufficient financial capacity to pay the Merger Consideration payable in the Merger.

ARTICLE V

COVENANTS

Section 5.1 Interim Operations of the Company. After the date hereof and prior to the time the designees of Parent have been elected or appointed to, and shall constitute a majority of, the Board of Directors of the Company pursuant to Section 1.4 or the date, if any, on which this Agreement is earlier terminated pursuant to Section 7.1, and except (i) as expressly contemplated by this Agreement, (ii) as set forth on Schedule 5.1 of the Company Disclosure Schedule or (iii) as agreed in writing by Parent:

(a) the Company shall and shall cause its Subsidiaries to carry on their respective businesses in the ordinary course;

(b) the Company shall and shall cause its Subsidiaries to use all reasonable best efforts consistent with good business judgment to preserve intact their current business organizations, keep available the services of their current officers and key employees and preserve their relationships consistent with past practice with desirable customers, suppliers, licensors, licensees, distributors and others having business dealings with them;

(c) neither the Company nor any of its Subsidiaries shall, directly or indirectly, amend its certificate of incorporation or by-laws or similar organizational documents;

(d) Representatives of the Company and its Subsidiaries shall confer at such times as Parent may reasonably request with one or more Representatives of Parent to report material operational matters and the general status of ongoing operations;

(e) neither the Company nor any of its Subsidiaries shall: (i)(A) declare, set aside or pay any dividend or other distribution payable in cash, stock or property with respect to the Company's capital stock or that of its Subsidiaries, except that a wholly-owned Subsidiary of the Company may declare and pay a dividend or make advances to its parent or the Company or (B) redeem, purchase or otherwise acquire directly or indirectly any of the Company's capital stock or that of its Subsidiaries; (ii) issue, sell, pledge, dispose of or encumber any additional shares of, or securities convertible into or exchangeable for, or options, warrants, calls, commitments or rights of any kind to acquire, any shares of capital stock of any class of the Company or its Subsidiaries, other than Shares issued upon the exercise of Options outstanding on the date hereof in accordance with the Option Plans as in effect on the date hereof or additional warrants issued in accordance with the terms of the Warrants; or (iii) split, combine or reclassify the outstanding capital stock of the Company or of any of the Subsidiaries of the Company;

(f) neither the Company nor any of its Subsidiaries shall enter into any agreement or arrangement with respect to the distribution of any of the Company's products;

(g) except as permitted by this Agreement, neither the Company nor any of its Subsidiaries shall acquire or agree to acquire (A) by merging or consolidating with, or by purchasing a substantial portion of the assets of, or by any other manner, any business or any corporation, partnership, joint venture,

association or other business organization or division thereof (including entities which are Subsidiaries of the Company or any of the Company's Subsidiaries) or (B) any assets, including real estate, except purchases in the ordinary course of business consistent with past practice;

(h) neither the Company nor any of its Subsidiaries shall make any new capital expenditure or expenditures in excess of \$50,000 individually, or \$500,000 in the aggregate, other than the specific capital expenditures disclosed and set forth on Schedule 5.1 of the Company Disclosure Schedule;

(i) neither the Company nor any of its Subsidiaries shall, except in the ordinary course of business and except as otherwise permitted by this Agreement, amend or terminate any Company Material Contract where such amendment or termination would have a Material Adverse Affect on the Company, or waive, release or assign any material rights or claims;

(j) neither the Company nor any of its Subsidiaries shall transfer, lease, license, sell, mortgage, pledge, dispose of or encumber any property or assets other than in the ordinary course of business and consistent with past practice;

(k) neither the Company nor any of its Subsidiaries shall: (i) enter into any employment or severance agreement with or grant any severance or termination pay to any officer, director or key employee of the Company or any its Subsidiaries; or (ii) hire or agree to hire any new or additional key employees or officers;

(l) neither the Company nor any of its Subsidiaries shall, except as required to comply with applicable Law or expressly provided in this Agreement, (A) adopt, enter into, terminate, amend or increase the amount or accelerate the payment or vesting of any benefit or award or amount payable under any Benefit Plan or other arrangement for the current or future benefit or welfare of any director, officer or current or former employee, except to the extent necessary to coordinate any such Benefit Plans with the terms of this Agreement, (B) increase in any manner the compensation or fringe benefits of, or pay any bonus to, any director, officer or employee provided that employees with annual compensation of \$100,000 or less may receive increases of not more than 5.0% on the anniversary date of their employment in the ordinary course of business and consistent with past practice, (C) pay any benefit not provided for under, or contemplated by, any Benefit Plan, (D)

grant any awards under any bonus, incentive, performance or other compensation plan or arrangement or Benefit Plan (including the grant of stock options, stock appreciation rights, stock based or stock related awards, performance units or restricted stock, or the removal of existing restrictions in any Benefit Plans or agreements or awards made thereunder) or (E) take any action to fund or in any other way secure the payment of compensation or benefits under any employee plan, agreement, contract or arrangement or Benefit Plan;

(m) neither the Company nor any of its Subsidiaries shall: (i) incur or assume any long-term debt, or except in the ordinary course of business, incur or assume any short-term indebtedness in amounts not consistent with past practice; (ii) incur or modify any material indebtedness or other liability except as set forth on Schedule 5.1 of the Company Disclosure Schedule; (iii) assume, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for the obligations of any other Person, except in the ordinary course of business and consistent with past practice; (iv) make any loans, advances or capital contributions to, or investments in, any other Person (other than to wholly owned Subsidiaries of the Company or customary loans or advances to employees in the ordinary course of business and consistent with past practice); or (v) settle any material claims other than in the ordinary course of business, in accordance with past practice and without admission of liability;

(n) neither the Company nor any of its Subsidiaries shall change any of the accounting methods used by it unless required by GAAP, the SEC or Law;

(o) neither the Company nor any of its Subsidiaries shall make any Tax election, amend any material Tax Return, make a claim for any material Tax Refund or settle or compromise any material Tax liability (whether with respect to amount or timing);

(p) neither the Company nor any of its Subsidiaries shall pay, discharge or satisfy any claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge or satisfaction of any such claims, liabilities or obligations, in the ordinary course of business and consistent with past practice, of claims, liabilities or obligations reflected or reserved against in, or contemplated by, the consolidated financial statements (or the notes thereto) of the Company and its consolidated Subsidiaries; or, except in the ordinary course of business consistent with past practice, waive the

benefits of, or agree to modify in any manner, any confidentiality, standstill or similar agreement to which the Company or any of its Subsidiaries is a party;

(q) neither the Company nor any of its Subsidiaries shall (by action or inaction) amend, renew, terminate or cause to be extended any lease, agreement or arrangement relating to any of the Leased Properties or enter into any lease, agreement or arrangement with respect to any real property;

(r) neither the Company nor any of its Subsidiaries will enter into an agreement, contract, commitment or arrangement to do any of the foregoing, or to authorize, recommend, propose or announce an intention to do any of the foregoing; and

(s) neither the Company nor any of its Subsidiaries shall take any action that would result in (i) any of its representations and warranties set forth in this Agreement that are qualified as to materiality becoming untrue, (ii) any of such representations and warranties that are not so qualified becoming untrue in any material respect or (iii) any of the conditions to the Offer set forth in Annex A not being satisfied (subject to the Company's right to take action specifically permitted by Section 5.5).

Section 5.2 Access; Confidentiality. The Company shall (and shall cause each of its Subsidiaries to) afford to the Representatives of Parent reasonable access on reasonable prior notice during normal business hours, throughout the period prior to the earlier of the Effective Time or the termination of this Agreement, to all of its properties, offices, employees, contracts, commitments, books and records (including but not limited to Tax Returns) and any report, schedule or other document filed or received by it pursuant to the requirements of federal or state securities laws and shall (and shall cause each of its Subsidiaries to) furnish promptly to Parent such additional financial and operating data and other information as to its and its Subsidiaries' respective businesses and properties as Parent may from time to time reasonably request. Parent and Purchaser will make all reasonable efforts to minimize any disruption to the businesses of the Company and its Subsidiaries which may result from the requests for data and information hereunder and pursuant to Section 5.1(d) hereof. Parent agrees that it will not, and will cause its Representatives not to, use any information obtained pursuant to this Section 5.2 for any purpose unrelated to the Transactions. Except as otherwise agreed to by the Company, unless and until Parent and Purchaser shall have purchased Shares pursuant to the Offer, Parent will be bound by the terms of a confidentiality agreement (the

"Confidentiality Agreement"), dated as of April 2, 1998 and amended as of June 23, 1998, by and between Parent and the Company. Except as otherwise agreed to by Parent or Purchaser, unless and until Parent and Purchaser shall have purchased Shares pursuant to the Offer, the Company will be bound by the terms of the Confidentiality Agreement.

Section 5.3. Special Meeting, Proxy Statement.

(a) If required by applicable Law in order to consummate the Merger, the Company, acting through its Board of Directors, shall, in accordance with applicable Law, its Certificate of Incorporation and By-laws:

(i) as promptly as practicable following the acceptance for payment and purchase of Shares by Purchaser pursuant to the Offer duly call, give notice of, convene and hold a special meeting of its stockholders (the "Special Meeting") for the purposes of considering and taking action upon the approval of the Merger and the approval and adoption of this Agreement;

(ii) prepare and file with the SEC a preliminary proxy or information statement relating to the Merger and this Agreement and (x) obtain and furnish the information required to be included by the SEC in the Proxy Statement (as hereinafter defined) and, after consultation with Parent, respond promptly to any comments made by the SEC with respect to the preliminary proxy or information statement and cause a definitive proxy or information statement, including any amendment or supplement thereto (the "Proxy Statement") to be mailed to its stockholders at the earliest practicable date; provided that no amendment or supplement to the Proxy Statement will be made by the Company without consultation with Parent and its counsel and (y) use its reasonable best efforts to obtain the necessary approvals of the Merger and this Agreement by its stockholders; and

(iii) unless this Agreement has been terminated in accordance with Article VII, subject to its rights pursuant to Section 5.5, include in the Proxy Statement the recommendation of its Board of Directors that stockholders of the Company vote in favor of the approval of the Merger and the approval and adoption of this Agreement.

(b) Parent shall vote, or cause to be voted, all of the Shares then owned by it, Purchaser or any of its other Subsidiaries in favor of the approval and adoption of this Agreement.

(c) Notwithstanding anything else herein or in this Section 5.3, in the event that Parent, Purchaser and any other Subsidiaries of Parent shall acquire in the aggregate a number of the outstanding shares of each class of capital stock of the Company, pursuant to the Offer or otherwise, sufficient to enable Purchaser or the Company to cause the Merger to become effective under applicable Law without a meeting of stockholders of the Company, the parties hereto shall, at the request of Parent and subject to Article VI, take all necessary and appropriate action to cause the Merger to become effective as soon as practicable after the consummation of such acquisition, without a meeting of stockholders of the Company, in accordance with Section 253 of the DGCL.

Section 5.4. Reasonable Efforts; Notification.

(a) Upon the terms and subject to the conditions hereof, each of the parties hereto will (i) make promptly its respective filings, and thereafter make any other required submissions, under the HSR Act, the Securities Act and the Exchange Act, with respect to the Transactions and (ii) use all reasonable efforts to take, or cause to be taken, all appropriate action, and to do, or cause to be done, all things necessary, proper or advisable to satisfy the conditions to the Offer and the Merger and to consummate and make effective the Transactions. In case at any Time after the Effective Time any further action is necessary or desirable to carry out the purposes of this Agreement, the proper officers and directors of each party to this Agreement will use all reasonable efforts to take all such action.

(b) Parties hereby agree that they will, and they will cause each of their respective affiliates to, use all reasonable efforts to obtain any government clearances required for completion of the Offer and the Merger (including through compliance with the HSR Act), to respond to any government requests for information, and to contest and resist any action, including any legislative, administrative or judicial action, and to have vacated, lifted, reversed or overturned any decree, judgment, injunction or other order (whether temporary, preliminary or permanent) (an "Order") that restricts, prevents or prohibits the consummation of the Merger, including by vigorously pursuing all available avenues of administrative and judicial appeal. Notwithstanding the foregoing, in no event shall the Parent, Purchaser or the Surviving Corporation be required to divest any of their respective

assets or agree to any restriction in their businesses as currently or proposed to be conducted. The parties hereto will consult and cooperate with one another, and consider in good faith the views of one another, in connection with any analyses, appearances, presentations, memoranda, briefs, arguments, opinions and proposals made or submitted by or on behalf of any party hereto in connection with proceedings under or relating to the HSR Act or any other federal, state or foreign antitrust or fair trade law.

(c) Each of the Company, Parent and Purchaser shall give prompt notice to the other of (i) any of their representations or warranties contained in this Agreement becoming untrue or inaccurate in any respect (including in the case of representations or warranties receiving knowledge of any fact, event or circumstance which may cause any representation qualified as to the knowledge to be or become untrue or inaccurate in any respect) or (ii) the failure by them to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by them under this Agreement; provided, however, that no such notification shall affect the representations, warranties, covenants or agreements of the parties or the conditions to the obligations of the parties under this Agreement.

Section 5.5 No Solicitation. (a) The Company shall not, nor shall it permit any of its Subsidiaries to, nor shall it authorize (and shall use its best efforts not to permit) any officer, director or employee of, or any investment banker, attorney or other advisor or representative of, the Company or any of its Subsidiaries to, (i) solicit or initiate, or encourage, directly or indirectly, any inquiries or the submission of, any Takeover Proposal, (ii) participate in any discussions or negotiations regarding, or furnish to any Person any information or data with respect to or access to the properties of, or take any other action to knowingly facilitate the making of any proposal that constitutes, or may reasonably be expected to lead to, any Takeover Proposal or (iii) enter into any agreement with respect to any Takeover Proposal or approve or resolve to approve any Takeover Proposal; provided, that nothing contained in this Section 5.5 or any other provision hereof shall prohibit the Company or the Company's Board of Directors from (i) taking and disclosing to the Company's stockholders a position with respect to a tender or exchange offer by a third party pursuant to Rules 14d-9 and 14e-2 promulgated under the Exchange Act, or (ii) making such disclosure to the Company's stockholders as, in the good faith judgment of the Company's Board of Directors, after receiving advice from outside counsel, is required under, or is necessary to comply with, applicable Law, provided that the Company may not, except as permitted by Section 5.5(b), withdraw or modify, or propose to withdraw or modify, its position with respect to the Offer or

the Merger or approve or recommend, or propose to approve or recommend any Takeover Proposal, or enter into any agreement with respect to any Takeover Proposal. Upon execution of this Agreement, the Company will immediately cease any existing activities, discussions or negotiations with any parties conducted heretofore with respect to any of the foregoing. Notwithstanding the foregoing, prior to the time of acceptance of Shares for payment pursuant to the Offer, the Company may withdraw or modify its recommendation of the Offer, may furnish information concerning its business, properties or assets to any Person or group and may negotiate and participate in discussions and negotiations with such Person or group concerning a Takeover Proposal if:

(x) such Person or group has submitted a Superior Proposal; and

(y) in the opinion of the Company's Board of Directors such action is required to discharge the Board's fiduciary duties to the Company's stockholders under applicable Law, determined only after receipt of advice from independent legal counsel to the Company that the failure to provide such information or access or to engage in such discussions or negotiations may cause the Company's Board of Directors to violate its fiduciary duties to the Company's stockholders under applicable Law.

The Company will promptly (but in no case later than 24 hours) notify Parent of the existence of any proposal, discussion, negotiation or inquiry received by the Company regarding any Takeover Proposal, and the Company will promptly communicate to Parent the terms of any proposal, discussion, negotiation or inquiry which it may receive regarding any Takeover Proposal (and will promptly provide to Parent copies of any written materials received by the Company in connection with such proposal, discussion, negotiation or inquiry) and the identity of the party making such proposal or inquiry or engaging in such discussion or negotiation. The Company will promptly provide to Parent any non-public information concerning the Company provided to any other Person in connection with any Takeover Proposal which was not previously provided to Parent. The Company will keep Parent informed of the status and details of any such Takeover Proposal and of any amendments or proposed amendments to any Takeover Proposal and will promptly (but in no case later than 24 hours) notify Parent of any determination by the Company's Board of Directors that a Superior Proposal has been made.

(b) Except as set forth in this Section 5.5(b), neither the Board of Directors of the Company nor any committee thereof shall (i) withdraw or modify, or propose to withdraw or modify, in a manner adverse to Parent or Purchaser, the approval or recommendation by the Board of Directors of the Company or any such committee of the Offer, this Agreement or the Merger, (ii) approve or recommend, or propose to approve or recommend, any Takeover Proposal or (iii) enter into any agreement with respect to any Takeover Proposal. Notwithstanding the foregoing, subject to compliance with the provisions of this Section 5.5, prior to the time of acceptance for payment of Shares pursuant to the Offer, the Company's Board of Directors may withdraw or modify its approval or recommendation of the Offer, this Agreement or the Merger, approve or recommend a Superior Proposal, or enter into an agreement with respect to a Superior Proposal, in each case at any time after the third business day following Parent's receipt of written notice (including by facsimile) from the Company advising Parent that the Board of Directors of the Company has received a Superior Proposal which it intends to accept, specifying the material terms and conditions of such Superior Proposal and identifying the Person making such Superior Proposal, but only if the Company shall have caused its financial and legal advisors to negotiate with Parent to make such adjustments to the terms and conditions of this Agreement as would enable the Company to proceed with the Transactions on such adjusted terms.

Section 5.6 Publicity. Except as required by Law or as permitted by Section 5.5, so long as this Agreement is in effect, neither the Company, Parent nor any of their respective affiliates shall issue or cause the publication of any press release or other announcement with respect to the Merger, this Agreement or the other Transactions without the prior consultation of the other party.

Section 5.7 Transfer Taxes. All liability for transfer or other similar Taxes arising out of or related to the Offer and the Merger or the consummation of any other Transaction, and due to the property owned by the Company or any of its Subsidiaries or affiliates ("Transfer Taxes") shall be borne by the Company, and the Company shall file or cause to be filed all Tax Returns relating to such Transfer Taxes which are due.

Section 5.8 State Takeover Laws. Notwithstanding any other provision in this Agreement, in no event shall the Section 203 Approval be withdrawn, revoked or modified by the Board of Directors of the Company. If any state takeover statute other than Section 203 of the DGCL becomes or is deemed to become applicable to the Company Stockholder Agreement, the Offer, the acquisi-

tion of Shares pursuant to the Offer or the Merger, the Company shall take all reasonable action necessary to render such statute inapplicable to all of the foregoing.

Section 5.9 Indemnification and Insurance.

(a) Parent, and from and after the Effective Time, the Surviving Corporation, shall indemnify, defend and hold harmless each person who is now, or has been at any prior time to the date hereof or who becomes prior to the Effective Time, an officer, director, employee or agent of the Company or any of its Subsidiaries (the "Indemnified Parties") against all losses, claims, damages, costs, expenses (including reasonable attorneys' fees and expenses), liabilities or judgments or amounts of or in connection with any threatened or actual claim, action, suit, proceeding or investigation based on or arising out of the fact that such person is or was serving in such person's capacity as a director, officer, employee or agent of the Company or any of its Subsidiaries, whether pertaining to any matter existing or occurring at or prior to the Effective Time or any acts or omissions occurring or existing at or prior to the Effective Time and whether asserted or claimed prior to, or at or after, the Effective Time ("Indemnified Liabilities"), including all Indemnified Liabilities based on, or arising out of, or pertaining to this Agreement or the Transactions, in each case to the fullest extent a corporation is permitted under the DGCL and the Company's Certificate of Incorporation or By-Laws as currently in effect to indemnify such persons (and the Company and the Surviving Corporation, as the case may be, will pay expenses promptly after statements thereof are received, to each Indemnified Party to the fullest extent permitted by Delaware law, subject to delivery of the undertaking described below). Without limiting the foregoing, in the event any such claim, action, suit, proceeding or investigation is brought against any Indemnified Party (whether arising before or after the Effective Time), (i) such Indemnified Party may retain counsel satisfactory to the Indemnified Party and reasonably satisfactory to the Company (and reasonably satisfactory to the Surviving Corporation after the Effective Time) and the Company (or after the Effective Time, the Surviving Corporation) will pay all reasonable fees and expenses of such counsel for the Indemnified Parties promptly as statements and supporting documentation thereof are received; and (ii) the Company (or after the Effective Time, the Surviving Corporation) will use all reasonable best efforts to assist in the vigorous defense of any such matter, provided that neither the Company nor the Surviving Corporation will be liable for any settlement effected without its prior written consent which written consent will not unreasonably be withheld. Any Indemnified Party, upon learning of any such claim, action, suit, proceeding or investigation, will notify the Company (or after the Effective Time, the Surviving Corporation) promptly (but the

failure so to notify will not relieve a party from any liability which it may have under this Section 5.9 except to the extent such failure materially prejudices such party's position with respect to such claims), and will deliver to the Company (or after the Effective Time, the Surviving Corporation) the undertaking contemplated by Section 145(e) of the DGCL. The Indemnified Parties as a group may retain only one law firm (and one local counsel) to represent them with respect to each such matter unless there is, under applicable standards of professional conduct, an existing or potential conflict on any significant issue between the positions of any two or more Indemnified Parties in which case such additional counsel reasonably acceptable to the Indemnified Parties, the Company or, after the Effective Time, the Surviving Corporation as may be required may be retained by the Indemnified Parties at the cost and expense of the company (or Surviving Corporation). Furthermore, the provisions with respect to indemnification set forth in the Certificate of Incorporation and By-Laws of the Surviving Corporation will not be amended following the Effective Time in any way that would materially and adversely affect the rights thereunder of individuals who at any time prior to the Effective Time were directors, officers, employees or agents of the Company in respect of actions or omissions occurring at or prior to the Effective Time.

(b) For a period of three years after the Effective Time, Parent shall cause the Surviving Corporation to maintain in effect, if available, directors' and officers' liability insurance covering those Persons who are currently covered by the Company's directors' and officers' liability insurance policy with respect to acts prior to the Effective Time (a copy of which has been made available to Parent) on terms (including the amounts of coverage and the amounts of deductibles, if any) that are no less favorable to the terms now applicable to them under the Company's current policies; provided, however, that in no event shall Parent or the Surviving Corporation be required to expend in excess of 150% of the annual premium currently paid by the Company for such coverage; and provided further, that, if the premium for such coverage exceeds such amount, Parent or the Surviving Corporation shall purchase a policy with the greatest coverage available for such 150% of the annual premium.

(c) This Section 5.9 shall survive the consummation of the Merger at the Effective Time, is intended to benefit the Company, the Surviving Corporation and the Indemnified Parties, shall be binding on all successors and assigns of the Surviving Corporation and shall be enforceable by the Indemnified Parties.

Section 5.10 Certain Employment Matters. (a) Parent will cause the Surviving Corporation to honor the obligations of the Company or any of its Subsidiaries under the provisions of all employment, consulting, termination, severance, change in control and indemnification agreements between or among the Company or any of its Subsidiaries and any current or former officer, director, consultant or employee of the Company or any of its Subsidiaries.

(b) Immediately following the consummation of the Offer, Parent shall cause the Company and the Surviving Corporation, and, in either case, its Subsidiaries, through December 31, 1998 (except in the case of employees of Galco International Toys, Ltd. ("Galco"), which date shall be the first day of the Chinese New Year 4697 (February 16, 1999) and not December 31, 1998), to continue the employment of each employee of the Company and its Subsidiaries who is employed by the Company or any of its Subsidiaries immediately prior to the consummation of the Offer (other than officers of the Company who have written agreements with the Company that are disclosed pursuant to Schedule 3.4(ii) of the Company Disclosure Schedule) at the compensation in effect immediately prior to the consummation of the Offer. In addition, all such employees shall be entitled to receive through December 31, 1998 (except in the case of employees of Galco, which date shall be the first day of the Chinese New Year 4697 (February 16, 1999) and not December 31, 1998) health and welfare benefits, and qualified retirement benefits, on terms that are not substantially less favorable, in the aggregate, to those currently provided to employees of the Company and its Subsidiaries under the Company's existing plans. The Company may provide severance payments to each domestic employee of the Company or its Subsidiaries (other than those officers of the Company who have written agreements with the Company that are disclosed pursuant to Schedule 3.4(ii) of the Company Disclosure Schedule) who is employed by the Company or its Subsidiaries immediately following the consummation of the Offer, and who is thereafter involuntarily terminated without cause by the Company or the Surviving Corporation or, in either case, any of its Subsidiaries after such time, in an amount per such employee equal to two weeks' base salary for each full year of any such employee's service with the Company or any of its Subsidiaries, subject to a receipt from such employee of a full and complete release of all claims against Parent, Purchaser, the Surviving Corporation, the Company and their respective affiliates, directors, officers, agents and representatives. For purposes of eligibility for the paid vacation and the health and welfare benefit plans of the Surviving Corporation, such employees will be credited for their years of service with the Company or any of its Subsidiaries.

Section 5.11 Acceleration of Outstanding Indebtedness. If, after the Offer is consummated, the Company's or any Subsidiary's obligation for borrowed money outstanding is accelerated or the Company or such Subsidiary is otherwise required to repurchase, repay or prepay any such obligation, Parent agrees within ten business days after written notice thereof, to loan to the Company an amount equal to the amount which the Company or any such Subsidiary is required to so repurchase, repay or prepay (including any related prepayment premiums or penalties) at an interest rate not to exceed the rate under Parent's existing bank credit facility.

Section 5.12 The Company Rights Plan. The Company, acting through its Board of Directors or otherwise, shall not, except as specifically provided herein, (a) amend, alter or modify the Company Rights Plan or (b) take any action with respect to, or make any determination under, the Company Rights Plan, to facilitate a Takeover Proposal.

Section 5.13 Confidentiality and Standstill Agreements. (a) The Company hereby waives any rights the Company may have under any "standstill" or similar agreements to object to the transfer to Purchaser of all Shares held by stockholders covered by such "standstill" or similar agreements and hereby covenants not to consent to the transfer of any Shares held by such stockholders to any other Person unless (i) the Company will have obtained the specific, prior written consent of Parent with respect to any such transfer or (ii) this Agreement will have been terminated pursuant to Article VII and (b) the Company covenants not to alter, modify or amend the terms or conditions of any confidentiality agreement to which it is a party or beneficiary in a manner adverse to the interests of Parent or Purchaser, including, but not limited, to authorizing any other Person to disclose or use any confidential information it has received from the Company, whether to facilitate a Takeover Proposal or otherwise.

Section 5.14 Certain Matters Related to Lucas Licensing Ltd. and Lucasfilm Ltd. Notwithstanding anything contained in this Agreement to the contrary, it shall be the obligation of Parent and not the Company to obtain all necessary consents and approvals of Lucas Licensing Ltd. and Lucasfilm Ltd. under the Toy Licensing Agreement, dated as of October 14, 1997, by and between Lucas Licensing Ltd. and the Company, the Agreement of Strategic Relationship, dated as of October 14, 1997, by and between Lucasfilm Ltd. and the Company, and any other agreement between Lucas Licensing Ltd. and/or Lucasfilm Ltd. and the Company that have been disclosed to Parent, to the consummation of the Offer, the Merger and the other Transactions contemplated by this Agreement, and the obtain-

ing of any of such consents or approvals shall not be a condition to Parent or Purchaser consummating the Offer, the Merger or the other Transactions, and the failure to obtain any of such consents or approvals shall not under any circumstances constitute a "Material Adverse Effect" or "Material Adverse Change" under this Agreement or otherwise be a basis, in any respect, for Parent or Purchaser to terminate this Agreement.

## ARTICLE VI

### CONDITIONS

Section 6.1 Conditions to Each Party's Obligation to Effect the Merger. The respective obligation of each party to effect the Merger shall be subject to the satisfaction on or prior to the Effective Time of each of the following conditions, any and all of which may be waived in whole or in part by the Company, Parent or Purchaser, as the case may be, to the extent permitted by applicable Law:

(a) this Agreement shall have been approved and adopted by the requisite vote of the holders of Shares, if required by applicable Law and the Certificate of Incorporation, in order to consummate the Merger;

(b) any waiting period applicable to the Merger under the HSR Act shall have expired or been terminated;

(c) no statute, rule, regulation, order, decree or injunction shall have been enacted, promulgated or issued by any Governmental Entity precluding, restraining, enjoining or prohibiting consummation of the Merger; and

(d) Parent, Purchaser or their affiliates shall have purchased Shares pursuant to the Offer.

## ARTICLE VII

## TERMINATION

Section 7.1 Termination. This Agreement may be terminated and the Merger contemplated herein may be abandoned at any time prior to the Effective Time, whether before or after approval of matters presented in connection with the Merger by the stockholders of the Company:

(a) By the mutual written consent of Parent and the Company; provided, however, that if Parent shall have a majority of the directors pursuant to Section 1.4, such consent of the Company may only be given if approved by the Continuing Directors.

(b) By either of Parent or the Company if (i) a statute, rule or executive order shall have been enacted, entered or promulgated prohibiting the Transactions on the terms contemplated by this Agreement or (ii) any Governmental Entity shall have issued an order, decree or ruling or taken any other action (which order, decree, ruling or other action the parties hereto shall use their reasonable best efforts to lift), in each case permanently restraining, enjoining or otherwise prohibiting the Transactions and such order, decree, ruling or other action shall have become final and non-appealable.

(c) By either of Parent or the Company if the Effective Time shall not have occurred on or before March 31, 1999; provided, however, that if the Effective Time shall not have occurred by such date solely as a result of the failure of the condition set forth in Section 6.1(c) by reason of the entry of a preliminary injunction, this Agreement may not be terminated pursuant to this Section 7.1(c) until June 30, 1999; provided, further, that the party seeking to terminate this Agreement pursuant to this Section 7.1(c) shall not have breached in any material respect its obligations under this Agreement in any manner that shall have been the cause of, or resulted in, the failure to consummate the Merger on or before such date;

(d) By the Company:

(i) if the Company has entered into an agreement with respect to a Superior Proposal or has approved or recommended a Superior Proposal in accordance with Section 5.5(b), provided the Company has complied with all provisions thereof, including the notice provisions therein,

and that it simultaneously terminates this Agreement and makes simultaneous payment to the Parent of the Termination Fee; or

(ii) if Parent or Purchaser shall have terminated the Offer or the Offer expires without Parent or Purchaser, as the case may be, purchasing any Shares pursuant thereto; provided that the Company may not terminate this Agreement pursuant to this Section 7.1(d)(ii) if the Company is in material breach of this Agreement; or

(iii) if Parent, Purchaser or any of their affiliates shall have failed to commence the Offer on or prior to five business days following the date of the initial public announcement of the Offer; provided, that the Company may not terminate this Agreement pursuant to this Section 7.1(d)(iii) if the Company is in material breach of this Agreement.

(iv) if there shall be a material breach by either Parent or Purchaser of any of their representations, warranties covenants or agreements contained in this Agreement, except where such breach does not have a material adverse effect on the ability of Parent or Purchaser to consummate the Offer or the Merger.

(e) By Parent or Purchaser:

(i) (A) if prior to the purchase of the Shares pursuant to the Offer, the Board of Directors of the Company shall have withdrawn, or modified or changed in a manner adverse to Parent or Purchaser its approval or recommendation of the Offer, this Agreement or the Merger or shall have recommended or approved a Takeover Proposal; or

(B) there shall have been a material breach of any provision of Section 5.5, Parent shall have given at least 5 days' written notice of such breach and such breach shall not have been cured within such 5 day period; or

(ii) if due to an occurrence that if occurring after the commencement of the Offer would result in a failure to satisfy any of the conditions set forth in Annex A hereto, Parent or Purchaser shall have terminated the Offer without Parent or Purchaser purchasing any Shares thereunder, provided that Parent or Purchaser may not terminate this Agree-

ment pursuant to this Section 7.1(e)(ii) if Parent or Purchaser is in material breach of this Agreement; or

(iii) if, due to an occurrence that if occurring after the commencement of the Offer would result in a failure to satisfy any of the conditions set forth in Annex A hereto, Parent, Purchaser or any of their affiliates shall have failed to commence the Offer on or prior to five business days following the date of the initial public announcement of the Offer, provided that Parent or Purchaser may not terminate this Agreement pursuant to Section 7.1(e)(iii) if Parent or Purchaser is in material breach of this Agreement; or

(iv) any Person or "group" (as defined in Section 13(d)(3) of the Exchange Act), other than Parent, Purchaser or their affiliates or any group of which any of them is a member, shall have acquired beneficial ownership (as determined pursuant to Rule 13d-3 promulgated under the Exchange Act) of 30% or more of the Shares; or

(v) if there shall be a breach by the Company of any of its representations, warranties, covenants or agreements contained in this Agreement and such breach (without giving effect to any limitation as to "knowledge," "materiality" or "material adverse effect" set forth herein) individually, or together with any other breaches, has a Material Adverse Effect on the Company.

Section 7.2 Effect of Termination. In the event of termination of this Agreement by either the Company or Parent or Purchaser as provided in Section 7.1, this Agreement shall forthwith become void and have no effect, without any liability or obligation on the part of Parent, Purchaser or the Company, other than the provisions of Section 3.21, 4.5, 5.2 (only with respect to the last two sentences thereof), this Section 7.2 and Article VIII and except to the extent that such termination results from the wilful and material breach by a party of any of its representations, warranties, covenants or agreements set forth in this Agreement.

## ARTICLE VIII

## MISCELLANEOUS

Section 8.1 Fees and Expenses. (a) Except as provided below, all fees and expenses incurred in connection with the Offer, the Merger, this Agreement and the Transactions shall be paid by the party incurring such fees or expenses, whether or not the Offer or the Merger is consummated; provided, that all printing expenses related to the Offer Documents, the Schedule 14D-9 and the Proxy Statement shall be borne by Parent.

(b) If (x) Parent or Purchaser terminates this Agreement pursuant to Section 7.1(e)(i) or 7.1(e)(iv) or (y) the Company terminates this Agreement pursuant to Section 7.1(d)(i), then in each case, the Company shall pay, or cause to be paid to Parent, at the time of termination, an amount equal to \$6,000,000 (the "Termination Fee"). In addition, if this Agreement is terminated by Parent pursuant to Section 7.1(e)(v) (other than by reason of a breach of Section 5.5) and at the time of such termination, Parent is not in material breach of this Agreement, then the Company shall pay to Parent, at the time of termination, an amount equal to Parent's and Purchaser's actual and reasonably documented out-of-pocket expenses incurred by Parent or Purchaser in connection with the Offer, the Merger, this Agreement and the consummation of the Transactions, including, without limitation, the fees and expenses payable to all banks, investment banking firms, and other financial institutions and Persons and their respective agents and counsel incurred in connection with acting as Parent's or Purchaser's financial advisor with respect to, or arranging or committing to provide or providing any financing for, the Transactions (the "Expenses") and, if the breach referred to in Section 7.1(e)(v) was a willful breach and the Company shall thereafter, within 9 months after such termination, enter into an agreement with respect to a Takeover Proposal, then the Company shall pay the Termination Fee (less any Expenses previously paid by the Company to Parent pursuant to this Section 8.1(b)) concurrently with entering into any such agreement. Any payments required to be made pursuant to this Section 8.1 shall be made by wire transfer of same day funds to an account designated by Parent.

Section 8.2 Amendment and Modification. Subject to applicable Law, this Agreement may be amended, modified and supplemented in any and all respects, whether before or after any vote of the stockholders of the Company contemplated hereby, by written agreement of the parties hereto (which in the case of the Company shall include approvals as contemplated in Section 1.4(c)), at any time

prior to the Closing Date with respect to any of the terms contained herein; provided, however, that after the approval of this Agreement by the stockholders of the Company, no such amendment, modification or supplement shall reduce the amount or change the form of the Merger Consideration or otherwise adversely affect the rights of stockholders, and provided, further, that there shall be no decrease in the amount of the Merger Consideration after consummation of the Offer.

Section 8.3 Nonsurvival. None of the representations, warranties, covenants and agreements in this Agreement or in any schedule, instrument or other document delivered pursuant to this Agreement shall survive the Effective Time. This Section 8.3 shall not limit any covenant or agreement of the parties which by its terms contemplates performance after the Effective Time including, without limitation, those contained in Article III and Sections 5.9, 5.10, 8.1 and 8.8 hereto, and the last two sentences of Section 5.2 hereof.

Section 8.4 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given upon receipt, and shall be given to the parties at the following addresses or telecopy numbers (or at such other address or telecopy number for a party as shall be specified by like notice):

(a) if to Parent or Purchaser, to:

Hasbro, Inc.  
1027 Newport Avenue  
Pawtucket, Rhode Island 02862  
Attention: Alfred J. Verrecchia, Executive Vice  
President  
Telecopy: (401) 721-7202

with a copy to:

Hasbro, Inc.  
1027 Newport Avenue  
Pawtucket, Rhode Island 02862  
Attention: Cynthia S. Reed, Senior Vice President  
and General Counsel  
Telecopy: (401) 729-7025

with a copy to:

Hasbro, Inc.  
32 W. 23rd Street  
New York, New York 10010  
Attention: Phillip H. Waldoks  
Senior Vice President-Corporate  
Legal Affairs and Secretary  
Telecopy: (212) 741-0663

with a copy to:

Skadden, Arps, Slate, Meagher & Flom LLP  
919 Third Avenue  
New York, New York 10022-3897  
Attention: Thomas H. Kennedy, Esq.  
Telecopy: 212-735-2000

(b) if to the Company, to:

Galoob Toys, Inc.  
500 Forbes Boulevard  
South San Francisco, California 94080  
Attention: William G. Catron, Esq.  
Telecopy: 650-583-5572

with a copy to:

Weil, Gotshal & Manges LLP  
767 Fifth Avenue  
New York, New York 10153  
Attention: Jeffrey J. Weinberg, Esq.  
Telecopy: 212-310-8007

Section 8.5 Interpretation. (a) The words "hereof," "herein" and "herewith" and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole and not to any particular provision of this Agreement, and article, section, paragraph, exhibit and schedule references are to the articles, sections, paragraphs, exhibits and schedules of this Agreement unless otherwise specified. Whenever the words "include," "includes" or "including" are used in this Agreement they shall be deemed to be followed by the words "without

limitation." All terms defined in this Agreement shall have the defined meanings contained herein when used in any certificate or other document made or delivered pursuant hereto unless otherwise defined therein. The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such term. Any agreement, instrument or statute defined or referred to herein or in any agreement or instrument that is referred to herein means such agreement, instrument or statute as from time to time amended, modified or supplemented, including (in the case of agreements and instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and all attachments thereto and instruments incorporated therein. References to a Person are also to its permitted successors and assigns.

(b) The phrases "the date of this Agreement," "the date hereof" and terms of similar import, unless the context otherwise requires, shall be deemed to refer to September 27, 1998. The phrase "made available" in this Agreement shall mean that the information referred to has been actually delivered to the party to whom such information is to be made available.

(c) The parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement.

Section 8.6 Counterparts. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement and shall become effective when two or more counterparts have been signed by each of the parties and delivered to the other parties.

Section 8.7 Entire Agreement; No Third Party Beneficiaries; Rights of Ownership. This Agreement and the Confidentiality Agreement (including the documents and the instruments referred to herein and therein): (a) constitute the entire agreement and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof, and (b) except as provided in Section 5.9 are not intended to confer upon any Person other than the parties hereto any rights or remedies hereunder.

Section 8.8 Governing Law. This Agreement shall be governed by and construed in accordance with the Laws of the State of Delaware without giving effect to the principles of conflicts or choice of law thereof or of any other jurisdiction.

Section 8.9 Assignment. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto (whether by operation of Law or otherwise) without the prior written consent of the other parties, except that Purchaser may assign, in its sole discretion, any or all of its rights, interests and obligations hereunder to Parent or to any direct or indirect wholly owned Subsidiary of Parent, provided that Parent shall remain primarily responsible for the obligations of Purchaser or any other Subsidiary of Parent, and any of their permitted assigns. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns.

Section 8.10 Enforcement. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any court of the United States located in the State of Delaware or in Delaware state court, this being in addition to any other remedy to which they are entitled at law or in equity. In addition, each of the parties hereto (a) consents to submit itself to the personal jurisdiction of any Federal court located in the State of Delaware or any Delaware state court in the event any dispute arises out of this Agreement or any of the Transactions, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court and (c) agrees that it will not bring any action relating to this Agreement or any of the Transactions in any court other than a Federal or state court sitting in the State of Delaware.

Section 8.11 Extension; Waiver. At any time prior to the Effective Time, the parties may (a) extend the time for the performance of any of the obligations or other acts of the other parties, (b) waive any inaccuracies in the representations and warranties of the other parties contained in this Agreement or in any document delivered pursuant to this Agreement or (c) subject to the proviso of Section 8.2, waive compliance by the other parties with any of the agreements or conditions contained in this Agreement. Any agreement on the part of a party to any

such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of those rights.

Section 8.12 Procedure for Termination, Amendment, Extension or Waiver. A termination of this Agreement pursuant to Section 7.1, an amendment of this Agreement pursuant to Section 8.2 or an extension or waiver pursuant to Section 8.11 shall, in order to be effective, require in the case of Parent, Purchaser or the Company, action by its Board of Directors or the duly authorized designee of its Board of Directors; provided, however, that in the event that Parent's designees are appointed or elected to the Board of Directors of the Company as provided in Section 1.4, after the acceptance for payment of Shares pursuant to the Offer and prior to the Effective Time, except as otherwise contemplated by this Agreement the affirmative vote of a majority of the Continuing Directors of the Company shall be required by the Company to amend this Agreement by the Company.

Section 8.13 Certain Undertakings of Parent. Parent shall be responsible for the performance of, and, if necessary, shall perform, or cause to be performed any obligation of Purchaser or the Surviving Corporation, or either of their permitted successors and assigns under this Agreement.

Section 8.14 Definitions. For purposes of this Agreement:

"Affiliate" has the meaning set forth in Rule 12b-2 of the Exchange Act.

"Benefit Plans" has the meaning assigned thereto in Section 3.10.

"By-laws" means the by-laws of the Company as in effect on the date of this Agreement.

"Certificate of Incorporation" means the certificate of incorporation of the Company as in effect on the date of this Agreement.

"Certificate of Merger" has the meaning assigned thereto in Section 1.6.

"Certificates" has the meaning assigned thereto in Section 2.2.

"Closing" has the meaning assigned thereto in Section 1.7.

"Closing Date" has the meaning assigned thereto in Section 1.7.

"Code" means the Internal Revenue Code of 1986, as amended.

"Company" means Galoob Toys, Inc., a Delaware corporation.

Article III. "Company Disclosure Schedule" has the meaning assigned thereto in

3.16. "Company Material Contract" has the meaning assigned thereto in Section

3.5. "Company's SEC Documents" has the meaning assigned thereto in Section

"Computer Programs" means:

- (i) any and all computer software programs, including all source and object code,
- (ii) databases and compilations, including any and all data and collections of data, whether machine readable or otherwise,
- (iii) billing, reporting, and other management information systems,
- (iv) all descriptions, flow-charts and other work product used to design, plan, organize and develop any of the foregoing,
- (v) all content contained on any Internet site(s), and
- (vi) all documentation, including user manuals and training materials, relating to any of the foregoing.

"Company Rights Agreement" means the Preferred Stock Rights Agreement, dated as of January 17, 1990, by and between the Company and Mellon Securities Trust Company.

5.2. "Confidentiality Agreement" has the meaning assigned thereto in Section

"Continuing Director" means (i) any member of the Board of Directors of the Company as of the date hereof, or (ii) any successor of a Continuing Director who is (A) unaffiliated with, and not a designee or nominee, of Parent or Purchaser, and (B) recommended to succeed a Continuing Director by a majority of the Continuing Directors then on the Board of Directors of the Company, and in each case under clauses (i) and (ii), who is not an employee of the Company.

"Defect" means a defect or impurity of any kind, whether in design, manufacture, processing, or otherwise, including, without limitation, any dangerous propensity associated with any reasonably foreseeable use of a Product, or the failure to warn of the existence of any defect, impurity, or dangerous propensity.

"DGCL" means the Delaware General Corporation Law, as in effect on the date of this Agreement and as amended from time to time.

"Dissenting Shares" has the meaning assigned thereto in Section 2.5.

"Dissenting Stockholders" has the meaning assigned thereto in Section 2.5.

"Effective Time" has the meaning assigned thereto in Section 1.6.

"Environmental Laws" means all applicable foreign, Federal, state and local Laws relating to pollution or protection of human health, safety and the environment, including, without limitation, Laws relating to Releases or threatened Releases of Hazardous Materials into the indoor or outdoor environment (including, without limitation, ambient air, surface water, groundwater, land, surface and subsurface strata) or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, Release, transport or handling of Hazardous Materials, and all Laws and regulations with regard to record keeping, notification, disclosure and reporting requirements respecting Hazardous Materials, and all Laws relating to endangered or threatened species of fish, wildlife and plants and the management or use of natural resources, provided, however, that the above definition does not include the Occupational Safety and Health Act, 29 U.S.C.A. Section 651.

"Environmental Liabilities and Costs" means all liabilities, obligations, responsibilities, obligations to conduct cleanup, losses, damages, deficiencies, punitive damages, consequential damages, treble damages, costs and expenses (including, without limitation, all reasonable fees, disbursements and expenses of counsel, expert and consulting fees and costs of investigations and feasibility studies

and responding to government requests for information or documents), fines, penalties, restitution and monetary sanctions or interest resulting from any claim or demand, by any Person or entity under any Environmental Law, or arising from the Release or threatened Release of Hazardous Materials by the Company into the environment.

"ERISA" has the meaning assigned thereto in Section 3.10.

"ERISA Affiliate" has the meaning assigned thereto in Section 3.10.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Expenses" has the meaning assigned thereto in Section 8.1.

"Fee Properties" means all real property and interests in real property owned in fee by the Company or one of its Subsidiaries.

"GAAP" has the meaning assigned thereto in Section 3.5.

"Galco" has the meaning assigned thereto in Section 5.10.

"Governmental Entity" means any (i) nation, state, county, city, town, village, district, or other jurisdiction of any nature; (ii) federal, state, local, municipal, foreign or other government; (iii) governmental or quasi-governmental authority of any nature (including any governmental agency, branch, department, official, or entity and any court or other tribunal); or (iv) body exercising, or entitled to exercise any administrative, executive, judicial, legislative, police, regulatory, or taxing authority or power of any nature.

"Hazardous Materials" means all substances defined as hazardous substances in the National Oil and Hazardous Substances Pollution Contingency Plan, 40 C.F.R. Section 300.5, or substances defined as hazardous substances, hazardous materials, toxic substances, hazardous wastes, pollutants or contaminants, under any Environmental Law, or substances regulated under any Environmental Law, including, but not limited to, petroleum (including crude oil or any fraction thereof), asbestos, and polychlorinated biphenyls.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"Indemnified Parties" has the meaning assigned thereto in Section 5.9.

"Indemnified Liabilities" has the meaning assigned thereto in Section 5.9.

"Knowledge" or "knowledge" means, with respect to the Company and/or any Subsidiary thereof, knowledge of the President, Chief Financial Officer and any Executive Vice President of the Company after reasonable investigation and inquiry commensurate with that of a reasonable person holding such a position with a public company.

"Laws" means any administrative order, constitution, law, ordinance, principle of common law, rule, regulation, statute, treaty, judgment, decree, license or permit enacted, promulgated, issued, enforced or entered by any Governmental Entity.

"Leased Properties" means all real property and interests in real property leased by the Company or one of its Subsidiaries.

"Licenses" has the meaning assigned thereto in Section 3.14 hereof.

"Lien" means any conditional sale agreement, default of title, easement, encroachment, encumbrance, hypothecation, lien, mortgage, pledge, reservation, restriction, security interest, title retention or other security arrangement, or any adverse right or interest, charge or claim of any nature whatsoever of, on, or with respect to any asset, property or property interest.

"Lucasfilm Ltd. Warrants" has the meaning assigned thereto in Section 3.3.

"Lucas Licensing Ltd. Warrants" has the meaning assigned thereto in Section 3.3.

"Material Adverse Change" or "Material Adverse Effect" means, when used in connection with the Company or Parent, any change or effect (or any development that, insofar as can reasonably be foreseen, is likely to result in any change or effect) that is materially adverse to the business, properties, assets, financial condition or results of operations of such party and its Subsidiaries taken as a whole (except for any such change or effect that (i) is caused by or otherwise results from conditions affecting the United States or world economy as a whole, (ii) is caused by or otherwise results from changes in general political or regulatory conditions in the United

States or any foreign jurisdiction in which the Company conducts business, (iii) affects generally the industry in which the Company competes or (iv) arises as a result of the announcement or pendency of the Offer or the Merger).

"Merger" has the meaning assigned thereto in Section 1.5.

"Merger Consideration" has the meaning assigned thereto in Section 2.1.

"Minimum Condition" has the meaning assigned thereto in Annex A.

"Occurrence" means any accident, happening or event which is caused or allegedly caused by any alleged hazard or alleged defect in manufacture, design, materials or workmanship including, without limitation, any alleged failure to warn or any breach of express or implied warranties or representations with respect to, or any such accident, happening or event otherwise involving, a product (including any parts or components) which results or is alleged to have resulted in injury or death to any person or damage to or destruction of property, or other consequential damages, at any time.

"Offer" has the meaning assigned thereto in Section 1.1.

"Offer Documents" has the meaning assigned thereto in Section 1.3.

"Offer Price" has the meaning assigned thereto in Section 1.1.

"Offer to Purchase" has the meaning assigned thereto in Section 1.1.

"Option Plans" has the meaning assigned thereto in Section 2.4.

"Option" has the meaning assigned thereto in Section 2.4.

"Other Intellectual Property" shall mean all intellectual property rights used in the business of the Company or any of its Subsidiaries as currently conducted, including but not limited to all patents and patent applications; copyrights, copyright registrations and applications (including copyrights in Computer Programs); Computer Programs; technology, trade secrets, know-how, confidential information, proprietary processes and formulae; "semiconductor chip product" and "mask works" (as such terms are defined in 17 U.S.C. 901); and rights of publicity and privacy relating to the use of the names, signatures, likenesses, voices and biographical

information of real persons; together with any and all rights of renewal thereof and the right to sue for past, present or future infringements or misappropriations thereof.

"Paying Agent" has the meaning assigned thereto in Section 2.2.

"Parent" means Hasbro, Inc., a Rhode Island Corporation.

"PBGC" means the Pension Benefit Guaranty Corporation.

"Permit" means any Federal, state, local and foreign governmental approval, authorization, certificate, filing, franchise, license, notice, permit or right.

"Person" means an individual, corporation, partnership, joint venture, association, joint stock company, limited liability company, labor union, estate, trust, unincorporated organization or other entity, including any Governmental Entity.

"Preferred Shares" has the meaning assigned thereto in Section 3.3.

"Preferred Stock Purchase Rights" shall mean the preferred stock purchase rights issued pursuant to the Company Rights Agreement.

"Product" means any product designed, manufactured, shipped, sold, marketed, distributed and/or otherwise introduced into the stream of commerce by or on behalf of the Company or any of its past or present Subsidiaries.

"Proxy Statement" has the meaning assigned thereto in Section 5.3.

"Purchaser" means New HIAC II Corp., a Delaware corporation.

"Real Property" means the Leased Properties and the Fee Properties.

"Recalls" has the meaning assigned thereto in Section 3.18

"Release" means any release, spill, emission, discharge, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migration into the indoor or outdoor environment (including, without limitation, ambient air, surface water, groundwater, and surface or subsurface strata) or into or out of any property of any Hazardous Material, including the movement of Hazardous Materials through or in the air, soil, surface water, groundwater or property.

"Representative" means, with respect to any Person, such Person's officers, directors, employees, agents and representatives (including any investment banker, financial advisor, accountant, legal counsel, agent, representative or expert retained by or acting on behalf of such Person or its Subsidiaries).

"Schedule 14D-1" has the meaning assigned thereto in Section 1.3.

"Schedule 14D-9" has the meaning assigned thereto in Section 1.3.

"SEC" means the United States Securities and Exchange Commission or any successor agency.

"SEC Documents" means reports, proxy statements, forms, and other documents required to be filed with the SEC under the Securities Act and the Exchange Act, including any schedules and exhibits thereto.

"Secretary of State" has the meaning assigned thereto in Section 1.6.

"Section 203 Approval" has the meaning assigned thereto in Section 1.2.

"Securities Act" means the Securities Act of 1933, as amended.

"Series A Preferred Shares" has the meaning assigned thereto in Section 3.3.

"Shares" has the meaning assigned thereto in the recitals.

"Significant Subsidiaries" has the meaning assigned thereto in Rule 1-02 of Regulation S-X of the SEC.

"Special Meeting" has the meaning assigned thereto in Section 5.3.

"Subsidiary" means, with respect to any Person, any corporation, partnership, joint venture or other entity, whether incorporated or unincorporated, of which such Person or any other Subsidiary of such Person (i) owns, directly or indirectly, 50% or more of the outstanding voting securities or equity interests, (ii) is entitled to elect at least a majority of the Board of Directors or similar governing body, or (iii) is a general partner (excluding such partnerships where such Person or any Subsidiary of such Person do not have a majority of the voting interests in such partnership).

"Superior Proposal" means an unsolicited Takeover Proposal on terms which the Board of Directors of the Company determines in good faith to be more favorable to the Company's stockholders than the Offer and the Merger (based on advice of the Company's independent financial advisor that the value of the consideration provided for in such proposal is superior to the value of the consideration provided for in the Offer and the Merger), for which financing, to the extent required, is then committed or which, in the good faith reasonable judgment of the Board of Directors of the Company, based on advice from the Company's independent financial advisor, is reasonably capable of being financed by such Third Party and which, in the good faith reasonable judgment of the Board of Directors of the Company, is reasonably likely to be consummated within a period of time not materially longer in duration than the period of time reasonably believed to be necessary to consummate the Offer and the Merger.

"Surviving Corporation" has the meaning assigned thereto in Section 1.5.

"Takeover Proposal" means any bona fide proposal or offer, whether in writing or otherwise, from any Person other than Parent, Purchaser or any affiliates thereof (a "Third Party") to acquire beneficial ownership (as defined under Rule 13(d) of the Exchange Act) of all or a material portion of the assets of the Company and its Subsidiaries on a consolidated basis or 30% or more of any class of equity securities of the Company pursuant to a merger, consolidation or other business combination, sale of shares of capital stock, sale of assets, tender offer, exchange offer or similar transaction with respect to the Company including any single or related multi-step transaction or series of related transactions, which is structured to permit such Third Party to acquire beneficial ownership of any material portion of the assets of or 30% or more of the equity interest in the Company.

"Tax" or "Taxes" mean all taxes, charges, fees, levies, penalties or other assessments imposed by any federal, state, local or foreign Taxing Authority including but not limited to net income, gross income, receipts, windfall profit, severance, property, production, sales, use, license, excise, franchise, employment, payroll, withholding, alternative or add-on minimum, ad valorem, transfer, stamp or environmental tax, or any other tax, custom, duty, governmental fee or other like assessment or charge of any kind whatsoever, together with any interest or penalty, addition to tax or additional amount imposed by any Governmental Entity.

"Taxing Authority" shall mean a governmental authority or any subdivision, agency, commission or authority thereof, any judicial body, or any quasi-governmen-

tal or private body having jurisdiction over the assessment, determination, collection or imposition of any Tax (including, without limitation, the Internal Revenue Service).

"Tax Returns" mean all returns, reports, or statements required to be filed with any Governmental Entity with respect to any Tax (including any attachments thereto), including, without limitation, any consolidated, unitary or similar return, information return, claim for refund, amended return or declaration of estimated Tax.

"Termination Fee" has the meaning assigned thereto in Section 8.1.

"Third Party" has the meaning assigned thereto in this Section 8.14 under "Takeover Proposal."

"Trademarks" shall mean all United States and foreign trademarks (including service marks and trade names, whether registered or at common law), registrations and applications therefor, owned or licensed by the Company or its Subsidiaries, and the goodwill of the Company's and each of its Subsidiaries' respective businesses associated therewith, together with any and all (i) rights of renewal thereof and (ii) rights to sue for past, present and future infringements or misappropriation thereof.

"Transactions" has the meaning assigned thereto in Section 1.2.

"Transfer Taxes" has the meaning assigned thereto in Section 5.7.

"Warrants" means collectively the Lucasfilm Ltd. Warrants and the Lucas Licensing Ltd. Warrants.

IN WITNESS WHEREOF, Parent, Purchaser and the Company have caused this Agreement to be signed by their respective officers thereunto duly authorized as of the date first written above.

HASBRO, INC.

By: /s/ Alfred J. Verrecchia

\_\_\_\_\_  
Name: Alfred J. Verrecchia  
Title: Executive Vice President and President  
- Global Operations

NEW HIAC II CORP.

By: /s/ Alfred J. Verrecchia

\_\_\_\_\_  
Name: Alfred J. Verrecchia  
Title: Executive Vice President and President  
- Global Operations

GALOOB TOYS, INC.

By: /s/ Mark D. Goldman

\_\_\_\_\_  
Name: Mark D. Goldman  
Title: President and Chief Executive Officer

Galoob Toys, Inc.  
500 Forbes Boulevard  
South San Francisco, California 94080

April 2, 1998

Hasbro, Inc.  
1027 Newport Avenue  
Pawtucket, RI 02861  
Attention: Alfred J. Verrecchia  
Executive Vice President and  
President, Global Operations

Dear Mr. Verrecchia:

In connection with your analysis of a possible negotiated transaction (the "Transaction") with or involving Galoob Toys, Inc. (the "Company"), you have requested and may from time to time receive oral and/or written information concerning the Company, from officers, directors, employees and/or agents of the Company (collectively, the "Evaluation Material"), which the Company views as containing confidential and/or proprietary information regarding the Company. In consideration of furnishing you (whether prior to or after the date hereof) with the Evaluation Material, you and the Company hereby agree as follows (it being understood that you are also agreeing to cause your affiliates to comply with the provisions hereof):

- (1) All Evaluation Material heretofore or hereafter furnished to you by or on behalf of the Company shall be deemed confidential and shall be kept in strict confidence in accordance with the terms hereof and under appropriate safeguards. The Evaluation Material is to be used solely for the purpose of evaluating a possible transaction between the Company and you, and the Evaluation Material will be kept confidential by you, except that you may disclose the Evaluation Material or portions thereof to those of your directors, officers and employees and representatives of your advisors (the category of persons to whom the disclosure is permissible being collectively called "Representatives") who need to know the information (it being understood that those Representatives will be informed of the confidential nature of the Evaluation Material and

will agree to be bound by this agreement as if a party hereto and not to disclose the Evaluation Material to any other individual). You agree to be responsible for any breach of this agreement by your Representatives. In the event that you or any of your Representatives become legally compelled (by deposition, interrogatory, request for documents, subpoena, civil investigative demand or similar process) to disclose any of the Evaluation Material, you shall provide the Company with prompt prior notice of the requirement (by written notice to the Company delivered to the address set forth above and to the attention of the General Counsel) so that the Company may seek (with your cooperation, if so requested by the Company) a protective order or other appropriate remedy. In the event that the protective order or other remedy is not obtained, you agree to furnish only that portion of the Evaluation Material that is legally required. In any event, neither you nor any of your Representatives will oppose action by the Company to obtain an appropriate protective order or other reliable assurance that confidential treatment will be accorded the Evaluation Material.

- (2) The term "Evaluation Material" does not include any information that (i) at the time of disclosure or thereafter is generally available to and known by the public (other than as a result of a disclosure directly or indirectly by you or your Representatives), (ii) was available to you on a nonconfidential basis from a source other than the Company or its advisors, provided that the source is not known to you (after reasonable inquiry) to be bound by a confidentiality agreement with the Company or another party, or otherwise prohibited from transmitting the information by a contractual, legal or fiduciary obligation to the Company or another party, (iii) has been independently acquired or developed by you without violating any of your obligations under this agreement, or (iv) is disclosed by the Company to others on an unrestricted and non-confidential basis.

- (3) If a Transaction with the Company is not consummated by you or if the Company so requests, you promptly will return to the Company all copies of the Evaluation Material in your possession or in the possession of your Representatives, and you will destroy all copies, notes or extracts thereof, and all copies of any analyses, compilations, studies or other documents (whether in written form or contained in database or other similar form) prepared by you or for your use containing or reflecting any Evaluation Material. If requested by the Company this destruction shall be confirmed in writing by you and your Representatives to the Company. Notwithstanding the return or destruction of the Evaluation Material and the other documents, you and your Representatives shall continue to be bound by your obligations hereunder.
- (4) You and the Company agree that, without the prior written consent of the other, you and the Company will not, and will direct your and its Representatives not to, disclose to any person (i) the fact that we have provided Evaluation Material to you, (ii) that discussions have taken or are taking place between us concerning the Transaction or disclose the status, terms, conditions or other facts concerning such discussions, or (iii) otherwise identify the other by name or by identifiable description to any other person in connection with your or our participation in such discussions, provided, however, that such disclosures may be made if a party has received the opinion of counsel that such disclosure is required by applicable law or stock exchange rules, (and then only subject to and in accordance with the terms of paragraph 1 hereof). The term "person" as used in this agreement will be interpreted broadly to include, without limitation, the media and any corporation, company, partnership or individual. Notwithstanding the foregoing: (x) the Company shall have the right to advise Lucasfilm Ltd. and its subsidiaries, affiliates and related entities ("Lucas") or its representatives that the Company has been contacted by you regarding a possible Transaction, in which event the Company will promptly notify

you that Lucas has been so advised; and (y) within five business days after the execution and delivery of this Agreement, you and the Company shall jointly advise Lucas that we have entered into a Confidentiality Agreement, after which either of us shall be permitted to discuss the information in this paragraph or in the Evaluation Material relating to Lucas with Lucas or its representatives provided, however, that (a) you shall not disclose the terms or provisions of this Confidentiality Agreement to Lucas without the prior written consent of the Company and (b) within five business days upon reaching an agreement or understanding with Lucas relating to its approval or consent in connection with a Transaction, you will either terminate discussions with the Company by written notice to the Company or disclose to the Company the complete terms of any such agreement or understanding and any modifications of existing terms under licenses with Lucas. Except to the extent required by law, the Company will hold in strict confidence and will not disclose any information with respect to your agreement with Lucas to any third party.

- (5) (a) Subject to subparagraph 5(b) below, during the period from the date hereof through December 31, 1999, you agree that you shall not, and you will ensure that your affiliates, and any person acting on behalf of or in concert with you or any of your affiliates shall not, without the prior written approval of the Board of Directors of the Company, (i) in any manner acquire, agree to acquire or make any proposal to acquire, directly or indirectly, any securities or property of the Company or any of its subsidiaries, (ii) propose to enter into, directly or indirectly, any merger or business combination involving the Company or any of its subsidiaries or to purchase, directly or indirectly, a material portion of the assets of the Company or any of its subsidiaries, other than a confidential proposal made to the Board of Directors of the Company without any public disclosure thereof by you (iii) make, or in any way participate, directly or indirectly, in any "solicitations" of "proxies" (as such terms are used in the proxy rules of the Securities and

Exchange Commission) to vote, or seek to advise or influence any person with respect to the voting of any securities of the Company or any of its subsidiaries, (iv) form, join or in any way participate in a "group" (within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934) with respect to any securities of the Company or any of its subsidiaries, (v) otherwise act, alone or in concert with others, to seek to control or influence the management, Board of Directors or policies of the Company, (vi) disclose any intention, plan or arrangement inconsistent with the foregoing or (vii) advise, assist or encourage any other persons in connection with any of the foregoing. Subject to subparagraph 5(b) below, you also agree during such period not to (i) request the Company (or its directors, officers, employees or agents), directly or indirectly, to amend or waive any provisions of this paragraph (including this sentence) or (ii) take any action which might require the Company to make a public announcement regarding any of the matters specified in this paragraph. You will promptly advise the Company of any inquiry or proposal made to you with respect to any of the foregoing.

(b) The restrictions contained in subparagraph 5(a) above shall not apply to you in the event that either or both of the following events shall occur: (i) a tender offer or exchange offer is commenced by another party for a majority of the outstanding common stock of the Company or (ii) a definitive agreement is entered into by the Company providing for the merger of the Company or the sale of more than 50% of the assets or securities of the Company or for any similar business combination involving the Company.

- (6) For a period of one year from the date hereof, you agree that neither you nor any of your subsidiaries will directly or indirectly solicit to employ any of the officers or employees of the Company. The parties agree that this restriction shall not apply to (i) any solicitation directed at the public in general by you in publications available to the public in general, whether or not

the individuals responding to such general solicitations were also individuals that you may have been acquainted with during the course of the anticipated negotiations, or (ii) your employment of the Company's employees not involving any initial solicitation by you.

- (7) You understand and acknowledge that the Company is not making any representation or warranty, express or implied, as to the accuracy or completeness of the Evaluation Material, and neither the Company nor any of its officers, directors, employees, stockholders, owners, affiliates or agents will have any liability to you or any other person resulting from your use of the Evaluation Material. Only those particular representations or warranties that are made to you in a definitive Transaction Agreement (as defined in paragraph 9 below) when, as, and if it is executed, and subject to the limitations and restrictions as may be specified in the Transaction Agreement, will have any legal effect.
- (8) You acknowledge that you (i) are aware that the United States federal securities laws prohibit any person who has material non-public information about a company which is obtained from the company or its representatives from purchasing or selling any securities of that company or communicating the information to any person under circumstances in which it is reasonably foreseeable that such person is likely to purchase or sell any of those securities, unless the counterparty in such purchase or sale also has such information or such information is generally available to the market, and (ii) are familiar with the United States Securities Exchange Act of 1934 (the "Exchange Act") and the rules and regulations promulgated thereunder, and agree that you will not use, or communicate to any person under circumstances where it is reasonably likely that such person is likely to use or cause any person to use, any Evaluation Material in contravention of the Exchange Act or any of its rules and regulations, including Rules 10b-5 and 14e-3. In connection with the foregoing, the Company hereby agrees and acknowledges that you shall be permitted to

disclose publicly any information (including any information which is otherwise confidential hereunder) which you believe, after receipt of advice of counsel, must be disclosed in order to comply with the Exchange Act and such other securities laws as may be applicable in order to permit you to purchase or offer to purchase any securities of the Company at any time when you are not precluded from doing so under paragraph 5 hereof.

- (9) You and the Company also understand and agree that this agreement pertains only to the confidentiality of Evaluation Material and the related matters expressly stated herein and that no contract or agreement with respect to any possible Transaction shall be deemed to exist between you and the Company and/or the owners or stockholders of the Company unless and until a definitive agreement has been executed and delivered by you and the Company as shall be mutually agreed to by the parties thereto (a "Transaction Agreement"). For purposes of this paragraph, the term "Transaction Agreement" shall not include an executed letter of intent or any other preliminary written agreement, nor does it include any verbal acceptance of an offer or bid.
- (10) You agree that the Company shall be entitled to equitable relief, including injunction and specific performance, in the event of any breach or threatened breach of the provisions of this agreement, in addition to all other remedies available to the Company at law or in equity. You also hereby irrevocably and unconditionally consent to submit to the exclusive jurisdiction of the courts of the State of New York and of the United States located in the City of New York for any actions, suits or proceedings arising out of or relating to this agreement and the transactions contemplated hereby (and you agree not to commence any action, suit or proceeding relating thereto except in those courts), and further agree that service of any process, summons, notice or document by United States registered mail, return receipt requested, to your address set forth above shall be effective service of process, summons,

notice or document for or in any action, suit or proceeding brought against you in any of those courts. You hereby irrevocably and unconditionally waive any objection to the laying of venue of any action, suit or proceeding arising out of this agreement or the transactions contemplated hereby, in the courts of the State of New York or the United States located in the City of New York, and hereby further irrevocably and unconditionally waive and agree not to plead or claim in that court that any action, suit or proceeding brought in that court has been brought in an inconvenient forum.

- (11) It is further understood and agreed that no failure or delay by the Company in exercising any right, power or privilege hereunder will operate as a waiver thereof, nor will any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any right, power or privilege hereunder.

This letter agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

This agreement contains, and is intended as, a complete statement of all of the terms of the arrangements among the parties with respect to the matters provided for and supersedes any previous agreements and understandings among the parties with respect to those matters.

This agreement will be governed by and construed in accordance with the laws of the State of New York, without giving effect to the principles, policies or provisions thereof concerning conflict or choice of law.

Alfred J. Verrecchia  
April 2, 1998  
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If you agree with the foregoing, please sign and return two copies of this letter, which will constitute our agreement with respect to the subject matter of this letter.

Very truly yours,

GALOOB TOYS, INC.

By: /s/ William G. Catron  
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Name: William G. Catron  
Title: Executive Vice President

CONFIRMED AND AGREED

HASBRO, INC.

By: /s/ Alfred J. Verrecchia  
-----  
Name: Alfred J. Verrecchia  
Title: Executive Vice President

Hasbro, Inc.  
1027 Newport Avenue  
Pawtucket, RI 02862

June 23, 1998

Galoob Toys, Inc.  
500 Forbes Boulevard  
South San Francisco, CA 94080  
Attention: Mark N. Goldman  
President and Chief Executive Officer

Dear Mr. Goldman:

Reference is made to our letter agreement dated April 2, 1998. The proviso in the third sentence of paragraph 4 of the letter agreement shall be amended to read as follows:

provided, however, that within five business days upon reaching an agreement or understanding with Lucas relating to its approval or consent in connection with a Transaction, you will either terminate discussions with the Company by written notice to the Company or disclose to the Company the existence of such agreement or understanding, but you shall not be required to disclose any terms of any such agreement or understanding with Lucas or any modifications of existing terms under licenses with Lucas unless and until you and the Company have executed a definitive agreement providing for your acquisition of the Company, which definitive agreement may not be conditioned or terminable in any respect based upon the Company's satisfaction with your agreement with Lucas.

The letter, dated June 18, 1998, which amended the proviso in the third sentence of paragraph 4 of the letter agreement, is hereby superceded and shall be of no force and effect. All other terms of the letter agreement shall remain in full force and effect.

If you agree with the foregoing, please sign and return two copies of this letter, which together with the letter agreement, will constitute our complete agreement with respect to the subject matter hereof.

Very truly yours,

HASBRO, INC.

By: /s/ Alfred J. Verracchia

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Name: Alfred J. Verracchia  
Title: Executive Vice President

CONFIRMED AND AGREED

GALLOOB TOYS, INC.

By: /s/ Mark D. Goldman

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Name: Mark D. Goldman  
Title: President and  
Chief Executive Officer