

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the period ended September 27, 1998

Commission file number 1-6682

HASBRO, INC.

-----  
(Name of Registrant)

Rhode Island

05-0155090

-----  
(State of Incorporation)

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

1027 Newport Avenue, Pawtucket, Rhode Island 02861

-----  
(Principal Executive Offices)

(401) 431-8697

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

Yes  or No  
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The number of shares of Common Stock, par value \$.50 per share, outstanding as of November 6, 1998 was 130,816,511.

HASBRO, INC. AND SUBSIDIARIES  
Consolidated Balance Sheets

(Thousands of Dollars Except Share Data)  
(Unaudited)

Assets	Sep. 27, 1998	Sep. 28, 1997	Dec. 28, 1997
	-----	-----	-----
Current assets			
Cash and cash equivalents	\$ 176,486	80,030	361,785
Accounts receivable, less allowance for doubtful accounts of \$56,900, \$52,700 and \$51,700	1,030,751	1,153,910	783,008
Inventories:			
Finished products	328,757	285,135	198,215
Work in process	16,627	13,273	12,208
Raw materials	38,425	49,371	32,279
	-----	-----	-----
Total inventories	383,809	347,779	242,702

Deferred income taxes	92,748	80,730	96,489
Prepaid expenses	243,513	94,804	89,890
	-----	-----	-----
Total current assets	1,927,307	1,757,253	1,573,874
Property, plant and equipment, net	287,872	279,916	280,603
	-----	-----	-----
Other assets			
Cost in excess of acquired net assets, less accumulated amortization of \$144,503, \$128,187 and \$128,237	643,136	504,426	486,502
Other intangibles, less accumulated amortization of \$187,554, \$121,316 and \$135,467	716,123	412,641	478,798
Other	101,866	69,715	79,940
	-----	-----	-----
Total other assets	1,461,125	986,782	1,045,240
	-----	-----	-----
Total assets	\$3,676,304	3,023,951	2,899,717
	=====	=====	=====

HASBRO, INC. AND SUBSIDIARIES  
Consolidated Balance Sheets, continued

(Thousands of Dollars Except Share Data)  
(Unaudited)

	Sep. 27, 1998	Sep. 28, 1997	Dec. 28, 1997
	-----	-----	-----
Liabilities and Shareholders' Equity			
Current liabilities			
Short-term borrowings	\$ 507,596	462,894	122,024
Trade payables	152,350	120,775	179,156
Accrued liabilities	788,902	469,944	596,033
Income taxes	88,654	117,559	106,333
	-----	-----	-----
Total current liabilities	1,537,502	1,171,172	1,003,546
Long-term debt, excluding current installments	300,000	148,751	-
Deferred liabilities	80,010	68,924	58,054
	-----	-----	-----
Total liabilities	1,917,512	1,388,847	1,061,600
	-----	-----	-----
Shareholders' equity			
Preference stock of \$2.50 par value. Authorized 5,000,000 shares; none issued	-	-	-
Common stock of \$.50 par value. Authorized 300,000,000 shares; issued 139,799,011, 132,191,745 and 139,799,011	69,900	66,096	69,900
Additional paid-in capital	488,535	279,588	489,447
Retained earnings	1,500,478	1,449,867	1,457,495
Accumulated other comprehensive income	(5,216)	(7,555)	(3,903)
Treasury stock, at cost; 9,109,846, 5,760,479 and 6,357,948 shares	(294,905)	(152,892)	(174,822)
	-----	-----	-----
Total shareholders' equity	1,758,792	1,635,104	1,838,117
	-----	-----	-----
Total liabilities and shareholders' equity	\$3,676,304	3,023,951	2,899,717
	=====	=====	=====

See accompanying condensed notes to consolidated financial statements.

HASBRO, INC. AND SUBSIDIARIES  
Consolidated Statements of Earnings

(Thousands of Dollars Except Share Data)  
(Unaudited)

	Quarter Ended		Nine Months Ended	
	Sep. 27, 1998	Sep. 28, 1997	Sep. 27, 1998	Sep. 28, 1997
Net Revenues	\$ 945,498	915,533	2,000,375	2,055,203
Cost of Sales	402,369	403,027	853,776	891,315
Gross Profit	543,129	512,506	1,146,599	1,163,888
Expenses				
Amortization	19,275	11,741	49,298	32,967
Royalties, Research and Development	113,755	102,583	263,220	254,339
Advertising	128,053	116,208	257,023	254,418
Selling, Distribution and Administration	162,705	156,215	439,433	433,285
Acquired Research and Development	20,000	-	20,000	-
Total Expenses	443,788	386,747	1,028,974	975,009
Operating Profit	99,341	125,759	117,625	188,879
Nonoperating (income) expense				
Interest Expense	11,308	9,197	20,036	19,120
Other (Income) Expense, Net	(1,568)	1,121	(12,082)	(6,112)
Total nonoperating (income) expense	9,740	10,318	7,954	13,008
Earnings Before Income Taxes	89,601	115,441	109,671	175,871
Income Taxes	28,271	38,041	35,095	59,796
Net Earnings	\$ 61,330	77,400	74,576	116,075
Per Common Share				
Net Earnings				
Basic	\$ .47	.61	.56	.91
Diluted	\$ .45	.57	.54	.87
Cash Dividends Declared	\$ .08	.08	.24	.24

See accompanying condensed notes to consolidated financial statements.

HASBRO, INC. AND SUBSIDIARIES  
Consolidated Statements of Cash Flows  
Nine Months Ended September 27, 1998 and September 28, 1997

(Thousands of Dollars)  
(Unaudited)

	1998	1997
Cash flows from operating activities		
Net earnings	\$ 74,576	116,075
Adjustments to reconcile net earnings to net cash utilized by operating activities:		
Depreciation and amortization of plant and equipment	69,458	79,232
Other amortization	49,298	32,967
Deferred income taxes	(8,141)	(3,815)
Acquired research and development	20,000	-

Change in operating assets and liabilities (other than cash and cash equivalents):		
Increase in accounts receivable	(241,956)	(354,339)
Increase in inventories	(113,951)	(60,721)
(Increase) Decrease in prepaid expenses	(130,678)	15,099
Increase in trade payables and accrued liabilities	59,184	17,009
Other	(1,613)	874
	-----	-----
Net cash utilized by operating activities	(223,823)	(157,619)
	-----	-----
Cash flows from investing activities		
Additions to property, plant and equipment	(87,543)	(61,071)
Investments and acquisitions, net of cash acquired	(389,441)	(164,153)
Other	6,033	4,069
	-----	-----
Net cash utilized by investing activities	(470,951)	(221,155)
	-----	-----
Cash flows from financing activities		
Proceeds from borrowings with original maturities of more than three months	300,850	272,167
Repayments of borrowings with original maturities of more than three months	(25,775)	(71,322)
Net proceeds of other short-term borrowings	378,363	147,453
Purchase of common stock	(172,574)	(99,983)
Stock option transactions	51,579	24,376
Dividends paid	(31,817)	(28,971)
	-----	-----
Net cash provided by financing activities	500,626	243,720
	-----	-----
Effect of exchange rate changes on cash	8,849	(3,887)
	-----	-----
Decrease in cash and cash equivalents	(185,299)	(138,941)
Cash and cash equivalents at beginning of year	361,785	218,971
	-----	-----
Cash and cash equivalents at end of period	\$176,486	80,030
	=====	=====

HASBRO, INC. AND SUBSIDIARIES  
Consolidated Statements of Cash Flows (continued)  
Nine Months Ended September 27, 1998 and September 28, 1997

(Thousands of Dollars)  
(Unaudited)

	1998	1997
	-----	-----
Supplemental information		
Cash paid during the period for:		
Interest	\$ 14,931	13,449
Income taxes	\$ 41,980	85,861

See accompanying condensed notes to consolidated financial statements.

HASBRO, INC. AND SUBSIDIARIES  
Consolidated Statements of Comprehensive Earnings

(Thousands of Dollars)  
(Unaudited)

Quarter Ended		Nine Months Ended	
-----		-----	
Sep. 27,	Sep. 28,	Sep. 27,	Sep. 28,
1998	1997	1998	1997

Net earnings	\$ 61,330	77,400	74,576	116,075
Other comprehensive earnings (loss)	14,860	(480)	(1,313)	(27,548)
Total comprehensive earnings	\$ 76,190	76,920	73,263	88,527

See accompanying condensed notes to consolidated financial statements.

HASBRO, INC. AND SUBSIDIARIES  
Condensed Notes to Consolidated Financial Statements

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

(1) In the opinion of management and subject to year-end audit, the accompanying unaudited interim financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position of the Company as of September 27, 1998 and September 28, 1997, and the results of operations and cash flows for the periods then ended.

The results of operations for the nine months ended September 27, 1998, are not necessarily indicative of results to be expected for the full year.

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

(3) Late in the fourth quarter of 1997, the Company announced a global integration and profit enhancement program which anticipated the redundancy of approximately 2,500 employees, principally in manufacturing, and provided for actions in three principal areas: a continued consolidation of the Company's manufacturing operations; the streamlining of marketing and sales, while exiting from certain underperforming markets and product lines; and the further leveraging of overheads. Of the \$140,000 estimated costs related to these actions, \$125,000 was reported as a nonrecurring charge and \$15,000 was reflected in cost of sales. Of the nonrecurring amount approximately \$54,000 related to severance and people costs, \$52,000 to property, plant and equipment and leases and \$19,000 to product line related costs. During the first nine months of 1998, approximately 1,900 employees were terminated. The approximate \$87,000 accrual remaining at September 27, 1998, is principally attributable to severance costs, which will be disbursed over the employee's entitlement period, and remaining property, plant and equipment costs, which continue to be incurred upon the transition of the various facilities from production to non-productive status. The program remains on schedule to be substantially completed by the end of 1998.

(4) On April 1, 1998, the Company acquired substantially all of the business and operating assets of Tiger Electronics, Inc. and certain affiliates (Tiger) for an initial payment of \$335,000, subject to post-closing adjustment, plus the closing date value of inventory, tooling, equipment and prepaid assets. The estimated total cost of this acquisition approximates \$395,000 and is being accounted for using the purchase accounting method. Based on current estimates of fair market value, approximately \$42,000 has been allocated to net tangible assets, \$213,000 to product rights and \$140,000 to goodwill.

HASBRO, INC. AND SUBSIDIARIES  
Condensed Notes to Consolidated Financial Statements (continued)

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

(5) On September 14, 1998, the Company, through its wholly owned subsidiary, New HIAC Corp. (New HIAC), acquired in excess of 90% of the outstanding shares of MicroProse, Inc. (MicroProse) through a cash tender offer of \$6.00 for each outstanding share of MicroProse. Upon completion of this tender offer and through a merger into New HIAC, MicroProse became a wholly owned subsidiary of the Company and each untendered share was converted into the right to receive \$6.00 in cash. The purchase price, including the assumption of debt and preference stock, approximated \$70,000 and is being accounted for using the purchase accounting method. Based on estimates of fair market value, approximately \$4,000 has been allocated to net tangible liabilities, \$20,000 to product rights, \$34,000 to goodwill and \$20,000 to acquired research and development which has been written-off.

(6) Effective for fiscal 1998, Hasbro adopted Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income (SFAS 130). SFAS 130 requires that all items recognized under accounting standards as components of comprehensive earnings be reported in a financial statement that is displayed with the same prominence as other financial statements. SFAS 130 also requires that an entity classify items of other comprehensive earnings by their nature in the financial statements and display the accumulated amount thereof separately within the equity section of the balance sheet. The Company's other comprehensive earnings (loss) primarily results from foreign currency translation adjustments.

(7) On November 2, 1998, the Company announced the successful completion of its cash tender offer to purchase all of the outstanding shares of Galoob Toys, Inc. (Galoob) at a price of \$12.00 per share. After giving effect to the purchase of the shares tendered, the Company beneficially owned approximately 93% of the outstanding Galoob shares. Also on November 2, the Company effected a merger pursuant to which Galoob became a wholly-owned subsidiary of the Company and each untendered Galoob share was converted into the right to receive \$12.00 per share in cash. The total purchase price of this transaction will approximate \$220,000, and will be accounted for using the purchase accounting method.

HASBRO, INC. AND SUBSIDIARIES  
Condensed Notes to Consolidated Financial Statements (continued)

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

(8) Earnings per share data for the fiscal quarters and nine months ended September 27, 1998 and September 28, 1997 were computed as follows:

Quarter	1998		1997	
	Basic	Diluted	Basic	Diluted
Net earnings	\$ 61,330	61,330	77,400	77,400
Effect of dilutive securities; 6% Convertible Notes due 1998	-	-	-	1,433
Adjusted net earnings	\$ 61,330	61,330	77,400	78,833
Average shares outstanding	131,368	131,368	126,922	126,922
Effect of dilutive securities; 6% Convertible Notes due 1998	-	-	-	7,616
Options and warrants	-	5,007	-	2,565
Equivalent Shares	131,368	136,375	126,922	137,103
Earnings per share	\$ .47	.45	.61	.57
Nine Months				
Net earnings	\$ 74,576	74,576	116,075	116,075
Effect of dilutive securities; 6% Convertible Notes due 1998	-	-	-	4,307

Adjusted net earnings	\$ 74,576	74,576	116,075	120,382
Average shares outstanding	132,346	132,346	127,789	127,789
Effect of dilutive securities;				
6% Convertible Notes due 1998	-	-	-	7,627
Options and warrants	-	5,258	-	2,390
Equivalent Shares	132,346	137,604	127,789	137,806
Earnings per share	\$ .56	.54	.91	.87

HASBRO, INC. AND SUBSIDIARIES  
Management's Discussion and Analysis of Financial  
Condition and Results of Operations

(Thousands of dollars)

NET REVENUES

Net revenues for the third quarter of 1998 increased approximately 3% to \$945,498, from the \$915,533 in the third quarter of 1997, despite the impact of ongoing and recently accelerated changes in inventory flow policies at Toys `R Us, a major customer. This revenue increase reflects the positive impacts from the acquisition of Tiger Electronics, Inc. (Tiger), in April (see note 4), and increased revenues at Hasbro Interactive, both partially offset by the previously mentioned Toys `R Us volume reductions and the adverse impact of the stronger U.S. dollar, which reduced revenues by approximately \$7,000. For the nine months, revenues were \$2,000,375 and \$2,055,203 in 1998 and 1997, respectively. The 1998 nine month amounts were adversely impacted by approximately \$26,000 from the strengthened U.S. dollar, that period's impact of the Toys `R Us inventory flow policy change and the fact that in 1997 there were three motion picture releases related to the Company's major entertainment properties. Partially offsetting these unfavorable impacts was the positive effect from the Tiger acquisition and increases at Hasbro Interactive.

GROSS PROFIT

The Company's gross margins for the quarter and nine months of 1998, at 57.4% and 57.3%, were improved from the 1997 amounts of 56.0% and 56.6%. These increases reflect the benefit being experienced from the removal of excess manufacturing capacity, as addressed within the Company's global integration and profit enhancement program initiative announced in December of 1997 (see note 3). Additionally, increased revenues from the Company's interactive products, which carry a higher gross margin, and an overall more favorable mix of products sold, both contributed positively.

EXPENSES

Amortization expense in both periods of 1998 was greater than in the comparable periods of 1997, reflecting the Company's recent acquisitions, including OddzOn in May of 1997 (see note 2) and Tiger in April of 1998.

Royalties, research and development expenses for the quarter increased in both amount and as a percentage of net revenues from comparable 1997 levels. The royalty component increase reflects the higher rates of Tiger, Hasbro Interactive and Teletubbies products. Research and development, at \$43,165 and \$117,544 for the quarter and nine months of 1998, respectively, increased in both dollars and as a percentage of net revenues from \$37,868 and \$106,301 a year ago. These increases reflect both the inclusion of new units, OddzOn in May 1997, and Tiger in April 1998, and the ongoing investment to grow Hasbro Interactive. The Company believes that this trend of increasing royalties, research and development expenses is likely to continue.

(Thousands of dollars)

Advertising expense for each of the third quarter and nine months increased both in dollars and as a percentage of net revenues. The increase in dollars reflects the inclusion of Tiger while the increase in percentage reflects the mix of more non-entertainment based product in 1998, in the absence of major movie support.

Selling, distribution and administration expenses, which are largely fixed, increased marginally in amount and as a percentage of net revenues during each of the third quarter and nine months of 1998 from comparable 1997 levels. These increases reflect the inclusion of Tiger from April 1, as well as OddzOn for the full nine months.

During the third quarter of 1998, the Company incurred a one-time charge to write-off the \$20,000 appraised value of acquired in-process research and development of MicroProse, Inc. (MicroProse), which was acquired for approximately \$70,000 on September 14, 1998 (see note 5).

NONOPERATING (INCOME) EXPENSE

Interest expense during the third quarter of 1998 was \$11,308 compared with \$9,197 in 1997, and reflects the increased borrowing requirements related to the funding of the Tiger acquisition and the continuation of the Company's share repurchase plan. For the nine months of 1998, interest expense was \$20,036 compared with \$19,120 in the same period of 1997, largely for the same reasons. The change in other nonoperating income, in both the quarter and nine months, reflects the earnings differential resulting from changes in levels of short-term investments, the impact of minority investments in certain subsidiaries, as well as foreign exchange transactions and translation.

INCOME TAXES

Income tax expense for the third quarter of 1998 decreased to 31.6% from the 33.0% of a year ago. For the nine months of 1998 and 1997, the rates were 32.0% and 34.0%, respectively. The lower rates in each of the third quarters compared with each of the nine months, reflect the impact of the year to date changes made during the respective quarters. The lower 1998 rates reflect the impact of the Tiger acquisition, the implementation of various tax strategies and the downward trend of the tax on international earnings due to the continued reorganization of the Company's global business.

HASBRO, INC. AND SUBSIDIARIES  
Management's Discussion and Analysis of Financial  
Condition and Results of Operations (continued)

(Thousands of dollars)

OTHER INFORMATION

During the past several years, the Company has experienced a shift in its revenue pattern wherein the second half of the year has grown in significance to its overall business and within that half the fourth quarter has become more prominent. The Company expects that this trend will continue. This concentration increases the risk of (a) underproduction of popular items, (b) overproduction of less popular items and (c) failure to achieve tight and compressed shipping schedules. The business of the Company is characterized by customer order patterns which vary from year to year largely because of differences in the degree of consumer acceptance of a product line, product availability, marketing strategies, and inventory levels and policies of retailers and differences in overall economic conditions. Also, quick response inventory management practices now being used results in fewer orders being placed in advance of shipment and more orders, when placed, for immediate delivery. As a result, comparisons of unshipped orders on any date in a given year with those at the same date in a prior year are not necessarily indicative of sales for the entire year. In addition, it is a general industry practice that orders are subject to amendment or cancellation by customers prior to shipment. At the end of its fiscal October (October 25, 1998 and October 26, 1997) the Company's unshipped orders were approximately \$580,000 and \$480,000.



Late in the fourth quarter of 1997, the Company announced a global integration and profit enhancement program which anticipated the redundancy of approximately 2,500 employees, principally in manufacturing, and provided for actions in three principal areas: a continued consolidation of the Company's manufacturing operations; the streamlining of marketing and sales, while exiting from certain underperforming markets and product lines; and the further leveraging of overheads. Of the \$140,000 estimated costs related to these actions, \$125,000 was reported as a nonrecurring charge and \$15,000 was reflected in cost of sales. Of the nonrecurring amount, approximately \$54,000 related to severance and people costs, \$52,000 to property, plant and equipment and leases and \$19,000 to product line related costs. During the first nine months of 1998, approximately 1,900 employees were terminated. The approximate \$87,000 accrual remaining at September 27, 1998, is principally attributable to severance, which will be disbursed over the employee's entitlement period, and remaining property, plant and equipment costs, which continue to be incurred upon the transition of the various manufacturing facilities from productive to non-productive status. The program remains on schedule to be substantially completed by the end of 1998. The Company estimated its pretax cost savings from this initiative to be \$40,000 in 1998 and \$350,000 over the period 1998 through 2002. Because of the unanticipated shortfall in sales to Toys 'R Us during the current year and changes in product mix, factory utilization rates are not as high as initially anticipated, which could

HASBRO, INC. AND SUBSIDIARIES  
Management's Discussion and Analysis of Financial  
Condition and Results of Operations (continued)

(Thousands of dollars)

result in the Company not meeting its targeted savings during 1998. Through the end of September, the Company estimates that it has realized pretax savings of approximately \$20,000 during the first nine months of 1998. The positive cash flow impact from this program will occur largely in the form of reduced outflows for payment of costs associated with the manufacture and sourcing of products.

The Company has developed plans that address its possible exposure from the impact of the Year 2000. This project is being managed by a global cross-functional team of employees. The team meets regularly and makes periodic reports on its progress to a management steering committee, the Audit Committee of the Board of Directors and the Board of Directors.

The Company has substantially completed the awareness and assessment phases of this project through the inventorying and assessment of its critical financial, operational (including imbedded and non-information technology) and information systems. The renovation phase is now well underway, as a number of non-compliant systems have been modified or replaced and plans are in place for the required modifications or replacements of other non-compliant systems. A planned global 'enterprise' system became operational at several of the Company's major units during the current year and has replaced a number of older non-compliant systems. As the global roll-out of this enterprise system continues, additional Year 2000 compliance will occur. The Company is now in the validation and implementation phases and believes that approximately 70% of its mission critical systems are currently Year 2000 compliant, that an additional 15% will be so by the end of 1998 and virtually all will be by mid-1999. Excluding costs related to the enterprise system, the Company's out of pocket costs associated with becoming Year 2000 compliant have been estimated to approximate \$3,000. These costs are being expensed as incurred and approximately 40% of this amount has been spent to date.

The Company is also well into the process of reviewing the Year 2000 readiness of its customers, vendors and service providers. This review process includes both the obtaining of confirmation from these business partners of their readiness as well as reviews of such readiness by independent third party consultants. While this review process is ongoing, nothing has come to the attention of the Company that would lead it to believe that its material customers, vendors and service providers will not be Year 2000 ready.

The Company's risk management program includes disaster recovery contingency plans that will be expanded by mid-year 1999 to include Year

2000 issues and may include, for example, the maintaining and development of back-up systems and procedures, early identification and selection of alternative Year 2000 ready suppliers and service providers, revisions to credit policies and possible temporary increases in levels of inventories.

HASBRO, INC. AND SUBSIDIARIES  
Management's Discussion and Analysis of Financial  
Condition and Results of Operations (continued)

(Thousands of dollars)

Year 2000 readiness has been a senior management priority of the Company for some time and the Company believes that it is taking such reasonable and prudent steps as are necessary to mitigate its risks related to Year 2000. However, the effect, if any, on the Company's results of operation from Year 2000 if it, its customers, vendors or service providers are not fully Year 2000 compliant cannot be reasonably estimated. Notwithstanding the above, the most likely impact on the Company would be a reduced level of activity in the early part of the first quarter of the year 2000, a time at which, as a result of the seasonality of the Company's business, its activities in sales, manufacturing and sourcing, are at their low.

Certain statements contained in this discussion contain "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are inherently subject to known and unknown risks and uncertainties. The Company's actual actions or results may differ materially from those expected or anticipated in the forward-looking statements. Specific factors that might cause such a difference include, but are not limited to, delays in, or increases in the anticipated cost of, the implementation of planned actions as a result of unanticipated technical malfunctions or difficulties which would arise during the validation process or otherwise; the inherent risk that assurances, warranties, and specifications provided by third parties with respect to the Company's systems, or such third party's Year 2000 readiness, may prove to be inaccurate, despite the Company's review process; the continued availability of qualified persons to carry out the remaining anticipated phases; the risk that governments may not be Year 2000 ready, which could affect the commercial sector in trade, finance and other areas, notwithstanding private sector Year 2000 readiness; whether, despite a comprehensive review, the Company has successfully identified all Year 2000 issues and risks; and the risk that proposed actions and contingency plans of the Company and third parties with respect to Year 2000 issues may conflict or themselves give rise to additional issues.

LIQUIDITY AND CAPITAL RESOURCES

The seasonality of the Company's business coupled with certain customer incentives, mainly in the form of extended payment terms, result in the interim cash flow statements being not representative of that which may be expected for the full year. As a result of these extended payment terms, the majority of the Company's cash collections occur late in the fourth quarter and early in the first quarter of the subsequent year. As receivables are collected late in the fourth quarter and through the first quarter of the subsequent year, cash flow from operations becomes positive and is used to repay a significant portion of the short-term borrowings.

HASBRO, INC. AND SUBSIDIARIES  
Management's Discussion and Analysis of Financial  
Condition and Results of Operations (continued)

(Thousands of dollars)

As a result, management believes that on an interim basis, rather than discussing its cash flows, a better understanding of its liquidity and capital resources can be obtained through a discussion of the various balance sheet categories. Also, as several of the major categories, including cash and cash equivalents, accounts receivable, inventories and short-term borrowings, fluctuate significantly from quarter to quarter, again due to the seasonality of its business and the extended payment terms offered, management believes that a comparison to the comparable period in the prior year is generally more meaningful than a comparison to the prior

year-end.

Receivables, both in dollars and in days sales outstanding, decreased from September 1997 levels. In amount, receivables were approximately \$1,031,000, or 11% lower and, at 103 days sales outstanding, 24 days less than the 127 days sales outstanding at the same point in 1997. These improvements continue to reflect the increased impact of the Company's letter of credit business and its non-traditional toy and game businesses, both of which have shorter payment terms. Inventories increased approximately 10% from 1997 levels, reflecting the inclusion of both Tiger and MicroProse in 1998. Other current assets increased significantly from 1997 levels, reflecting, in addition to Tiger and MicroProse, an advance royalty under a key license agreement. Other assets, as a group, increased approximately \$474,000 from their September 1997 levels reflecting the acquisition of Tiger and MicroProse as well as other acquisitions of product rights and licenses during the most recent twelve months, all partially offset by an additional year of amortization expense.

Net borrowings (short- and long-term borrowings less cash and cash equivalents) increased by approximately \$99,500 to \$631,110 from \$531,615 at September 28, 1997. This increase reflects the utilization of more than \$600,000 of cash during the last twelve months for acquisitions and the continuation of the Company's share repurchase program, both of which are traditionally funded through a combination of cash provided by operating activities and cash provided by external short- and long-term borrowings. On July 17, 1998, in a public offering, the Company issued \$150,000 of 6.15% notes due July 15, 2008 and \$150,000 of 6.60% debentures due July 15, 2028. The net proceeds from the sale of these notes was used to repay a portion of the Company's outstanding short-term debt, primarily incurred in connection with the acquisition of Tiger. At September 27, 1998, the Company had committed unsecured lines of credit totaling approximately \$500,000 available to it. It also had available uncommitted lines approximating \$750,000. The Company believes that these amounts, augmented by a November 2, 1998 \$200,000 increase in its committed unsecured lines of credit, are adequate for its needs. Of these available lines, approximately

HASBRO, INC. AND SUBSIDIARIES  
Management's Discussion and Analysis of Financial  
Condition and Results of Operations (continued)

(Thousands of dollars)

\$525,000 was in use at September 27, 1998. Trade payables and accrued liabilities both increased from the comparable 1997 levels, largely reflecting the impact of the unpaid amounts relating to the Tiger acquisition, royalty advances and the Company's global integration and profit enhancement program.

RECENT INFORMATION

On September 28, 1998, the Company announced that it had entered into a definitive agreement to acquire Galoob Toys, Inc. (Galoob), 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 was \$12.00 per common share of Galoob, payable in cash, for a total transaction value of approximately \$220 million.

Under terms of the merger agreement, a wholly owned subsidiary of the Company commenced a tender offer on October 2, 1998 for all of Galoob's approximately 18 million outstanding common shares. The offer was conditioned upon, among other things, the termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvement Act of 1976 and the tender of a majority of the common shares outstanding on a diluted basis of Galoob. On November 2, 1998, following the successful completion of the offer, the transaction was completed, the Company's subsidiary was merged with Galoob and all remaining Galoob common shares were converted into the right to receive \$12.00 per share in cash.

On November 2, 1998, in a public offering, the Company issued \$100,000 of 5.60% notes due November 1, 2005. The net proceeds from the sale of these notes will be used to repay a portion of the Company's outstanding short-term commercial paper primarily incurred in connection with the acquisition of MicroProse and to fund the balance of the purchase price of Tiger.

PART II. Other Information

Item 1. Legal Proceedings.

None.

Item 2. Changes in Securities.

On July 17, 1998, in a public offering, the Company issued \$150,000,000 of 6.15% notes due July 15, 2008 and \$150,000,000 of 6.60% debentures due July 15, 2028. On November 2, 1998, in a second public offering, the Company issued \$100,000,000 of 5.60% notes due November 1, 2005.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

11.1 Computation of Earnings Per Common Share - Nine Months Ended September 27, 1998 and September 28, 1997.

11.2 Computation of Earnings Per Common Share - Quarter Ended September 27, 1998 and September 28, 1997.

12 Computation of Ratio of Earnings to Fixed Charges - Nine Months and Quarter Ended September 27, 1998.

27 Article 5 Financial Data Schedule - Third Quarter 1998

(b) Reports on Form 8-K

A Current Report on Form 8-K, dated September 28, 1998, was filed by the Company and included the Press Release dated September 28, 1998, announcing the Company's expected results for the second half of 1998.

A Current Report on Form 8-K, dated October 15, 1998 was filed by the Company and included the Press Release dated October 15, 1998, announcing the Company's results for the current quarter. Consolidated Statements of Earnings (without notes) for the quarters and nine months ended September 27, 1998 and September 28, 1997 and Consolidated Condensed Balance Sheets (without notes) as of said dates were also filed.

SIGNATURES

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

HASBRO, INC.

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(Registrant)

Date: November 12, 1998

By: /s/ John T. O'Neill

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John T. O'Neill  
Executive Vice President and  
Chief Financial Officer  
(Duly Authorized Officer and  
Principal Financial Officer)

HASBRO, INC. AND SUBSIDIARIES  
Quarterly Report on Form 10-Q  
For the Period Ended September 27, 1998

Exhibit Index

Exhibit No. -----	Exhibits -----
11.1	Computation of Earnings Per Common Share - Nine Months Ended September 27, 1998 and September 28, 1997
11.2	Computation of Earnings Per Common Share - Quarter Ended September 27, 1998 and September 28, 1997
12	Computation of Ratio of Earnings to Fixed Charges - Nine Months and Quarter Ended September 27, 1998
27	Article 5 Financial Data Schedule - Third Quarter 1998

HASBRO, INC. AND SUBSIDIARIES  
 Computation of Earnings Per Common Share  
 Nine Months Ended September 27, 1998 and September 28, 1997

(Thousands of Dollars and Shares Except Per Share Data)

	1998		1997	
	Basic	Diluted	Basic	Diluted
Net earnings	\$ 74,576	74,576	116,075	116,075
Interest and amortization on 6% convertible notes, net of taxes	-	-	-	4,307
Net earnings applicable to common shares	\$ 74,576	74,576	116,075	120,382
Weighted average number of shares outstanding:				
Outstanding at beginning of period	133,441	133,441	128,863	128,863
Exercise of stock options and warrants:				
Actual	1,239	1,239	738	738
Assumed	-	5,258	-	2,390
Conversion of 6% convertible notes:				
Actual	-	-	13	13
Assumed	-	-	-	7,627
Purchase of common stock	(2,334)	(2,334)	(1,825)	(1,825)
Total	132,346	137,604	127,789	137,806
Per common share:				
Net earnings	\$ .56	.54	.91	.87

HASBRO, INC. AND SUBSIDIARIES  
 Computation of Earnings Per Common Share  
 Quarter Ended September 27, 1998 and September 28, 1997

(Thousands of Dollars and Shares Except Per Share Data)

	1998		1997	
	Basic	Diluted	Basic	Diluted
Net earnings	\$ 61,330	61,330	77,400	77,400
Interest and amortization on 6% convertible notes, net of taxes	-	-	-	1,433
Net earnings applicable to common shares	\$ 61,330	61,330	77,400	78,833
Weighted average number of shares outstanding:				
Outstanding at beginning of period	132,012	132,012	127,441	127,441
Exercise of stock options and warrants:				
Actual	331	331	144	144
Assumed	-	5,007	-	2,565
Conversion of 6% convertible notes:				
Actual	-	-	7	7
Assumed	-	-	-	7,616
Purchase of common stock	(975)	(975)	(670)	(670)
Total	131,368	136,375	126,922	137,103
Per common share:				
Net earnings	\$ .47	.45	.61	.57

HASBRO, INC. AND SUBSIDIARIES  
 Computation of Ratio of Earnings to Fixed Charges  
 Nine Months and Quarter Ended September 27, 1998

(Thousands of Dollars)

	Nine Months -----	Quarter -----
Earnings available for fixed charges:		
Net earnings	\$ 74,576	61,330
Add:		
Fixed charges	31,635	15,381
Income taxes	35,095	28,271
	-----	-----
Total	\$141,306	104,982
	=====	=====
 Fixed Charges:		
Interest on long-term debt	\$ 3,985	3,985
Other interest charges	16,051	7,323
Amortization of debt expense	45	45
 Rental expense representative of interest factor	11,554	4,028
	-----	-----
Total	\$ 31,635	15,381
	=====	=====
 Ratio of earnings to fixed charges	4.47	6.83
	=====	=====



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<F1>(1) As required under Statement of Financial Accounting Standards No. 128, the Company has restated its earnings per share into the new 'Basic' and 'Diluted' amounts. 1997 data in column 2 is provided solely to reflect that change.  
</FN>