SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

Form 10-K

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

For the fiscal year ended December 25, 1994 Commission file number 1-6682

Hasbro, Inc.
(Name of registrant)

| | |
|---|---|
| Rhode Island | 05-0155090 |
| (State of Incorporation) | (I.R.S. Employer Identification No.) |

1027 Newport Avenue, Pawtucket, Rhode Island 02861
(Address of Principal Executive Offices)

(401) 431-8697

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes[X] or No[ ].

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

The aggregate market value of the voting stock held by non-affiliates of the registrant computed by reference to the price at which the stock was sold on March 16, 1995 was $2,519,054,620.

The number of shares of Common Stock outstanding as of March 16, 1995 was 87,600,293.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of registrant's definitive proxy statement for its 1995 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report.

Selected information contained in registrant's Annual Report to Shareholders for the fiscal year ended December 25, 1994, is included as Exhibit 13, and incorporated by reference into Parts I and II of this Report.

# PART I

## ITEM 1. BUSINESS

### (a) General Development of Business

The Company designs, manufactures and markets a diverse line of toy products and related items throughout the world. Included in its offerings are games and puzzles, preschool, boys' action and girls' toys, dolls, plush products and infant products, including infant apparel. The Company also licenses various tradenames, characters and other property rights for use in connection with the sale by others of noncompeting toys and non-toy products.

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

(b) Description of Business Products

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

(i) Hasbro Toy Group

During 1994, the Company established the Hasbro Toy Group, bringing all of its domestic infant, preschool, activity, boys and girls products together within one organization. Previously, the Company operated separate organizations to develop and market its Playskool, Hasbro Toy and Kenner brand products.

The infant and preschool items are principally marketed under the Playskool brand and are specifically designed for preschool children, toddlers and infants.

The preschool line includes such well known products as Lincoln Logs(R), Tinkertoy(R), Mr. Potato Head(R), In-Line Skates, 1-2-3 Bike(TM) and the "Busy(R)" line of toys; electronic items including Talking Alphie(R) and Talking Barney(TM); various role play products including the Magic Tea Party(TM) and the Magic Smoking Grill(TM) and toys utilizing the "Sesame Street(R)" character motifs sold under licenses from Children's Television Workshop. New items for 1995 include the Playskool(R) Playstore, the 1-2-3 Swing(TM), 1-2-3 Baseball(TM) and All-in-One Fun Learning Center.

Playskool's line of infant and juvenile items consists of products for very young children, including the award winning 1-2-3 High Chair(TM), Musical Dream Screen(TM), the Steady Steps(R) line of walkers, the Pur(R) line of silicone nipples and pacifiers, bibs and other infant accessories such as the Hugger(R) toothbrush, a full line of health care and safety products, Tommee Tippee(TM) training cups and feeding items, water-filled teething rings, soft toys, rattles and infant apparel including the Scootees(R) line of soft shoes for babies. New products in 1995 include the Roll 'n Rattle Ball, Big 'n Bright Quilt and First Wheels.

The Hasbro Toy Group also offers activity items for both girls and boys including the Fantastic Sticker Maker(TM) and the Fantastic Flowers(TM) flower making kit as well as such classics as Play-Doh(R), Easy-Bake(R) Oven and the Spirograph(R) design toy. New offerings for 1995 include several innovative toys based on The Magic School Bus(TM) television and book series, an assortment of toys marketed under the Nickelodeon(R) name, the Power Spark(TM) Welding Set and Techno Zoids(TM) action construction toys.

Its girls items include the Raggedy Ann(R) and Raggedy Andy(R) line of rag dolls and the Littlest Pet Shop(R) figures and playsets along with the Baby Check-Up(R) and Baby All Gone(R) dolls. Included in its new introductions for 1995 are Bride Surprise(TM), Princess Wishing Star(TM) and the Baby Buddies(TM) line of collectible figures and playsets.

In boys' toys it offers a wide range of products, many of which are tied to entertainment properties, including Batman(R), Mortal Kombat(TM) and Congo(TM) action figures and accessories. It also offers such classic properties as G.I. Joe(R), The Transformers(R), the Tonka(R) line of trucks and vehicles, including the Electronic Talk'n Play(TM) Fire Truck, and the Nerf(R) line of soft action play equipment. A sucessful entrant into the remote controlled vehicle category in 1994 was the Ricochet(TM) radio-controlled vehicle which will be joined by other vehicles in 1995, namely the Tirestorm(TM) and Stunt Boss(TM). Other new introductions for 1995 include action figures based on the upcoming movie Batman(TM) Forever and the television series Gargoyles and Saban's VR Troopers(TM) and the Tonka(R) Farm Playset. In 1995, the Company acquired the Super Soaker(TM) line of water products and certain other assets from the Larami group of companies. These products will give the Company a core franchise in an area in which it had not previously been represented.

(ii) Hasbro Games Group

Beginning in 1995, the Company's two game units, Milton Bradley and Parker Brothers, are being managed as one organization, the Hasbro Games Group.

Milton Bradley markets quality games and puzzles, including board, strategy and word games, skill and action games and travel games. It maintains a diversified line of more than 200 games and puzzles for children and adults. Its staple items include Battleship(R), The Game of Life(R), Scrabble(R), Chutes and Ladders(R), Candy Land(R), Lite-Brite(R), Trouble(R), Mousetrap(R), Operation(R), Hungry Hungry Hippos(R), Connect Four(R), Twister(R) and Big Ben(R) Puzzles. The Company also manufactures and sells games and puzzles for the entire family, including such games as Yahtzee(R), Parcheesi(R), Aggravation(R), Jenga(R) and Scattergories(R) and Puzz 3-D(TM), a series of three dimensional jigsaw puzzles. Games added to the Milton Bradley line for 1995 include Chicken Limbo(TM), Channel Surfing(TM) and a refreshed version of Pictionary(R).

Parker Brothers markets a full line of games for families, children and adults. Its classic line of family board games includes Monopoly(R), Clue(R), Sorry!(R), Risk(R), Boggle(R), Ouija(R) and Trivial Pursuit(R), some of which have been in the Parker Brothers' line for more than 50 years. The Company also markets traditional card games such as Mille Bornes(R), Rook(R), Rack-O(R), Old Maid and Go Fish. Its line of travel games includes travel editions of Monopoly(R) Junior, Clue(R), Sorry!(R) and Boggle(R) Jr. Several well-known games, including Balderdash(R), Hi! Ho! Cherry-O(R) and Outburst(R), were added to its portfolio during 1994 through the acquisition of certain game and puzzle assets from Western Publishing. New to the Parker Brothers' line in 1995 are Peanut Panic(TM), Marble Dome(TM) and Puzzle Pursuit(TM), a new game from the makers of Trivial Pursuit(R).

(iii) International

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

Throughout the world, the Company markets products sourced by a Hong Kong subsidiary working primarily through unrelated manufacturers in various Far East countries, and in the Americas it markets products supplied by the Company's Mexican and U.S. manufacturing operations. Additionally, subsidiaries in Europe market products primarily manufactured by the Company in Ireland and Spain; those in Australia and New Zealand, products manufactured by the Company in New Zealand and in Canada, certain products which it assembles in Canada from components supplied by the Company's U.S. and Mexican operations. The Company has small investments in joint ventures in India and the Peoples Republic of China which manufacture and sell products both to the Company and unaffiliated customers. The Company also has Hong Kong units which market directly to retailers a line of high quality, low priced toys, games and related products, primarily on a direct import basis.

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

Working Capital Requirements

The Company's shipments of products are greater in each of the third and fourth quarters than shipments in each of the first and second quarters. During the past several years, the Company has experienced a gradual 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 and the Company expects this trend to continue. Production has been financed historically by means of short-term borrowings which reach peak levels during September through November of each year when receivables also generally reach peak levels. The toy business is also characterized by customer order patterns which vary from year to year largely because of differences each year in the degree of consumer acceptance of a product line, product availability, marketing strategies and inventory levels of retailers and differences in overall economic conditions. As a result, comparisons of unshipped orders on any date with those at the same date in a prior year are not necessarily indicative of sales for that entire given year. In addition, as more retailers move to

just-in-time inventory management practices, fewer orders are being placed in advance of shipment and more orders, when placed, are for immediate delivery. The Company's unshipped orders at March 3, 1995 and March 4, 1994 were approximately $170,000,000 and $150,000,000, respectively. Also, it is a general industry practice that orders are subject to amendment or cancellation by customers prior to shipment. The backlog at any date in a given year can be affected by programs the Company may employ to induce its customers to place orders and accept shipments early in the year. This method is a general industry practice. The programs the Company is employing to promote sales in 1995 are not substantially different from those employed in 1994.

As part of the traditional marketing strategies of the toy industry, many sales made early in the year are not due for payment until the fourth quarter, thus making it necessary for the Company to borrow significant amounts pending collection of these receivables. The Company relies on internally generated funds and short-term borrowing arrangements, including commercial paper, to finance its working capital needs. Currently, the Company has available to it unsecured lines of credit, which it believes are adequate, of approximately $1,400,000,000 including a $440,000,000 revolving credit agreement with a group of banks which is also used as a back-up to commercial paper issued by the Company.

## Research and Development

The Company's business is based to a substantial extent on the continuing development of new products and the redesigning of existing items for continuing market acceptance. In 1994, 1993 and 1992, approximately $135,406,000, $125,566,000 and $109,655,000, respectively, were incurred on activities relating to the development, design and engineering of new products and their packaging (including items brought to the Company by independent designers) and to the improvement or modification of ongoing products. Much of this work is performed by the Company's staff of designers, artists, model makers and engineers.

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

The Company also produces a number of toys under trademarks and copyrights utilizing the names or likenesses of Sesame Street, Walt Disney, Barney(TM) and other familiar movie, television and comic strip characters. Licensing fees are paid as a royalty on the Company's net sales of the item. Licenses for the use of characters are generally exclusive for specific products or product lines in specified territories. In many instances, advance royalties and minimum guarantees are required by character license agreements.

## Marketing and Sales

The Company's products are sold nationally and internationally to a broad spectrum of customers including wholesalers, distributors, chain stores, discount stores, mail order houses, catalog stores, department stores and other retailers, large and small. The Company and its subsidiaries employ their own sales forces which account for nearly all of the sales of their products. Remaining sales are generated by independent distributors who sell the Company's products principally in areas of the world where the Company does not otherwise maintain a presence. The Company maintains showrooms in New York and selected other major cities world-wide as well as at most of its subsidiary locations. Although there has been significant consolidation at the retail level over the last several years, in the United States and Canada, the Company has more than 2,000 customers, most of which are wholesalers, distributors or large chain stores. In other countries, the Company has in excess of 20,000 customers, many of which are individual retail stores. During 1994, sales to the Company's two largest customers represented 21% and 12%, respectively, of consolidated net revenues.

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

In 1994, the Company spent approximately $397,094,000 in advertising, promotion and marketing programs compared to $383,918,000 in 1993 and $377,219,000 in 1992.

## Manufacturing and Importing

The Company manufactures its products in facilities within the United States and various foreign countries (see "Properties"). Most of its toy products are manufactured from basic raw materials such as plastic and cardboard which are readily available. The Company's manufacturing process includes injection molding, blow molding, metal stamping, printing, box making, assembly and wood processing. In early 1994, the Company announced the planned closure of its manufacturing operation in The Netherlands with the transfer of its production to plants in Ireland and Spain. This closure was subsequently delayed until the first quarter of 1995. During the fourth quarter of 1994, the Company announced a consolidation of its domestic manufacturing facilities through the closure of one facility and the reduction of the workforce at a second location. The Company purchases certain components and accessories used in its toys and some finished items from domestic manufacturers as well as from manufacturers in the Far East, which is the largest manufacturing center of toys in the world, and other foreign countries. The Company believes that the manufacturing capacity of its facilities and the supply of components, accessories and completed products which it purchases from unaffiliated manufacturers is adequate to meet the foreseeable demand for the products which it markets. The Company's reliance on external sources of manufacturing can be shifted, over a period of time, to alternative sources of supply for products it sells, should such changes be necessary. However, if the Company is prevented from obtaining products from a substantial number of its current Far East suppliers due to political, labor and other factors beyond its control, the Company's operations would be disrupted while alternative sources of product were secured. While the recently rescinded trade sanctions proposed by the United States against the Peoples Republic of China did not affect any of the Company's products, the imposition of same by the United States against a class of products imported by the Company from China or the loss by the People's Republic of China of "most favored nation" trading status as granted by the United States, could significantly increase the cost of the Company's products imported into the United States from China. The Company anticipates that the implementation of the new General Agreement on Tariffs and Trade will reduce or eliminate customs duties on certain of the products imported by the Company.

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

Competition
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The Company's business is highly competitive and it competes with several large and many small domestic and foreign manufacturers. The Company is a worldwide leader in the design, manufacture and marketing of toys, games and infant care products.

Employees
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The Company employs approximately 12,500 persons worldwide, approximately 7,000 of whom are located in the United States.

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

Government Regulation
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The Company's toy products sold in the United States are subject to the provisions of the Consumer Product Safety Act (the "CPSA"), The Federal Hazardous Substances Act (the "FHSA") and the regulations promulgated thereunder. The CPSA empowers the Consumer Product Safety Commission (the "CPSC") to take action against hazards presented by consumer products, including the formulation and implementation of regulations and uniform safety standards. The CPSC has the authority to seek to declare a product "a banned hazardous substance" under the CPSA and to ban it from commerce. The CPSC can file an action to seize and condemn an "imminently hazardous consumer product" under the CPSA and may also order equitable remedies such as recall, replacement, repair or refund for the product. The FHSA provides for the repurchase by the manufacturer of articles which are banned. Similar laws exist in some states and cities and in Canada, Australia and Europe. The Company maintains a laboratory which has testing and other procedures intended to maintain compliance with the CPSA and FHSA. Notwithstanding the foregoing, there can be no assurance that all of the Company's products are or will be hazard free. While the Company neither has had any material product recalls nor knows of any currently, should any such problem arise, it could have an effect on the Company depending on the product and could affect sales of other products.

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

(c) Financial Information About Foreign and Domestic Operations and Export Sales

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

## ITEM 2. PROPERTIES

| Location | Use | Square Feet | Type of Possession | Lease Expiration Dates |
| --- | --- | --- | --- | --- |
| **Rhode Island** | | | | |
| Pawtucket | Executive, Sales & Marketing Offices & Product Development | 343,000 | Owned | -- |
| Pawtucket | Administrative Office | 23,000 | Owned | -- |
| Pawtucket | Manufacturing | 306,500 | Owned | -- |
| Central Falls | Manufacturing | 261,500 | Owned | -- |
| West Warwick | Warehouse | 402,000 | Leased | 1995 |
| East Providence | Administrative Office | 120,000 | Leased | 1999 |
| **Massachusetts** | | | | |
| East Longmeadow | Office, Manufacturing & Warehouse | 1,147,500 | Owned | -- |
| East Longmeadow | Office, Manufacturing & Warehouse | 254,400 | Owned | -- |
| East Longmeadow | Warehouse | 500,000 | Leased | 1998 |
| Beverly | Office | 100,000 | Owned | -- |
| **New Jersey** | | | | |
| Northvale | Office & Manufacturing | 75,000 | Leased | 2002 |
| Wayne | Manufacturing | 65,000 | Leased | 1995 |

| Location | Use | Square Feet | Type of Possession | Lease Expiration Dates |
| --- | --- | --- | --- | --- |
| **New York** | | | | |
| New York | Office & Showroom | 70,300 | Leased | 2000 |
| New York | Office & Showroom | 32,300 | Leased | 1999 |
| Arcade | Manufacturing | 15,000 | Leased | 1998 |
| Amsterdam | Manufacturing | 297,400 | Owned | -- |
| Orangeburg | Warehouse | 51,000 | Leased | 2002 |
| **Ohio** | | | | |
| Cincinnati | Office | 161,000 | Leased | 2007 |
| Cincinnati | Warehouse | 33,000 | Leased | 1999 |
| **Pennsylvania** | | | | |
| Lancaster | Warehouse | 464,000 | Owned (1) | -- |
| **South Carolina** | | | | |
| Easley | Manufacturing | 31,500 | Leased | 1997 |
| Easley | Manufacturing | 75,000 | Owned | -- |
| Easley | Manufacturing | 29,000 | Owned | -- |
| **Texas** | | | | |
| El Paso | Manufacturing & Warehouse | 373,000 | Owned | -- |
| El Paso | Manufacturing & Warehouse | 487,000 | Leased | 1998 |
| El Paso | Warehouse | 97,200 | Leased | 1995 |

| | | | | |
|---|---|---|---|---|
| El Paso | Warehouse | 100,000 | Leased | 1995 |
| **Vermont** | | | | |
| Fairfax | Manufacturing | 43,000 | Owned | -- |
| **Washington** | | | | |
| Seattle | Office & Warehouse | 125,100 | Leased(2) | 1995 |
| **Australia** | | | | |
| Lidcombe | Office & Warehouse | 161,400 | Leased | 2002 |
| Eastwood | Office | 16,900 | Leased | 1997 |
| **Austria** | | | | |
| Vienna | Office | 2,505 | Leased | 1997 |
| **Belgium** | | | | |
| Brussels | Office & Showroom | 16,700 | Leased | 1995 |

| Location | Use | Square Feet | Type of Possession | Lease Expiration Dates |
|---|---|---|---|---|
| **Canada** | | | | |
| Montreal | Office, Manufacturing & Showroom | 133,900 | Leased | 1997 |
| Montreal | Warehouse | 88,100 | Leased | 1997 |
| Mississauga | Sales Office & Showroom | 16,300 | Leased | 1998 |
| **Peoples Republic of China** | | | | |
| Guangzhou | Manufacturing | 22,900 | Leased | 1995 |
| **Denmark** | | | | |
| Copenhagen | Office | 5,900 | Leased | 1999 |
| **England** | | | | |
| Uxbridge | Office & Showroom | 94,500 | Leased | 2013 |
| Castlegate | Office & Manufacturing | 400,000 | Leased | 1997 |
| Paddock Wood | Office | 30,000 | Leased | 1995 |
| **France** | | | | |
| Le Bourget du Lac | Office, Manufacturing & Warehouse | 108,300 | Owned | -- |
| Savoie Technolac | Office | 33,500 | Owned | -- |
| Pantin | Office | 20,900 | Leased | 2001 |
| Creutzwald | Warehouse | 108,700 | Owned | -- |
| **Germany** | | | | |
| Fuerth | Office & Warehouse | 28,400 | Owned | -- |
| Soest | Warehouse | 78,800 | Owned | -- |
| Dietzenbach | Office | 30,400 | Leased | 1998 |
| Soest | Office & Warehouse | 156,300 | Owned | -- |
| **Greece** | | | | |
| Athens | Office & Warehouse | 176,500 | Leased | 1996 |
| Athens | Office | 26,900 | Leased | 1995 |
| **Hong Kong** | | | | |
| Kowloon | Office | 36,700 | Leased | 1995 |
| Kowloon | Office & Warehouse | 14,900 | Leased | 1995 |
| Kowloon | Office | 18,600 | Leased | 1996 |
| Kowloon | Office | 16,100 | Leased | 1996 |
| Harbour City | Office | 11,000 | Leased | 1996 |

| Location | Use | Square Feet | Type of Possession | Lease Expiration Dates |
| --- | --- | --- | --- | --- |
| Hungary | | | | |
| Budapest | Office | 3,700 | Leased | 1996 |
| Ireland | | | | |
| Waterford | Office, Manufacturing & Warehouse | 244,400 | Owned | -- |
| Italy | | | | |
| Milan | Office & Showroom | 12,100 | Leased | 1998 |
| Japan | | | | |
| Tokyo | Office | 10,800 | Leased | 1995 |
| Malaysia | | | | |
| Selangor Darul Ehsan | Office | 6,800 | Leased | 1995 |
| Mexico | | | | |
| Tijuana | Office & Manufacturing | 144,000 | Leased | 1995 |
| Tijuana | Warehouse | 45,000 | Leased | 1995 |
| Tijuana | Warehouse | 117,300 | Leased | 1995 |
| Reyna | Office | 61,000 | Leased | 1996 |
| Espana | Warehouse | 53,700 | Leased | 1996 |
| Venados | Warehouse | 59,100 | Leased | 1995 |
| Juarez | Manufacturing | 169,500 | Owned | -- |
| The Netherlands | | | | |
| Ter Apel | Office & Warehouse | 139,300 | Owned | -- |
| Utrecht | Sales Office & Showroom | 17,000 | Leased | 1996 |
| Emmen | Warehouse | 40,800 | Leased | 1995 |
| Emmen | Warehouse | 21,500 | Leased | 1995 |
| New Zealand | | | | |
| Auckland | Office, Manufacturing & Warehouse | 110,900 | Leased | 2005 |
| Portugal | | | | |
| Estoril-Lisboa | Office | 2,900 | Leased | 1995 |
| Singapore | | | | |
| Singapore | Office & Warehouse | 12,900 | Leased | 1995 |

| Location | Use | Square Feet | Type of Possession | Lease Expiration Dates |
| --- | --- | --- | --- | --- |
| Spain | | | | |
| Valencia | Office, Manufacturing & Warehouse | 115,100 | Leased | 1999 |
| Valencia | Manufacturing & Warehouse | 161,700 | Leased | 2002 |
| Valencia | Office | 46,300 | Leased | 1995 |
| Valencia | Warehouse | 21,500 | Leased | 1995 |
| Valencia | Warehouse | 94,400 | Owned | -- |
| Valencia | Warehouse | 43,000 | Leased | 1996 |
| Switzerland | | | | |
| Mutschellen | Office & Warehouse | 23,400 | Leased | 1995 |
| Taiwan | | | | |

| | | | | |
|---|---|---|---|---|
| TPE County | Warehouse | 9,800 | Leased | 1996 |
| **Wales** | | | | |
| Newport | Warehouse | 76,000 | Leased | 2003 |
| Newport | Warehouse | 52,000 | Owned | -- |

(1) See ITEM 3. Legal Proceedings.

(2) In addition, at this location the Port of Seattle operates a 400,000 square foot distribution facility pursuant to an agreement with the Company.

In addition to the above listed facilities, the Company either owns or leases various other properties approximating 200,000 square feet which are utilized in its operations. The Company also either owns or leases an aggregate of approximately 650,000 square feet not currently being utilized in its operations. Most of these properties are being leased, subleased or offered for sublease or sale. A portion of this space not used in the Company's operations represent facilities used by Tonka Corporation units prior to its acquisition by the Company.

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

## ITEM 3. LEGAL PROCEEDINGS

The Company has been proceeding with an environmental clean-up (the clean-up) at its former manufacturing facility in Lancaster, Pennsylvania. This facility, a portion of which is being utilized for limited warehousing operations in 1994, was acquired in 1986 from the CBS Toys Division of CBS Inc. (CBS) in conjunction with the purchase of rights to selected products formerly marketed by CBS. Since 1992, the Company has been involved in a legal action against CBS to recover all costs associated with the clean-up and, on August 10, 1994, the U.S. District Court for the Eastern District of Pennsylvania entered a judgment in favor of the Company, awarding the Company all of its past and future costs associated with such clean-up. The Company and CBS subsequently negotiated and concluded a resolution of the matter involving CBS' waiver of its rights to appeal the judgment, a payment by CBS to the Company on account of costs to date associated with environmental remediation together with interest and certain litigation costs, CBS' undertaking responsibility for future remediation of the site, the termination by the Pennsylvania Department of Environmental Resources of the consent order directing the Company to undertake such responsibility and the Company's agreement to sell the site to CBS on or before April 15, 1995.

Preston Robert Tisch, a director of the Company, is also a director of CBS and Co-Chairman and Co-Chief Executive Officer of Loews Corporation, a major shareholder of CBS. By virtue of the foregoing, Mr. Tisch may be deemed to have an interest adverse to the Company with respect to the above-described action.

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

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

None.

## EXECUTIVE OFFICERS OF THE REGISTRANT

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

| Name | Age | Position and Office Held | Period Serving in Current Position |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Alan G. Hassenfeld | 46 | Chairman of the Board, President and Chief Executive Officer | Since 1989 |
| Barry J. Alperin (1) | 54 | Vice Chairman | Since 1990 |
| Harold P. Gordon (2) | 57 | Vice Chairman | Since 1995 |
| George R. Ditomassi, Jr.(3) | 60 | Chief Operating Officer, Games and International | Since 1990 |
| Alfred J. Verrecchia (4) | 52 | Chief Operating Officer, Domestic Toy Operations | Since 1990 |
| John T. O'Neill | 50 | Executive Vice President and Chief Financial Officer | Since 1989 |
| Norman C. Walker (5) | 56 | Executive Vice President and President, International | Since 1990 |
| Dan D. Owen (6) | 46 | President, Hasbro Toy Group | Since 1994 |
| E. David Wilson (7) | 57 | President, Hasbro Games Group | Since 1995 |
| Richard B. Holt (8) | 53 | Senior Vice President and Controller | Since 1992 |
| Donald M. Robbins (9) | 59 | Senior Vice President General Counsel and Corporate Secretary | Since 1992 |
| Phillip H. Waldoks (10) | 42 | Senior Vice President- Corporate Legal Affairs | Since 1992 |
| Russell L. Denton | 50 | Vice President and Treasurer | Since 1989 |

(1) Prior thereto, Co-Chief Operating Officer.

(2) Prior thereto, Partner, Stikeman, Elliott (law firm).

(3) Prior thereto, Group Vice President and President, Milton Bradley.

(4) Prior thereto, Co-Chief Operating Officer.

(5) Prior thereto, Senior Vice President and President - European Operations.

(6) Prior thereto, President, Playskool.

(7) Prior thereto, President, Milton Bradley.

(8) Prior thereto, Vice President and Controller.

(9) Prior thereto, Vice President/General Counsel and Secretary.

(10) Prior thereto, Vice President - Corporate Legal Affairs.

## PART II

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

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

### ITEM 6. SELECTED FINANCIAL DATA

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

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

AND RESULTS OF OPERATIONS

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEMS 10, 11, 12 and 13.

The information required by these items is included in registrant's definitive proxy statement for the 1995 Annual Meeting of Shareholders and is incorporated herein by reference, except that the sections under the headings (a) "Comparison of Five Year Cumulative Total Shareholder Return Among Hasbro, S&P 500 and Russell 1000 Consumer Discretionary Economic Sector" and accompanying material and (b) "Report of the Compensation and Stock Option Committee of the Board of Directors" in the definitive proxy statement shall not be deemed "filed" with the Securities and Exchange Commission or subject to Section 18 of the Securities Exchange Act of 1934.

PART IV

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

(a) Financial Statements, Financial Statement Schedules and Exhibits

(1) Financial Statements

Included in PART II of this report:

Independent Auditors' Report

Consolidated Balance Sheets at December 25, 1994 and December 26, 1993

Consolidated Statements of Earnings for the Three Fiscal Years Ended in December 1994, 1993 and 1992

Consolidated Statements of Shareholders' Equity for the Three Fiscal Years Ended in December 1994, 1993 and 1992

Consolidated Statements of Cash Flows for the Three Fiscal Years Ended in December 1994, 1993 and 1992

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules

Included in PART IV of this Report:

Report of Independent Certified Public Accountants on Financial Statement Schedule

For the Three Fiscal Years Ended in December 1994, 1993 and 1992:

Schedule VIII - Valuation and Qualifying Accounts and Reserves

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

(3) Exhibits

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

Exhibit

3. Articles of Incorporation and Bylaws

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

(b) Amended and Restated Bylaws of the Company.

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

(a) Revolving Credit Agreement, dated as of June 22, 1992, among the Company, certain banks (the "Banks"), and The First National Bank of Boston, as agent for the Banks (the "Agent"). (Incorporated by reference to Exhibit 4(a) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 27, 1992, File No. 1-6682.)

(b) Subordination Agreement, dated as of June 22, 1992, among the Company, certain subsidiaries of the Company, and the Agent. (Incorporated by reference to Exhibit 4(b) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 27, 1992, File No. 1-6682.)

(c) Amendment No. 1, dated as of April 1, 1994, to Revolving Credit Agreement among the Company, the Banks and the Agent. (Incorporated by reference to Exhibit 4 to the Company's Quarterly Report on Form 10-Q for the Period Ended March 27, 1994, File No. 1-6682.)

10. Material Contracts

(a) Lease between Hasbro Canada Inc. (formerly named Hasbro Industries (Canada) Ltd.) and Central Toy Manufacturing Co. ("Central Toy"), dated December 23, 1976. (Incorporated by reference to Exhibit 10.15 to the Company's Registration Statement on Form S-14, File No. 2-92550.)

(b) Lease between Hasbro Canada Inc. and Central Toy, together with an Addendum thereto, each dated as of May 1, 1987. (Incorporated by reference to Exhibit 10(f) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 27, 1987, File No. 1-6682.)

Executive Compensation Plans and Arrangements

(c) Employee Incentive Stock Option Plan. (Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8, File No. 2-78018.)

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

(e) Amendment No. 2 to Employee Incentive Stock Option Plan. (Incorporated by reference to Exhibit 10(n) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 27, 1987, File No. 1-6682.)

(f) Amendment No. 3 to Employee Incentive Stock Option Plan. (Incorporated by reference to Exhibit 10(o) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 25, 1988, File No. 1-6682.)

(g) Amendment No. 4 to Employee Incentive Stock Option Plan. (Incorporated by reference to Exhibit 10(s) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1989, File No. 1-6682.)

(h) Form of Incentive Stock Option Agreement for incentive stock options. (Incorporated by reference to Exhibit 10(o) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 27, 1987, File No. 1-6682.)

(i) Form of Non Qualified Stock Option Agreement under the Employee Incentive Stock Option Plan. (Incorporated by reference to Exhibit 10(q) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 25, 1988, File No. 1-6682.)

(j) Non Qualified Stock Option Plan. (Incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form 14, File No. 2-92550.)

(k) Amendment No. 1 to Non Qualified Stock Option Plan. (Incorporated by reference to Exhibit 10(j) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 28, 1986, File No. 1-6682.)

(l) Amendment No. 2 to Non Qualified Stock Option Plan. (Incorporated by reference to Appendix A to the Company's definitive proxy statement for its 1987 Annual Meeting of Shareholders, File No. 1-6682.)

(m) Amendment No. 3 to Non Qualified Stock Option Plan. (Incorporated by reference to Exhibit 10(l) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1989, File No. 1-6682.)

(n) Form of Stock Option Agreement (For Employees) under the Non Qualified Stock Option Plan. (Incorporated by reference to Exhibit 10(t) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 27, 1992, File No. 1-6682.)

(o) 1992 Stock Incentive Plan (Incorporated by reference to Appendix A to the Company's definitive proxy statement for its 1992 Annual Meeting of Shareholders, File No. 1-6682.)

(p) Form of Stock Option Agreement (For Employees) under the 1992 Stock Incentive Plan. (Incorporated by reference to Exhibit 10(v) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 27, 1992, File No. 1-6682.)

(q) Form of Stock Option Agreement (For Participants in the Long Term Incentive Program) under the 1992 Stock Incentive Plan. (Incorporated by reference to Exhibit 10(w) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 27, 1992, File No. 1-6682.)

(r) Form of Employment Agreement, dated July 5, 1989, between the Company and six executive officers of the Company. (Incorporated by reference to Exhibit 10(v) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1989, File No. 1-6682.)

(s) Hasbro, Inc. Retirement Plan for Directors. (Incorporated by reference to Exhibit 10(x) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 30, 1990, File No. 1-6682.)

(t) Form of Director's Indemnification Agreement. (Incorporated by reference to Appendix B to the Company's definitive proxy statement for its 1988 Annual Meeting of Shareholders, File No. 1-6682.)

(u) Hasbro, Inc. Deferred Compensation Plan for Non-Employee Directors.(Incorporated by reference to Exhibit 10(cc) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 26, 1993, File No. 1-6682.)

(v) Hasbro, Inc. Stock Option Plan for Non-Employee Directors. (Incorporated by reference to Appendix A to the Company's definitive proxy statement for its 1994 Annual Meeting of Shareholders, File No. 1-6682.)

(w) Form of Stock Option Agreement for Non-Employee Directors under the Hasbro, Inc. Stock Option Plan for Non-Employee Directors.

(x) Hasbro, Inc. Senior Management Annual Performance Plan. (Incorporated by reference to Appendix B to the Company's definitive proxy statement for its 1994 Annual Meeting of Shareholders, File No. 1-6682.)

(y) Hasbro, Inc. Stock Incentive Performance Plan. (Incorporated by reference to Appendix A to the Company's definitive proxy statement for its 1995 Annual Meeting of Shareholders, File No. 1-6682.)

11. Statement re computation of per share earnings

12. Statement re computation of ratios

13. Selected information contained in Annual Report to Shareholders

22. Subsidiaries of the registrant

24. Consents of experts and counsel
    (a) Consent of KPMG Peat Marwick LLP

27. Financial data schedule

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

(b) Reports on Form 8-K

A Current Report on Form 8-K dated February 9, 1995 was filed to announce the Company's results for the quarter and year ended December 25, 1994. Consolidated statements of earnings (without notes) for the quarter and year ended December 25, 1994 and December 26, 1993 and consolidated condensed balance sheets (without notes) as of said dates were also filed.

(c) Exhibits

See (a)(3) above

(d) Financial Statement Schedules

See (a)(2) above

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Hasbro, Inc.:

Under date of February 8, 1995, we reported on the consolidated balance sheets of Hasbro, Inc. and subsidiaries as of December 25, 1994 and December 26, 1993 and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the fiscal years in the three-year period ended December 25, 1994, as contained in the 1994 annual report to shareholders. These consolidated financial statements and our report thereon are incorporated by reference in the annual report on Form 10-K for the year 1994. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related financial statement schedule listed in Item 14 (a)(2). This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

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

/s/ KPMG Peat Marwick LLP

Providence, Rhode Island

February 8, 1995

SCHEDULE VIII

HASBRO, INC. AND SUBSIDIARIES

Valuation and Qualifying Accounts and Reserves

Fiscal Years Ended in December

(Thousands of Dollars)

| | Balance at Beginning of Year | Provision Charged to Costs and Expenses | Other Additions | Write-Offs Allowances Taken(a) | Balance at End of Year |
|---|---|---|---|---|---|
| Valuation accounts deducted from assets to which they apply - for doubtful accounts receivable: | | | | | |
| 1994 | $54,200 | 5,120 | - | (8,320) | $51,000 |
| 1993 | $52,200 | 13,078 | - | (11,078) | $54,200 |
| 1992 | $60,500 | 10,674 | - | (18,974) | $52,200 |

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HASBRO, INC. (Registrant)

By: /s/ Alan G. Hassenfeld    Date: March 24, 1995

Alan G. Hassenfeld
Chairman of the Board

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

| Signature | Title | Date |
|---|---|---|
| /s/ Alan G. Hassenfeld<br>Alan G. Hassenfeld | Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer) | March 24, 1995 |

| | | |
|---|---|---|
| /s/ John T. 0'Neill<br>----------------------------<br>John T. 0'Neill | Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer) | March 24, 1995 |
| /s/ Barry J. Alperin<br>----------------------------<br>Barry J. Alperin | Director | March 24, 1995 |
| /s/ Alan R. Batkin<br>----------------------------<br>Alan R. Batkin | Director | March 24, 1995 |
| /s/ George R. Ditomassi, Jr.<br>----------------------------<br>George R. Ditomassi, Jr. | Director | March 24, 1995 |
| /s/ Harold P. Gordon<br>----------------------------<br>Harold P. Gordon | Director | March 24, 1995 |
| /s/ Alex Grass<br>----------------------------<br>Alex Grass | Director | March 24, 1995 |
| /s/ Sylvia K. Hassenfeld<br>----------------------------<br>Sylvia K. Hassenfeld | Director | March 24, 1995 |
| /s/ Claudine B. Malone<br>----------------------------<br>Claudine B. Malone | Director | March 24, 1995 |
| /s/ Norma T. Pace<br>----------------------------<br>Norma T. Pace | Director | March 24, 1995 |
| /s/ E. John Rosenwald, Jr.<br>----------------------------<br>E. John Rosenwald, Jr. | Director | March 24, 1995 |
| /s/ Carl Spielvogel<br>----------------------------<br>Carl Spielvogel | Director | March 24, 1995 |
| /s/ Henry Taub<br>----------------------------<br>Henry Taub | Director | March 24, 1995 |
| /s/ Preston Robert Tisch<br>----------------------------<br>Preston Robert Tisch | Director | March 24, 1995 |
| /s/ Alfred J. Verrecchia<br>----------------------------<br>Alfred J. Verrecchia | Director | March 24, 1995 |

Annual Report on Form 10-K

for the Year Ended December 25, 1994

Exhibit Index

Exhibit
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   (a) Revolving Credit Agreement, dated as of June 22, 1992, among the Company, certain banks (the "Banks"), and The First National Bank of Boston, as agent for the Banks (the "Agent"). (Incorporated by reference to Exhibit 4(a) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 27, 1992, File No. 1-6682.)

   (b) Subordination Agreement, dated as of June 22, 1992, among the Company, certain subsidiaries of the Company, and the Agent. (Incorporated by reference to Exhibit 4(b) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 27, 1992, File No. 1-6682.)

   (c) Amendment No. 1, dated as of April 1, 1994, to Revolving Credit Agreement among the Company, the Banks and the Agent. (Incorporated by reference to Exhibit 4 to the Company's Quarterly Report on Form 10-Q for the Period Ended March 27, 1994, File No. 1-6682.)

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Ended December 27, 1987, File No. 1-6682.)

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(s) Hasbro, Inc. Retirement Plan for Directors. (Incorporated by reference to Exhibit 10(x) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 30, 1990, File No. 1-6682.)

(t) Form of Director's Indemnification Agreement. (Incorporated by reference to Appendix B to the Company's definitive proxy statement for its 1988 Annual Meeting of Shareholders, File No. 1-6682.)

(u) Hasbro, Inc. Deferred Compensation Plan for Non-Employee Directors. (Incorporated by reference to Exhibit 10(cc) to the Company's Annual Report on Form 10-K for the Fiscal Year Ended December 26, 1993, File No. 1-6682.)

(v) Hasbro, Inc. Stock Option Plan for Non-Employee Directors. (Incorporated by reference to Appendix A to the Company's definitive proxy statement for its 1994 Annual Meeting of Shareholders, File No. 1-6682.)

(w) Form of Stock Option Agreement for Non-Employee Directors under the Hasbro, Inc. Stock Option Plan for Non-Employee Directors.

(x) Hasbro, Inc. Senior Management Annual Performance Plan. (Incorporated by reference to Appendix B to the Company's definitive proxy statement for its 1994 Annual Meeting of Shareholders, File No. 1-6682.)

(y) Hasbro, Inc. Stock Incentive Performance Plan. (Incorporated by reference to Appendix A to the Company's definitive proxy statement for its 1995 Annual Meeting of Shareholders, File No. 1-6682.)

11. Statement re computation of per share earnings

12. Statement re computation of ratios

13. Selected information contained in Annual Report to Shareholders

22. Subsidiaries of the registrant

24. Consents of experts and counsel
    (a) Consent of KPMG Peat Marwick.

27. Financial data schedule

Exhibit 3(b)

# AMENDED AND RESTATED BY-LAWS of HASBRO, INC.

(as amended from time to time and restated by the Board of Directors as of February 17, 1995)

## ARTICLE I

## OFFICES

Section 1.1. The office of Hasbro, Inc. (the "Corporation") within the State of Rhode Island shall be located in the City of Pawtucket, County of Providence.

Section 1.2. Other Offices. The Corporation may also have offices and places of business at such other places within or without the State of Rhode Island as the Board of Directors may from time to time determine or the business of the Corporation may require.

## ARTICLE II

## MEETINGS OF SHAREHOLDERS

Section 2.1. Place. All meetings of shareholders of the Corporation shall be held at such place within or without the State of Rhode Island as shall be stated in the notice of the meeting.

Section 2.2. Annual Meeting. Commencing with the year 1995, a meeting of the shareholders of the Corporation shall be held annually on the second Wednesday in the month of May of each year, if not a legal holiday, and if a legal holiday, then on the next secular day following, or on such other date and at such time and place as the Board of Directors shall determine, and at such meeting, the shareholders shall transact such business as may properly be brought before the meeting.

Section 2.3. Special Meetings. Special meetings of the shareholders of the Corporation, for any purpose or purposes, unless otherwise prescribed by statute or by the Restated Articles of Incorporation (the "Articles of Incorporation"), may be called by the Chairman of the Board, any Vice Chairman, any Chief Operating Officer, the President, or the Board of Directors.

Section 2.4. Notice of Meetings. Written notice of each meeting of shareholders of the Corporation stating the place, date and hour thereof, and in the case of a special meeting of shareholders, specifying the purpose or purposes thereof, and the person or persons by whom or at whose direction such meeting has been called, shall be given to each shareholder entitled to vote thereat, at his address as it appears on the records of the Corporation, not less than ten (10) nor more than sixty (60) days prior to the meeting.

Section 2.5. Quorum. At each meeting of the share holders of the Corporation, the holders of a majority of shares of the Corporation entitled to vote thereat, present in person or by proxy, shall constitute a quorum, except as may be otherwise provided by the Articles of Incorporation or these By-Laws. If, however, a quorum shall not be present on the date specified in the original notice of meeting, the shareholders entitled to vote thereat, present in person or by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present. At any such adjourned meeting, at which a quorum shall be present, the shareholders, present in person or by proxy, may transact any business which might have been transacted had a quorum been present on the date specified in the original notice of meeting.

Section 2.6. Voting. At any meeting of the share holders of the Corporation, each shareholder having the right to vote shall be entitled to vote in person or by proxy appointed by an instrument in writing subscribed by such shareholder. Except as may be otherwise provided by the Articles of Incorporation, each holder of record of Common Stock shall be entitled to one vote for every share of such stock standing in his name on the books of the Corporation. All elections of directors by shareholders shall be determined by a plurality vote and, except as otherwise provided by statute, the Articles of Incorporation or Article XII of these By-Laws, all other matters shall be decided by the vote of the holders of a majority of the stock having voting power and represented in person or by proxy at such meeting.

Section 2.7. Proxies. Each proxy shall be executed in writing by the shareholder or by his duly authorized attorney. No proxy shall be valid after the expiration of eleven (11) months from the date of its execution unless it shall have specified therein a longer duration. Each proxy shall be revocable at the pleasure of the person executing it or of his personal representatives, except in those cases where an irrevocable proxy is permissible under applicable law.

Section 2.8. Consents. Action shall be taken by the shareholders only by unanimous written consent or at annual or special meetings of shareholders of the Corporation except that, if and with the percentage of the outstanding Preference Stock or any series thereof (the "Required Percentage") set forth in the resolution or resolutions adopted by the Board of Directors with respect to the Preference Stock, action may be taken without a meeting, without prior notice and without a vote, if consent in writing setting forth the action so taken, shall be signed by the holders of the Required Percentage of the outstanding Preference Stock or any series thereof entitled to vote thereon.

Section 2.9. Shareholder Proposals. Any new business proposed by any shareholder to be taken up at the annual meeting of shareholders shall be stated in writing and filed with the Secretary of the Corporation at least 150 days before the date of the annual meeting, and all business so stated, proposed and filed shall, if appropriate under applicable law, be considered at the annual meeting, but no other proposal shall be acted upon at the annual meeting. These provisions shall not prevent the consideration and approval or disapproval at the annual meetings of reports of officers, directors and committees, but in connection with such reports no new business shall be acted upon at such annual meeting unless stated and filed as herein provided. The business to be taken up at a special meeting of shareholders shall be confined to that set forth in the notice of special meeting.

## ARTICLE III

## DIRECTORS

Section 3.1. Board of Directors. The property and business of the Corporation shall be managed by its Board of Directors, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not, by statute or by the Articles of Incorporation or by these By-Laws, directed or required to be exercised or done by the shareholders. Directors need not be shareholders.

Section 3.2. Number. The number of directors of the Corporation (exclusive of directors that may be elected by the holders of any one or more series of the Preference Stock voting separately as a class or classes) that shall constitute the entire Board of Directors (the "Entire Board of Directors") shall be 17, unless otherwise determined from time to time by resolution adopted by the affirmative vote of a majority of the Entire Board of Directors, except that if an Interested Person (as hereinafter defined in Article XIII of these By-Laws) exists, such majority must include the affirmative vote of at least a majority of the Continuing Directors (as hereinafter defined in Article XIII of these By-Laws).

Section 3.3. Election. Directors shall be elected at the annual meeting of shareholders, or as otherwise provided in the Articles of Incorporation or in these By-Laws.

Section 3.4. Term of Office, Classes. Except with respect to any directors elected by holders of any one or more series of Preference Stock voting separately as a class or classes, the Board of Directors shall be divided into three (3) classes in respect of term of office, designated Class I, Class II and Class III. Each class shall contain one-third (1/3) of the Entire Board of Directors, or such other number that will cause all three (3) classes to be as nearly equal in number as possible, with the terms of office of one class expiring each year. At the annual meeting of shareholders in 1985, directors of Class I shall be elected to serve until the annual meeting of shareholders to be held in 1986; the directors of Class II shall be elected to serve until the annual meeting of shareholders to be held in 1987; and the directors of Class III shall be elected to serve until the annual meeting of shareholders to be held in 1988; provided that in each case, directors shall continue to serve until their successors shall be elected and shall qualify or until their earlier death, resignation or removal. At each subsequent annual meeting of shareholders, one (1) class of directors shall be elected to serve until the annual meeting of shareholders held three (3) years next following and until their successors shall be elected and shall qualify or until their earlier death, resignation or removal. No decrease in the number of directors shall have the effect of shortening the term of office of any incumbent director. Any increase or decrease in the number of directors shall be apportioned among the classes so as to make all classes as nearly equal in number as possible.

Section 3.5. Removal. Except as otherwise required by law and subject to the terms of any one or more classes or series of outstanding capital stock of the Corporation, any director may be removed; provided, however, such removal must be for cause and must be approved by at least a majority vote of the Entire Board of Directors or by at least a majority of the votes held by the holders of shares of the Corporation then entitled to be voted at an election for that director, except that if an Interested Person exists, such removal must be approved (1) by at least a majority vote of the Entire Board of Directors, including a majority of the Continuing Directors, or (2) by at least 80% of the votes held by the holders of shares of the Corporation then entitled to be voted at an election for that director, including a majority of the votes held by holders of shares of the Corporation then entitled to vote at an election for that director that are not beneficially owned or controlled, directly or indirectly, by any Interested Person. For purposes of this Section 3.5, the Entire Board of Directors will not include the director who is the subject of the removal determination, nor will such director be entitled to vote thereon. However, nothing in the preceding sentence shall be construed as preventing a director who is the subject of removal determination (but who has not yet actually been removed in accordance with this Section 3.5) from voting on any other matters brought before the Board of Directors, including, without limitation, any removal determination with respect to any other director or directors.

Section 3.6. Vacancies. Except as otherwise provided by the terms of any one or more classes or series of outstanding capital stock of the Corporation, any vacancy occurring on the Board of Directors, including any vacancy created by reason of any increase in the number of directors, shall be filled by the affirmative vote of at least a majority of the remaining directors, whether or not such remaining directors constitute a quorum, except that if an Interested Person exists, such majority of the remaining directors must include a majority of the Continuing Directors. A director elected to fill a vacancy shall serve for the unexpired term of his or her predecessor in office.

## ARTICLE IV

## MEETINGS OF THE BOARD

Section 4.1. Time and Place. Meetings of the Board of Directors may be held either within or without the State of Rhode Island. Regular meetings of the Board of Directors may be held without notice at such time and place as shall from time to time be determined by the Board. Each special meeting of the Board of Directors shall be held at such time and place as shall be stated in the notice of the meeting.

Section 4.2. First Meeting. The first meeting of each newly elected Board of Directors shall be held within ten (10) days following each annual meeting of the shareholders, at such time and place either within or without the State of Rhode Island, as shall be announced at the annual meeting of share holders, and no notice of such meeting shall be necessary to the newly elected directors in order legally to constitute the meeting, provided a quorum shall be present.

Section 4.3. Special Meetings. Special meetings of the Board of Directors may be called by the Chairman of the Board, any Vice Chairman, any Chief Operating Officer, the President, or the Secretary, and at the written request of any two (2) directors, shall be called by the Secretary. Written notice of each special meeting of directors, stating the time and place thereof, shall be served upon each director, personally, by mail or by telegraph, at least two (2) days before such meeting.

Section 4.4. Quorum and Voting. At all meetings of the Board of Directors a majority of the entire Board of Directors shall be necessary and sufficient to constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board of Directors, except as may be otherwise specifically provided by statute, by the Articles of Incorporation or by these By-Laws. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without further notice other than announcement at the meeting, until a quorum shall be present.

Section 4.5. Telephone Conference Meetings. Meetings of the directors may be held by means of a telephone or similar communications equipment, by means of which all persons participating in the meeting can hear each other at the same time and participation by such means shall constitute presence in person at a meeting.

Section 4.6. Consents. Any action allowed or required to be taken at a meeting of the Board of Directors or by any committee thereof, may be taken without a meeting if a consent in writing, setting forth the action so taken, is signed before or after such action by all of the directors, or all of the members of the committee, as the case may be.

## ARTICLE V

## COMMITTEES OF DIRECTORS

Section 5.1. Designation; Powers. The Board of Directors may, by resolution or resolutions adopted by a majority of the Entire Board of Directors, designate from among its members an Executive Committee, or other Committees, each consisting of three (3) or more directors, and each of which, to the extent provided in any such resolution, shall have all the authority of the Board, except as provided by law, the Articles of Incorporation or these By-Laws. The Board of Directors may designate one or more directors as alternate members of any such Committee who may replace any absent member or members at any meeting of such Committee.

Section 5.2. Tenure and Reports. Each such Committee shall serve at the pleasure of the Board of Directors. It shall keep minutes of its meetings and report the same to the Board.

## ARTICLE VI

## NOTICES

Section 6.1. Delivery of Notices. Notices to directors and shareholders shall be in writing and may be delivered personally or by mail. Notice by mail shall be deemed to be given at the time when the same shall be deposited in the post office or a letter box, in a postpaid, sealed wrapper, and shall be addressed to directors or shareholders at their addresses appearing on the books of the Corporation. Notice to directors may also be given by telecopy.

Section 6.2. Waiver of Notice. Whenever any notice is required to be given by any statute, the Articles of Incorporation or these By-Laws, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto. Any shareholder attending a meeting of shareholders in person or by proxy, or any director attending a meeting of the Board of Directors or any committee thereof, without protesting such lack of notice prior to the meeting or at its commencement, shall be deemed conclusively to have waived notice of such meeting. Any shareholder signing a unanimous or other written consent pursuant to Section 2.8 hereof or any director signing a unanimous written consent pursuant to Section 4.6 hereof shall be deemed conclusively to have waived notice of the action taken by such consent.

## ARTICLE VII

## OFFICERS

Section 7.1. Officers. The officers of the Corporation shall be a Chairman of the Board, one or more Vice Chairmen, a Chief Operating Officer--Domestic Toy Operations, a Chief Operating Officer--Games and International (each of said Chief Operating Officers being sometimes referred to in these By-Laws as a "Chief Operating Officer" and both of said officers being sometimes referred to as "Chief Operating Officers"), a President, one or more Vice Presidents, a Treasurer, a Controller and a Secretary, each of whom shall be elected annually by the directors at their annual meeting, and shall hold office at the pleasure of the Board of Directors. Any person may hold two or more such offices.

Section 7.2. Additional Officers. The Board of Directors may appoint such other officers and agents, including, without limitation, Assistant Vice Presidents, Assistant Secretaries, Assistant Treasurers and Assistant Controllers with such powers and duties as it shall deem necessary or appropriate. All such officers or agents shall hold office at the pleasure of the Board of Directors.

Section 7.3. Authorities and Duties. All officers, as between themselves and the Corporation, shall have such authority and perform such duties in the management of the Corporation as may be provided in these By-Laws, or, to the extent not so provided, as may be prescribed by the Board of Directors.

Section 7.4. Salaries. The salaries or other com- pensation of all officers of the Corporation shall be fixed by the Board of Directors. The salaries or other compensation of all other employees and agents of the Corporation may be fixed by the Board of Directors. However, the Board of

Directors may delegate to one or more officers or employees authority to employ and to fix the salaries or other compensation of any such employees or agents.

Section 7.5. The Chairman of the Board. The Chairman of the Board shall preside at all meetings of the Board of Directors and shall have such powers and perform such duties as may from time to time be assigned to him by the Board of Directors.

Section 7.6. The Vice Chairman. In the absence of the Chairman of the Board, the Vice Chairman (and if there is more than one Vice Chairman, the Vice Chairmen in order of their seniority or as otherwise determined by the Board) shall preside at all meetings of the Board of Directors and shall have such powers and perform such duties as may from time to time be assigned to him by the Board of Directors.

Section 7.7. The Chief Operating Officers. In the absence of the Chairman of the Board and any Vice Chairman, any Chief Operating Officer (and if there is more than one Chief Operating Officer, in order of their seniority or as otherwise determined by the Board) shall preside at all meetings of the Board of Directors and shall have such powers and perform such duties as may from time to time be assigned to him by the Board of Directors.

Section 7.8. The President. In the absence of the Chairman of the Board, any Vice Chairman and the Chief Operating Officers, the President shall preside at all meetings of the Board of Directors and shall have such powers and perform such duties as may from time to time be assigned to him by the Board of Directors.

Section 7.9. The Vice Presidents. The Vice Presidents in the order of their seniority, as indicated by their titles (Executive, Senior, etc.) or as otherwise determined by the Board of Directors, shall, in the absence of the Chairman of the Board, any Vice Chairman, the Chief Operating Officers and the President, perform the duties and exercise the powers of the Chairman of the Board, the Vice Chairmen, the Chief Operating Officers and the President, shall perform such other duties as the Board of Directors shall prescribe and shall generally assist the Chairman of the Board, the Vice Chairmen, the Chief Operating Officers and the President.

Section 7.10. The Secretary. The Secretary shall attend meetings of the Board of Directors and shareholders and record all votes and the minutes of all proceedings in a book to be kept for that purpose and shall perform like duties for the standing committees of the Board of Directors when required. He shall give, or cause to be given, notice of meetings of the shareholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors, the Chairman of the Board, the Vice Chairmen, the Chief Operating Officers and the President, under whose collective supervision he shall be. He shall keep in safe custody the seal of the Corporation and, when authorized by the Board of Directors, affix the same to any instrument requiring it and, when so affixed, it shall be attested by his signature or by the signature of the Treasurer or an Assistant Secretary or Treasurer. He shall keep in safe custody the certificate books and stock books and such other books and papers as the Board of Directors may direct and shall perform all other duties incident to the office of Secretary.

Section 7.11. Assistant Secretaries. The Assistant Secretaries shall, in the absence or disability of the Secretary, perform the duties and exercise the powers of the Secretary and shall perform such other duties as the Board of Directors shall prescribe.

Section 7.12. The Treasurer. The Treasurer shall have the care and custody of the corporate funds, and other valuable effects, including securities, and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board, taking proper vouchers for such disbursements, and shall render to the Chairman of the Board, the Vice Chairmen, the Chief Operating Officers, the President and the Board of Directors, at the regular meetings of the Board, or whenever they may require it, an account of all his transactions as Treasurer and of the financial condition of the Corporation. If required by the Board of Directors, the Treasurer shall give the Corporation a bond for such term, in such sum and with such surety or sureties as shall be satisfactory to the Board for the faithful performance of the duties of his office and for the restoration to the Corporation, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the Corporation.

Section 7.13. Assistant Treasurers. The Assistant Treasurer shall, in the absence or disability of the Treasurer, perform the duties and exercise the powers of the Treasurer and shall perform such other duties as the Board of Directors may prescribe.

Section 7.14. Execution of Instruments. Each of the Chairman of the Board, the Vice Chairmen, the Chief Operating Officers, the President and the Executive Vice Presidents shall have the power to sign on behalf of the Corporation bonds, notes, deeds, mortgages, guarantees and any and all contracts, agreements and instruments of a contractual nature pertaining to matters which arise in the normal conduct and ordinary course of the business of the Corporation, except in cases in which the signing and execution thereof shall have been expressly delegated by the Board of Directors of the Corporation to some other officer or agent of the Corporation.

## ARTICLE VIII

## CERTIFICATES OF STOCK

Section 8.1. Form. The certificates of stock of the Corporation shall be in such form as shall be determined by the Board of Directors and shall be numbered consecutively and entered in the books of the Corporation as they are issued. Each certificate shall exhibit the registered holder's name and the number and class of shares, and shall be signed by the Chairman of the Board, any Vice Chairman, any Chief Operating Officer, the President, any Executive Vice President, Senior Vice President, or Vice President and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary, and shall bear the seal of the Corporation or an engraved or printed facsimile thereof. Where any such certificate is signed by a transfer agent or by a registrar, the signature of the Chairman of the Board, any Vice Chairman, any Chief Operating Officer, the President, Executive Vice President, Senior Vice President, Vice President, Treasurer, Assistant Treasurer, Secretary or Assistant Secretary may be a facsimile. In case any officer, transfer agent or registrar, who has signed, or whose facsimile signature or signatures have been used on, any such certificate or certificates, shall cease to be such officer, transfer agent or registrar of the Corporation, whether because of death, resignation or otherwise, before such certificate or certificates have been delivered by the Corporation, such certificate or certificates may nevertheless be issued and delivered as though the person or persons who signed such certificate or certificates or whose facsimile signature or signatures have been used thereon had not ceased to be such officer, transfer agent or registrar of the Corporation.

Section 8.2. Registered Shareholders. The Corporation shall be entitled to (1) recognize the exclusive right of a person registered on its books as the owner of shares as entitled to receive dividends and notices of meetings of shareholders and to vote as such owner; and (2) hold liable for calls and assessments a person registered on its books as the owner of shares; and the Corporation shall not be bound to recognize any equitable or other claim to or interest in such shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise required by law.

Section 8.3. Lost Certificates. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed, and upon such other terms as the Board of Directors may prescribe; and the Board of Directors may, in its discretion and as a condition precedent to the issuance of a new certificate or certificates, require the owner of such lost, stolen or destroyed certificate or certificates, or his legal representative, to give the Corporation a bond in such sum and with such surety or sureties as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

Section 8.4. Record Date.

(a) For the purpose of determining the shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or to express consent to or dissent from any proposal without a meeting, or for the purpose of determining shareholders entitled to receive payment of any dividend or the allotment of any rights, or for the purpose of any other action, the Board may fix, in advance, a date as the record date for any such determination of shareholders. Such date shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other action.

(b) If no record date is fixed:

(1) The record date for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the day next preceding the day on which notice is given, or, if no notice is given, the day on which the meeting is held.

(2) The record date for determining shareholders for any purpose other than that specified in subparagraph (1) shall be at the close of business on the day on which the resolution of the Board relating thereto is adopted.

(c) When a determination of shareholders of record entitled to notice of or to vote at any meeting of shareholders has been made as provided in this section, such determination shall apply to any adjournment thereof, unless the Board fixes a new record date under this section for the adjourned meeting.

Section 8.5. Fractional Shares. The Corporation may (1) issue fractions of a share, (2) arrange for the disposition of fractional interests by those entitled thereto, (3) pay in cash the fair value of fractions of a share as of the time when those entitled to receive such fractions are determined, or (4) issue scrip in registered or bearer form which shall entitle the holder to receive a certificate for a full share upon the surrender of such scrip aggregating a full share. A certificate for a fractional share shall, but scrip shall not, unless otherwise provided therein, entitle the holder to exercise voting rights, to receive dividends thereon, and to participate in any of the assets of the Corporation in the event of liquidation. The Board of Directors may cause scrip to be issued subject to the condition that it shall become void if not exchanged for certificates representing full shares before a specified date, or subject to the condition that the shares for which scrip is exchangeable may be sold by the Corporation and the proceeds thereof distributed to the holders of scrip, or subject to any other conditions which the Board of Directors may deem advisable.

## ARTICLE IX

## GENERAL PROVISIONS

Section 9.1. Dividends. Subject always to the provisions of the law and the Articles of Incorporation, the Board of Directors shall have full power to determine whether any, and if any, what part of any, funds legally available for the payment of dividends shall be declared in dividends and paid to share holders; the division of the whole or any part of such funds of the Corporation shall rest wholly within the lawful discretion of the Board of Directors, and it shall not be required at any time, against such discretion, to divide or pay any part of such funds among or to the shareholders as dividends or otherwise; and the Board of Directors may fix a sum which may be set aside or reserved over and above the capital paid in of the Corporation as working capital for the Corporation or as a reserve for any proper purpose, and from time to time may increase, diminish, and vary the same in its absolute judgment and discretion.

Section 9.2. Fiscal Year. The fiscal year of the Corporation shall be determined by the Board of Directors.

Section 9.3. Seal. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Incorporated, Rhode Island". Said seal may be used by causing it or a facsimile thereof to be impressed, affixed or otherwise reproduced.

Section 9.4. Instruments for the Payment of Money. All checks or other instruments for the payment of money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

## ARTICLE X

## INDEMNIFICATION

Section 10.1. Without limiting the provisions of Section 10.2 , each person who at any time serves or shall have served as a director or officer of the Corporation or who, while a director or officer of the Corporation, is or was serving at the request of the Corporation as a member of any committee of the Board of Directors or as a director, officer, partner, trustee, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust, other enterprise or employee benefit plan shall be indemnified to the full extent permitted by Title 7-1.1-4.1 of the Rhode Island Business Corporation Act, as the same may be amended from time to time.

Section 10.2. Nothing contained in this ARTICLE X shall affect any rights to indemnification to which directors and officers may be entitled by agreement, vote of shareholders or disinterested directors or otherwise.

ARTICLE XI

AMENDMENTS

Section 11.1. Power to Amend. The Board of Directors is authorized to adopt, repeal, alter, amend or rescind these By- Laws by the affirmative vote of at least a majority of the Entire Board of Directors, except that if an Interested Person exists, such Board action must be taken by the affirmative vote of at least a majority of the Entire Board of Directors, including a majority of the Continuing Directors. The shareholders may adopt, repeal, alter, amend or rescind the By-Laws of the Corporation by the vote of at least 66-2/3% of the votes held by holders of shares of Voting Stock (as hereinafter defined) except that if an Interested Person exists, such shareholder action must be taken by the vote of at least 80% of the votes held by holders of shares of Voting Stock, including an Independent Majority of Shareholders (as hereinafter defined in Article XIII of these By-Laws).

ARTICLE XII

BUSINESS COMBINATIONS

Section 12.1. Subject to Section 12.2 of this Article XII, but notwithstanding any other provisions of these By-Laws or of the Articles of Incorporation or the fact that no vote for such a transaction may be required by law or that approval by some lesser percentage of shareholders may be permitted by law, neither the Corporation nor any Subsidiary shall be party to a Business Combination (as hereinafter defined in Article XIII of these By-Laws) unless all of the following conditions are met:

(1) After becoming an Interested Person and prior to the consummation of such Business Combination:

(a) such Interested Person shall not have acquired any newly issued shares of capital stock, directly or indirectly, from the Corporation or a Subsidiary (except upon exercise or conversion of warrants or other rights, including preemptive rights, or convertible securities acquired by an Interested Person prior to becoming an Interested Person or upon compliance with the provisions of this Article XII or as a result of a pro rata stock dividend or stock split);

(b) such Interested Person shall not have received the benefit, directly or indirectly (except proportionately as a shareholder), of any loans, advances, guarantees, pledges or other financial assistance or tax credits provided by the Corporation or a Subsidiary, or have made any major changes in the Corporation's business or equity capital structure;

(c) except as approved by a majority of the Continuing Directors, there shall have been (i) no reduction in the annual rate of dividends paid on Voting Stock (except as necessary to reflect a pro rata stock dividend or stock split) and (ii) an increase in such annual rate of dividends as necessary to reflect any reclassification (including any reverse stock split), recapitalization, reorganization or any similar transaction which has the effect of reducing the number of outstanding shares of Voting Stock; and

(d) such Interested Person shall have taken steps to insure that the Board of Directors of the Corporation included at all times representation by Continuing Directors proportionate to the ratio that the number of shares of Voting Stock (as hereinafter defined in Article XIII of these By-Laws) from time to time owned by shareholders who are not Interested Persons bears to all shares of Voting Stock outstanding at the time in question (with a Continuing Director to occupy any resulting fractional position among the directors); and

(2) The Business Combination shall have been approved by at least a majority of the Entire Board of Directors of the Corporation, including a majority of the Continuing Directors; and

(3) A shareholder's meeting shall have been called for the purpose

of approving the Business Combination and a proxy statement complying with the requirements of the Exchange Act, as amended, or any successor statute or rule, whether or not the Corporation is then subject to such requirements, shall be mailed to all shareholders of the Corporation not less than thirty (30) days prior to the date of such meeting for the purpose of soliciting shareholder approval of such Business Combination and shall contain at the front thereof, in a prominent place, (a) any recommendations as to the advisability (or inadvisability) of the Business Combination which the Continuing Directors may choose to state, and (b) the opinion of a reputable national investment banking firm as to the fairness (or lack thereof) of the terms of such Business Combination, from the point of view of the remaining shareholders of the Corporation (such investment banking firm to be engaged by a majority of the Continuing Directors solely on behalf of the remaining shareholders and paid a reasonable fee for their services, which fee shall not be contingent upon the consummation of the transaction); and

(4) The Business Combination shall have been approved by at least 80% of the votes held by the holders of the outstanding Voting Stock, including an Independent Majority of Shareholders.

Section 12.2. The approval requirements of Section 12.1 shall not apply to any particular Business Combination, and such Business Combination shall require only such affirmative shareholder vote as is required by law, any other provision of the Articles of Incorporation or of these By-Laws, the terms of any outstanding classes or series of capital stock of the Corporation or any agreement with any national securities exchange, if the Business Combination is approved by a majority of the Entire Board of Directors, including the affirmative vote of at least 66-2/3% of the Continuing Directors.

Section 12.3. The Board of Directors of the Corporation, when evaluating any offer of another Person (the "Offering Person") (i) to make a tender or exchange offer for any equity security of the Corporation or (ii) to effect any Business Combination (as defined in Article XIII of these By-Laws, except that for purposes of this Section 12.3 the term "Person" shall be substituted for the term "Interested Person"), shall, in connection with the exercise of the Board's judgment in determining what is in the best interests of the Corporation as a whole, be authorized to give due consideration to such factors as the Board of Directors determines to be relevant, including, without limitation:

(a) the relationships between the consideration offered by the Offering Person and (x) the market price of the Voting Stock over a period of years, (y) the current and future value of the Corporation as an independent entity and (z) political, economic and other factors bearing on securities prices and the Corporation's financial condition and future prospects;

(b) the interests of all of the Corporation's shareholders, including minority shareholders;

(c) whether the proposed transaction might violate federal, state, local or foreign laws;

(d) the competence, experience and integrity of the Offering Person and its management; and

(e) the social, legal and economic effects upon employees, suppliers, customers, licensors, licensees and other constituents of the Corporation and its Subsidiaries and on the communities in which the Corporation and its Subsidiaries operate or are located.

In connection with any such evaluation, the Board of Directors is authorized to conduct such investigations and to engage in such legal proceedings as the Board of Directors may determine.

Section 12.4. As to any particular transaction, the Continuing Directors shall have the power and duty to determine, on the basis of information known to them:

(a) The amount of Voting Stock beneficially owned by any Person (as hereinafter defined in Article XIII of these By-Laws);

(b) Whether a Person is an Affiliate (as herein after defined in Article XIII of these By-Laws) or Associate (as hereinafter defined in Article XIII of these By-Laws) of another;

(c) Whether a Person has an agreement, arrangement or understanding with, or is acting in concert with, another;

(d) Whether the assets subject to any Business Combination constitute a Substantial Part (as hereinafter defined in Article XIII of these By-Laws);

(e) Whether a proposed transaction is proposed, directly or indirectly, by or on behalf of any Person;

(f) Whether a proposed amendment of any Article of the Articles of Incorporation would have the effect of modifying or permitting circumvention of the provisions of Article Eighth through Twelfth of the Articles of Incorporation; and

(g) Such other matters with respect to which a determination is required under Articles Eighth through Twelfth of the Articles of Incorporation.

Any such determination shall be conclusive and binding for all purposes of the Articles of Incorporation and of these By-Laws.

Section 12.5. The affirmative votes required by this Article XII is in addition to the vote of the holders of any class or series of capital stock of the Corporation otherwise required by law, the Articles of Incorporation or these By-Laws, any resolution which has been adopted by the Board of Directors providing for the issuance of a class or series of capital stock or any agreement between the Corporation and any national securities exchange.

Section 12.6. Nothing contained in this Article XII shall be construed to relieve any Interested Person from any fiduciary or other obligation imposed by law.

## ARTICLE XIII

## DEFINITIONS

For the purposes of these By-Laws:

(1) The term "beneficial owner" and correlative terms shall have the meaning as set forth in Rule 13d-3 of the General Rules and Regulations (the "General Rules") promulgated by the Securities and Exchange Commission (the "Commission") under the Securities Exchange Act of 1934 (the "Exchange Act"), as in effect on June 5, 1985, except that the words "within sixty days" in Rule 13d-3(d)(1)(i) shall be omitted.

(2) The term "Business Combination" shall mean:

(a) any merger or consolidation of the Corporation or any Subsidiary (as hereinafter defined) (i) with an Interested Person, any Affiliate (as hereinafter defined) or Associate (as hereinafter defined) of an Interested Person or any Person (as hereinafter defined) acting in concert with an Interested Person (including, without limitation, any Person, which after such merger or consolidation, would be an Affiliate or Associate of an Interested Person), in each case irrespective of which Person is the surviving entity in such merger or consolidation, or (ii) proposed, directly or indirectly, by or on behalf of an Interested Person;

(b) any sale, lease, exchange, transfer, distribution to shareholders or other disposition, including, without limitation, a mortgage, pledge or other security device, by the Corporation or any Subsidiary (in a single transaction or a series of separate or related transactions) of all, substantially all or any Substantial Part (as hereinafter defined) of the assets or business of the Corporation or a Subsidiary (including, without limitation, any securities of a Subsidiary) (i) to or with an Interested Person, or (ii) proposed, directly or indirectly, by or on behalf of an Interested Person;

(c) the purchase, exchange, lease or other acquisition, including, without limitation, a mortgage, pledge or other security device, by the Corporation or any Subsidiary (in a single transaction or a series of separate or related transactions) of all, substantially all or any Substantial Part of the assets or business of (i) an Interested Person, or (ii) any Person, if such purchase, exchange, lease or other acquisition is proposed, directly or indirectly, by or on behalf of an Interested Person;

(d) the issuance of any securities, or of any rights, warrants or options to acquire any securities, by the Corporation or a Subsidiary to an Interested Person (except (i) as a result of a pro rata stock dividend or stock split, (ii) upon the exercise or conversion of warrants or other rights, including preemptive rights, or convertible securities acquired by an Interested Person prior to or simultaneously with becoming an Interested Person or (iii) upon conversion of publicly traded convertible securities of the Corporation) or the acquisition by the Corporation or a Subsidiary of any securities, or of any rights, warrants or options to acquire any securities, issued by an Interested Person;

(e) any plan or proposal for, or which has the effect of, the partial or complete liquidation, dissolution, spin off, split off or split up of the Corporation or any Subsidiary proposed, directly or indirectly, by or on behalf of an Interested Person;

(f) any of the following which has the effect, directly or indirectly, of increasing the proportionate amount of Voting Stock or capital stock of any Subsidiary thereof which is beneficially owned by an Interested Person: any reclassification of securities (including, without limitation, any reverse stock split) of the Corporation, any issuance of any Voting Stock or other securities of the Corporation, any recapitalization of the Corporation or any merger, consolidation or other transaction (whether or not with or into or otherwise involving an Interested Person); and

(g) any agreement, contract, understanding or other arrangement providing for any of the transactions described in this subsection (2) of this Article XIII.

(3) The term "Continuing Director" shall mean (i) a director serving continuously as a director of the Corporation from and including June 5, 1985; (ii) a person who was a member of the Board of Directors of the Corporation immediately prior to the time that any then existing Interested Person became an Interested Person, (iii) a person not affiliated with any Interested Person and designated (before or simultaneously with initially becoming a director) as a Continuing Director by at least a majority of the then Continuing Directors and (iv) a director deemed to be a Continuing Director in accordance with the last sentence of this subsection (3) of this Article XIII. All references to action by a specified percentage of the Continuing Directors shall mean a vote of such specified percentage of the total number of Continuing Directors of the Corporation at a meeting at which at least such specified percentage of the total number of Continuing Directors shall have been in attendance. Whenever a condition requires the act of a specified percentage of Continuing Directors, such condition shall not be capable of fulfillment unless there is at least one Continuing Director. If all of the capital stock of the Corporation is beneficially owned by one Person continuously for at least three consecutive years during which period at least three annual meetings of shareholders shall have taken place, at which meetings all of the Continuing Directors as defined in clauses (i)-(iii) above shall not have been reelected, all directors elected from and after such third consecutive year shall be deemed Continuing Directors.

(4) The term "Independent Majority of Shareholders" shall mean the majority of the votes held by holders of shares of the outstanding Voting Stock that are not beneficially owned or controlled, directly or indirectly, by any Interested Person.

(5) The term "Interested Person" shall mean (i) any Person, which, together with its "Affiliates" and "Associates" (as defined in Rule 12b-2 of the General Rules promulgated by the Commission under the Exchange Act, as in effect on June 5, 1985) and any Person acting in concert therewith, is the beneficial owner, directly or indirectly, of ten percent (10%) or more of the votes held by the holders of shares of Voting Stock, (ii) any Affiliate or Associate of an Interested Person, including, without limitation, a Person acting in concert therewith, (iii) any Person that at any time within the two year period immediately prior to the date in question was the beneficial owner, directly or indirectly, of ten percent (10%) or more of the votes held by the holders of shares of Voting Stock, or (iv) an assignee of, or successor to, any shares of Voting Stock which were at any time within the two-year period prior to the date in question beneficially owned by any Interested Person, if such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933, as amended. For purposes of determining the percentage of votes held by a Person, any Voting Stock not outstanding which is subject to any option, warrant, convertible security, preemptive or other right held by such Person (whether or not such option, warrant, convertible security, preemptive or other right is currently exercisable) shall be deemed to be outstanding for the purpose of computing the percentage of votes held by such Person.

Notwithstanding anything contained in the immediately preceding paragraph, the term "Interested Person" shall not include (A) a Subsidiary of the Corporation or (B) a Continuing Director who beneficially owned, on June 5, 1985, ten percent (10%) or more of the votes held by the holders of shares of Voting Stock and any Affiliate or Associate of one or more of such Continuing Directors. For purposes of Articles III and XI of these By-Laws, the term "Interested Person" shall not include any Person which shall have deposited all of its Voting Stock in a voting trust (only and for so long as the voting trust shall be continuing and all of such Person's Voting Stock shall remain deposited in the Voting Trust) pursuant to an agreement with the Corporation providing the Corporation with the power to appoint a majority of the voting trustees of the voting trust who, in turn, shall have the power to vote all of the shares of Voting Stock in the voting trust, in their discretion, for the election of directors of the Corporation and the amendment of the Articles of Incorporation and/or these By-Laws. The agreement by the Corporation with any Person described in the immediately preceding sentence to use its best efforts to elect one designee of such Person as a director and to cause the voting trustees appointed by the Corporation to vote for such designee shall not cause such Person to be deemed an Interested Person for purposes of Articles III and XI of these By-Laws.

A Person who is an Interested Person as of (x) the time any definitive agreement, or amendment thereto, relating to a Business Combination is entered into, (y) the record date for the determination of shareholders entitled to notice of and to vote on a Business Combination, or (z) immediately prior to the consummation of a Business Combination shall be deemed an Interested Person for purposes of this definition.

(6) The term "Person" shall mean any individual, corporation, partnership or other person, group or entity (other than the Corporation, any Subsidiary or a trustee holding stock for the benefit of employees of the Corporation or its Subsidiaries, or any one of them, pursuant to one or more employee benefit plans or arrangements). When two or more Persons act as a partnership, limited partnership, syndicate, association or other group for the purpose of acquiring, holding or disposing of securities, such partnership, syndicate, association or group will be deemed a "Person".

(7) The term "Subsidiary" shall mean any corporation or other entity fifty percent (50%) or more of the equity of which is beneficially owned by the Corporation; provided, however, that for purposes of the definition of Interested Person set forth in subsection (5) of this Article XIII and the definition of Person set forth in subsection (6) of this Article XIII, the term "Subsidiary" shall mean only a corporation of which a majority of each class of equity security is beneficially owned by the Corporation.

(8) The term "Substantial Part", as used in reference to the assets or business of any Person means assets or business having a value of more than ten percent (10%) of the total consolidated assets of the Corporation and its Subsidiaries as of the end of the Corporation's most recent fiscal year ending prior to the time the determination is made.

(9) For the purposes of determining the number of "votes held by holders" of shares, including Voting Stock, of the Corporation, each share shall have the number of votes granted to it pursuant to Article Fifth of the Articles of Incorporation of the Corporation.

(10) The term "Voting Stock" shall mean stock or other securities of the Corporation entitled to vote generally in the election of directors.

HASBRO, INC.

STOCK OPTION PLAN FOR
NON-EMPLOYEE DIRECTORS

STOCK OPTION AGREEMENT

AGREEMENT, made as of [date of grant], by and between HASBRO, INC., a Rhode Island Corporation (the "Company") and [name of non-employee director], an individual residing at [address] ("Optionee").

WHEREAS, Optionee is a non-employee director of the Company and is eligible to participate in the Company's Stock Option Plan for Non-Employee Directors (the "Plan") and

WHEREAS, the Company acting in accordance with the provisions of the Plan automatically granted to Optionee a stock option to purchase 5,000 shares of Common Stock of the Company, par value $.50 per share (the "Common Stock"), at a price of [       ] per Share, which is ten percent (10%) above the Fair Market Value (as defined in the Plan) of such Common Stock on the date of said grant, subject to and upon the terms and conditions set forth in the Plan and as hereinafter set forth
.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the parties hereto agree as follows:

W I T N E S S E T H:

1. The Company confirms the grant by the Company to the Optionee on [date of grant], pursuant to the Plan, a copy of which is annexed hereto as Exhibit A and the provisions of which are incorporated herein as if set forth in full, of a stock option to purchase all or any part of the number of shares of Common Stock, par value $.50 per share, of the Company (the "Shares"), described in paragraph 2 below (the "Option"), subject to and upon the terms and conditions set forth in the Plan and the additional terms and conditions hereinafter set forth. The Option is evidenced by this Agreement. In the event of any inconsistency between the provisions of this Agreement and the provisions of the Plan, the provisions of the Plan shall govern.

2. This Agreement relates to an Option to purchase 5,000 shares at an exercise price of [      ] per share (the "Exercise Price Per Share"). (Hereinafter, the term "Exercise Price" shall mean the Exercise Price Per Share multiplied by the number of shares being exercised.) Subject to the provisions of the Plan and of this Agreement, the Optionee shall be entitled to exercise the Option on a cumulative basis until the day preceding the tenth anniversary of the date of the grant in accordance with the following schedule:

| Period | Percent of Option Exercisable |
|---|---|
| [Date of Grant] to [Day before 1st anniversary of Grant] | 0% |
| [1st Anniversary of Grant] to [Day before 2nd Anniversary of Grant] | 20% |
| [2nd Anniversary of Grant] to [Day before 3rd Anniversary of Grant] | 40% |
| [3rd Anniversary of Grant] to [Day before 4th Anniversary of Grant] | 60% |
| [4th Anniversary of Grant] to [Day before 5th Anniversary of Grant] | 80% |
| [5th Anniversary of Grant] to [Day before 6th Anniversary of Grant] | 100% |

In determining the number of shares exercisable in accordance with the above table, fractional shares shall be disregarded.

3. In the event that Optionee wishes to purchase any of the shares then purchasable under the Option as provided in Paragraph 2 hereof, Optionee shall deliver or shall transmit by registered or certified mail to the Secretary of the Company (the "Secretary"), at its then principal office, a written notice, substantially in the form attached hereto as Exhibit B, as the same may be amended from time to time by the Committee, signed by Optionee, together with a check payable to Hasbro, Inc., in United States dollars, in the aggregate amount of the Exercise Price, or shares of Common Stock (duly endorsed to the Company or accompanied by an executed stock power, in each case with signatures guaranteed by a bank or broker) having a Fair Market Value (as defined in the Plan) equal to the Exercise Price, or a combination of such shares having a Fair Market Value less than the Exercise Price and a check in United States dollars for the balance of the Exercise Price, all as more fully described in said Exhibit B, provided, however, that there shall be no such exercise at any one time as to fewer than one hundred (100) shares other than

all remaining shares then purchasable by the Optionee, if fewer than one hundred(100) shares. In addition, unless an Optionee shall have made advance alternative arrangements satisfactory to the Secretary, each Optionee shall deliver to the Secretary, together with the written notice of exercise and payment of the Exercise Price as aforesaid, a check payable to Hasbro, Inc., in United States dollars, in the amount of any and all withholding taxes payable as a result of such exercise. Each Optionee shall consult with the Secretary of the Company or his designee in advance of exercise so as to determine the amount of withholding taxes due.

(a) Subject to the provision of subsection (b) hereof, an Optionee may elect to satisfy any withholding taxes payable as a result of such exercise (the "Taxes"), in whole or in part, either (i) by having the Company withhold from the shares of Common Stock to be issued upon exercise of the Option or (ii) delivering to the Company shares of Common Stock already owned by the Optionee (represented by stock certificates duly endorsed to the Company or accompanied by an executed stock power in each case with signatures guaranteed by a bank or broker), in each case in an amount whose Fair Market Value on the date of exercise is either equal to the Taxes or less than the Taxes, provided that a check payable to Hasbro, Inc. in United States dollars for the balance of the Taxes is also delivered to the Secretary at the time of exercise, all as more fully described in said Exhibit B. As soon as practicable after receipt of such notice and payment, the Company shall deliver or cause to be delivered to an Optionee a certificate or certificates for the shares in respect of which the Option was so exercised (less any shares deducted to pay Taxes in accordance with Optionee's election).

(b) Subject to the consent of the Compensation and Stock Option Committee (the "Committee") of the Board of Directors of the Company, an Optionee may irrevocably elect, by written notice, substantially in the form attached hereto as Exhibit C, as the same may be amended from time to time by the Committee, to pay Taxes with shares of Common Stock in accordance with subsection (a), provided that (i) no such election may be made earlier than six months after the date of grant of the Option or later than the date of exercise (the "Exercise Date"), and (ii) that the election is made either (x) within the ten business day period beginning on the third business day following the public release of the Company's quarterly or annual results of operations (the "window period") or (y) not less than six months prior to the Exercise Date. Exercises of Options need not take place during a window period, provided that elections to pay Taxes with shares take place within the time periods described in (x) or (y) above.

4. Optionee hereby represents and agrees that, unless the shares to be acquired upon any exercise of the Option may, at the time of such acquisition, be lawfully resold in accordance with a then currently effective registration statement or post-effective amendment to a registration statement under the Securities Act of 1993 as amended (the "Act"): (a) Optionee will acquire such shares for investment and not with a view to the distribution or public offering of all or any portion thereof, or any interest therein; (b) Optionee will make no sale or other disposition of such shares unless and until (i) the Company shall have received an opinion of legal counsel, which opinion is satisfactory to the Company's legal counsel in form and substance, that such sale or other disposition may be made without registration under the then applicable provisions of the Act and the rules and regulations of the Securities and Exchange Commission thereunder, or (ii) such shares shall thereafter be included in a then currently effective registration statement or post-effective amendment to a registration statement under the Act; and (c) the certificate or certificates delivered to evidence such shares shall bear an appropriate legend summarizing the foregoing representations and agreements. If so requested by the Company at the time of any exercise of the Option, the Optionee shall execute and deliver to the Company a written instrument confirming the foregoing representations and agreements, and acknowledging that Optionee understands the full implications under the Act and the various rules, regulations and published statements thereunder of a representation that the shares are being acquired for "investment," including, without limitation, the fact that there can be no assurance that Optionee will be able to transfer such shares in the future or that any such proposed transfer may be limited to specific numbers of shares or to specific time periods and may involve expense, delay, and the filing of certain information with the Securities and Exchange Commission, together with such other terms or conditions as shall be requisite in the judgment of the Company to comply with the applicable provisions of the Act.

5. Subject to the applicable provisions of the Plan, and particularly to Section 7.6 of the Plan, this Agreement shall be binding upon and shall inure to the benefit of Optionee, Optionee's successors and permitted assigns, and the Company and its successors and assigns.

6. This Agreement shall be construed and enforced in accordance with

the internal laws of the State of Rhode Island and Providence Plantations and applicable Federal law.

IN WITNESS WHEREOF, the Company and the Optionee have fully executed this agreement as of the day and year first above written.

ATTEST: HASBRO, INC.

-------------------- By: ---------------------

------------------------
Optionee

EXHIBIT 11

HASBRO, INC. AND SUBSIDIARIES

Computation of Earnings Per Share

(Thousands of Dollars and Shares Except Per Share Data)

| | 1994 | | 1993 | | 1992 | |
|---|---|---|---|---|---|---|
| | Primary | Fully Diluted | Primary | Fully Diluted | Primary | Fully Diluted |
| Net earnings before cumulative effect of change in accounting principles | $179,315 | 179,315 | 200,004 | 200,004 | 179,164 | 179,164 |
| Interest and amortization on convertible notes, net of taxes | - | 5,764 | - | 5,745 | - | 5,826 |
| Net earnings before cumulative effect of change in accounting principles applicable to common shares | 179,315 | 185,079 | 200,004 | 205,749 | 179,164 | 184,990 |
| Cumulative effect of change in accounting principles | (4,282) | (4,282) | - | - | - | - |
| Net earnings applicable to common shares | $175,033 | 180,797 | 200,004 | 205,749 | 179,164 | 184,990 |
| Weighted average number of shares outstanding: | | | | | | |
| Outstanding at beginning of period | 87,795 | 87,795 | 87,176 | 87,176 | 86,184 | 86,184 |
| Exercise of stock options and warrants: | | | | | | |
| Actual | 305 | 305 | 304 | 304 | 530 | 530 |
| Assumed | 1,529 | 1,529 | 2,551 | 2,647 | 2,372 | 2,790 |
| Assumed conversion of convertible notes | - | 5,114 | - | 5,114 | - | 5,114 |
| Purchase of common stock | (298) | (298) | - | - | - | - |
| Total | 89,331 | 94,445 | 90,031 | 95,241 | 89,086 | 94,618 |
| Per common share: | | | | | | |
| Earnings before cumulative effect of change in accounting principles | $ 2.01 | 1.96 | 2.22 | 2.16 | 2.01 | 1.96 |
| Cumulative effect of change in accounting principles | (.05) | (.05) | - | - | - | - |
| Net earnings | $ 1.96 | 1.91 | 2.22 | 2.16 | 2.01 | 1.96 |

EXHIBIT 12

HASBRO, INC. AND SUBSIDIARIES

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

(Thousands of Dollars)

| | 1994 | 1993 | 1992 | 1991 | 1990 |
|---|---|---|---|---|---|
| Earnings available for fixed charges: | | | | | |
| Net earnings | $175,033 | 200,004 | 179,164 | 81,654 | 89,182 |
| Add: | | | | | |
| Cumulative effect of change in accounting principles | 4,282 | - | - | - | - |
| Fixed charges | 44,280 | 42,839 | 48,050 | 52,801 | 23,185 |
| Taxes on income | 112,254 | 125,206 | 113,212 | 63,897 | 63,266 |
| Total | $335,849 | 368,049 | 340,426 | 198,352 | 175,633 |
| Fixed charges: | | | | | |
| Interest on long-term debt | $ 11,179 | 10,178 | 16,932 | 22,913 | 6,856 |
| Other interest charges | 19,610 | 19,636 | 18,959 | 19,417 | 9,620 |
| Amortization of debt expense | 429 | 386 | 623 | 267 | 47 |
| Rental expense representative of interest factor | 13,062 | 12,639 | 11,536 | 10,204 | 6,662 |
| Total | $ 44,280 | 42,839 | 48,050 | 52,801 | 23,185 |
| Ratio of earnings to fixed charges | 7.58 | 8.59 | 7.08 | 3.76 | 7.58 |

EXHIBIT 13

HASBRO, INC. AND SUBSIDIARIES

Selected Information Contained in
Annual Report to Shareholders

for the Year Ended December 25, 1994

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

The Company's Common Stock, Par Value $.50 per share (the "Common Stock"), is traded on the American and London Stock Exchanges. The following table sets forth the high and low sales prices as reported on the Composite Tape of the American Stock Exchange and the cash dividends declared per share of Common Stock for the periods listed.

| Period | Sales Prices High | Sales Prices Low | Cash Dividends Declared |
|---|---|---|---|
| 1993 | | | |
| 1st Quarter | $34 7/8 | 28 1/8 | $.06 |
| 2nd Quarter | 38 3/8 | 29 7/8 | .06 |
| 3rd Quarter | 39 5/8 | 34 | .06 |
| 4th Quarter | 40 1/8 | 35 1/8 | .06 |
| 1994 | | | |
| 1st Quarter | $36 5/8 | 33 3/8 | $.07 |
| 2nd Quarter | 36 1/8 | 28 1/8 | .07 |
| 3rd Quarter | 32 1/8 | 28 1/8 | .07 |
| 4th Quarter | 33 1/2 | 27 7/8 | .07 |

The approximate number of holders of record of the Company's Common Stock as of March 3, 1995 was 5,000.

### Dividends

Declaration of dividends is at the discretion of the Company's Board of Directors and will depend upon the earnings, financial condition of the Company and such other factors as the Board of Directors deems appropriate. Payment of dividends is further subject to restrictions contained in agreements relating to the Company's outstanding long-term debt. At December 25, 1994, under the most restrictive agreement the full amount of retained earnings is free of restrictions.

On February 17, 1995 the Company's Board of Directors declared a quarterly cash dividend on the Company's Common Stock of $.08 per share payable on May 19, 1995 to holders of record on May 5, 1995.

## SELECTED FINANCIAL DATA

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

| | Fiscal Year 1994 | 1993 | 1992 | 1991 | 1990 |
|---|---|---|---|---|---|
| Statement of Earnings Data: | | | | | |
| Net revenues | $2,670,262 | 2,747,176 | 2,541,055 | 2,141,096 | 1,520,032 |
| Net earnings before cumulative effect of change in accounting principles | $ 179,315 | 200,004 | 179,164 | 81,654 | 89,182 |
| Net earnings | $ 175,033 | 200,004 | 179,164 | 81,654 | 89,182 |
| Per Common Share Data: | | | | | |
| Net earnings before cumulative effect of change in accounting | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| principles | $ 2.01 | 2.22 | 2.01 | .94 | 1.02 |
| Net earnings | $ 1.96 | 2.22 | 2.01 | .94 | 1.02 |
| Cash dividends declared | $ .28 | .24 | .20 | .16 | .13 |

Balance Sheet Data:

| | | | | | |
|---|---|---|---|---|---|
| Total assets | $2,378,375 | 2,293,018 | 2,082,766 | 1,950,127 | 1,284,765 |
| Long-term debt | $ 150,000 | 200,510 | 206,189 | 380,304 | 56,912 |
| Ratio of Earnings to Fixed Charges (1) | 7.58 | 8.59 | 7.08 | 3.76 | 7.58 |
| Weighted Average Number of Common Shares | 89,331 | 90,031 | 89,086 | 86,983 | 87,119 |

(1) For purposes of calculating the ratio of earnings to fixed charges, fixed charges include interest, amortization of debt expense and one-third of rentals, and earnings available for fixed charges represent earnings before fixed charges and income taxes.

## MANAGEMENT'S REVIEW

### Summary

A percentage analysis of results of operations follows:

| | 1994 | 1993 | 1992 |
|---|---|---|---|
| Net revenues | 100.0% | 100.0% | 100.0% |
| Cost of sales | 43.5 | 43.0 | 43.1 |
| Gross profit | 56.5 | 57.0 | 56.9 |
| Amortization | 1.4 | 1.3 | 1.3 |
| Royalties, research and development | 10.2 | 10.2 | 9.8 |
| Advertising | 14.9 | 14.0 | 14.8 |
| Selling, distribution and administration | 18.5 | 18.1 | 18.2 |
| Restructuring | .5 | .6 | - |
| Interest expense | 1.1 | 1.1 | 1.4 |
| Other income, net | (1.0) | (.1) | (.1) |
| Earnings before income taxes and cumulative effect of change in accounting principles | 10.9 | 11.8 | 11.5 |
| Income taxes | 4.2 | 4.5 | 4.5 |
| Earnings before cumulative effect of change in accounting principles | 6.7 | 7.3 | 7.0 |
| Cumulative effect of change in accounting principles | (.1) | - | - |
| Net earnings | 6.6% | 7.3% | 7.0% |

(Thousands of Dollars Except Share Data)

### Results of Operations

Net revenues for 1994 were $2,670,262 compared to $2,747,176 and $2,541,055 for 1993 and 1992, respectively. Decreased consumer demand for two lines of licensed products, Barney(TM) and Jurassic Park(TM), which provided approximately $220,000 of revenues during 1993, was a major contributor to the decrease, with these items contributing less than $50,000 of revenues in 1994. Domestically, the games group, helped by the products acquired from Western Publishing, enjoyed another year of record revenues. New products, including Elefun(TM) and Gator Golf(R) received very favorable consumer acceptance, while the classics, such as Monopoly(R) and Scrabble(R) again demonstrated their staying power. Within the toy group, boy's toys were led by the continued strength of the Batman(R) action figures and the new Ricochet(TM) remote-controlled vehicle. In the girl's/activity area, the Fantastic Sticker Maker(TM) enjoyed a successful first year while the Littlest Pet Shop(R) items continued to be strong and the redesigned Easy Bake(R) Oven was well accepted. In the infant and preschool arena, Playskool's In-Line Skates had a good second year and its new 4-in-1 Busy(R) Center was very well received. The Company's growth in the international marketplace approximated 10% in 1994 following a marginal decrease experienced in 1993. European growth was led by the U.K., France, Italy and Spain while elsewhere Mexico was the most significant, in local currency up more than 60%. During 1994, changed foreign currency rates had a positive impact of approximately $19,000 while in 1993 they negatively affected revenues by approximately $107,000.

The Company's gross profit margin decreased marginally to 56.5% from 57.0% in 1993 and 56.9% in 1992. The decrease in 1994 results from a combination of factors including increased tooling charges and a lower volume of promotional products.

Amortization expense, which includes amortization of both intellectual property rights and cost in excess of net assets acquired, of $36,903 compares with $35,366 in 1993 and $33,528 in 1992. These increases were attributable to the acquisitions during 1994 and 1993.

Expenditures for royalties, research and development decreased to $273,039 from $280,571 in 1993 while in 1992, they were $249,851. Included in these amounts are expenditures for research and development of $135,406 in 1994, $125,566 in 1993 and $109,655 in 1992. As percentages of net revenues, research and development was 5.1% in 1994, 4.6% in 1993 and 4.3% in 1992. The increased percentages in both 1994 and 1993 were largely attributable to the Company's efforts to remain competitive in a changing technological environment. The decreased royalties in 1994, both in amount and as a percentage of net revenues, were primarily attributable to the reduced revenues from promotional products, which generally have higher royalty rates. The 1993 increase over 1992 was largely due to the higher revenues from those same products.

During 1994, the Company completed a restructuring of its Domestic Toy group, merging its Hasbro Toy, Playskool, Playskool Baby, Kenner and Kid Dimension units into one organization, the Hasbro Toy Group, and also announced a consolidation of its domestic manufacturing facilities. To provide for these and other immaterial restructuring costs, the Company recorded a $12,500 pretax charge during the third quarter. In January 1994, the Company announced the planned closure of its Netherlands manufacturing facility. During the fourth quarter of 1993, the Company recorded a $15,500 charge related to this planned closure and other non-recurring reorganization expenses classified as restructuring charges. Both amounts include facility costs, severance and other related costs.

Interest expense was $30,789 during 1994 compared to $29,814 during 1993 and $35,891 in 1992. The increase during the current year reflected the effect of increased interest rates partially offset by the availability of funds generated from operations during 1993. The decrease in 1993 from 1992 was largely reflective of the lower average borrowings outstanding and the lower interest rates experienced during 1993.

Other income of $26,681 in 1994 compares with $3,836 and $3,729 in 1993 and 1992, respectively. During 1994, the Company liquidated its investment in J.W. Spear & Sons PLC (Spear) and sold its investment in Virgin Interactive Entertainment plc (Virgin). The gains on these two transactions were the primary cause of the change from 1993.

Income tax expense as a percentage of pretax earnings in 1994 remained constant at 38.5% after decreasing from 38.7% in 1992. The 1993 decrease was primarily attributable to two factors; an increase resulting from the U.S. federal rate changing from 34% to 35%, partially offset by the impact of this change on domestic net deferred tax assets, and a decrease resulting from lower effective state tax rates.

## Liquidity and Capital Resources

The Company continued to have a strong and highly liquid balance sheet with cash and cash equivalents of $137,028 at December 25, 1994. Cash and cash equivalents were $186,254 and $125,953 at December 26, 1993 and December 27, 1992, respectively.

During 1994, the Company generated $283,785 of net cash from its operating activities compared with $217,237 in 1993 and $229,810 in 1992. Included in this amount in 1994 was $13,176 from changes in operating assets and liabilities, primarily inventories, reflecting the Company's efforts to more closely coordinate supply and demand. In both 1993 and 1992 the change in operating assets and liabilities was negative, largely due to increased levels of fourth quarter sales in those years, significant portions of which did not become due until after the end of the Company's fiscal year.

Cash flows from investing activities were a net use of funds during all three reported years; $244,178, $126,001 and $93,994 in 1994, 1993 and 1992, respectively. During each of the three years, the Company expended an average of approximately $100,000 in additions to its property, plant and equipment. Of these amounts, 43% in 1994, 44% in 1993 and 36% in 1992 were for purchases of tools, dies and molds related to the Company's products. During those same three years, depreciation and amortization expenses were $85,368, $65,282 and $62,087, respectively. During 1994, the Company purchased certain game and puzzle assets of Western Publishing Company, Inc. and the Games Division of John Waddington PLC for an aggregate purchase price of $177,379 and made several other investments. During 1993 and 1992, the Company made several small acquisitions and investments, none of which were material. The $59,322 of proceeds from sale of investments in 1994 relates to the Spear and Virgin transactions previously discussed.

As part of the traditional marketing strategies of the toy industry, many sales made early in the year are not due for payment until the fourth quarter or early in the first quarter of the subsequent year, thus making it necessary for the Company to borrow significant amounts pending these collections. During the year the Company borrowed through the issuance of commercial paper and short-term lines of credit to fund its seasonal working capital requirements in excess of funds available from operations. During 1995, the Company expects to fund these needs in a similar manner and believes that the funds available to it are adequate to meet its needs. At March 3, 1995, the Company's unused committed and uncommitted lines of credit, including a $440,000 revolving credit agreement, were in excess of $1,000,000.

During the three reported years, the Company's activities resulted in the utilization of funds from financing activities. In 1994 the Company repaid more than $53,000 of long-term debt, including the early redemption of its $50,000 subordinated variable rate notes due in 1995. Several equity transactions also required the utilization of funds during 1994. These included the repurchase of more than $26,000 of the Company's common stock on the open market and approximately $16,000 in payments to exercising warrantholders in lieu of issuing shares of common stock. The $11,705 and $161,413 repayment of long-term debt in 1993 and 1992, respectively, was primarily related to debt acquired in the 1991 acquisition of Tonka Corporation.

During August 1990, the Board of Directors authorized a program to purchase up to 4,500,000 shares of the Company's common stock. On June 22, 1994, the Executive Committee of the Board of Directors authorized the purchase of up to an additional 5,000,000 shares. Through the end of 1994, 6,564,100 shares remained under these authorizations. The shares acquired under these programs are being issued upon the exercise of stock options.

## Foreign Currency Activity

The Company manages its foreign exchange exposure in various ways including forward exchange contracts, agreements with vendors for rate protection and the netting of foreign exchange exposure. In addition, where possible, the Company minimizes its foreign asset exposure by borrowing in foreign currencies. Its policy is not to enter into derivative financial instruments for speculative purposes. It does, however, enter into certain foreign currency forward exchange contracts to protect itself from adverse currency rate fluctuations on identifiable foreign currency commitments, primarily for future purchases of inventory. Such contracts are denominated in currencies of major industrial countries and entered into with creditworthy banks for terms of not more than twelve months. At both December 25, 1994 and December 26, 1993, outstanding contracts related to purchases of either U.S. dollars or Hong Kong dollars. The Company does not anticipate any material adverse impact on its results of operations or financial position from these contracts.

Cumulative translation adjustments decreased to $14,526 at December 25, 1994 from $15,006 at December 26, 1993. This decrease was principally due to the relationship of the U.S. dollar relative to currencies in foreign countries in which the Company operates.

## The Economy and Inflation

The Company continued to experience a difficult economic environment throughout much of the world during 1994. The principal market for the Company's products is the retail sector where certain customers have experienced economic difficulty. The Company closely monitors the credit worthiness of its customers and adjusts credit policies and limits as it deems appropriate.

The effect of inflation on the Company's operations during 1994 was not significant and the Company will continue its policy of monitoring costs and adjusting prices accordingly.

## Other Information

As previously discussed, during both 1994 and 1993, the Company incurred certain restructuring costs. The 1994 actions, when completed in the first quarter of 1995, will have resulted in the termination of approximately 600 employees, of which approximately 100 were management positions. The closure of the Company's Netherlands manufacturing facility, which was the major portion of the 1993 charge, originally planned for the second quarter of 1994 was delayed due to the time necessary to comply with local requirements. When completed, again in the first quarter of 1995, this will have resulted in the severance of approximately 200 additional employees. The Company expects to experience the financial benefits from these actions beginning in 1995.

During 1994, the Company continued to experience a gradual shift in its revenue pattern so that 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 believes that this trend will continue in 1995.

As discussed here a year ago, the Company was engaged in legal action against CBS Inc. (CBS) to recover all costs associated with the environmental clean-up of the Company's former manufacturing facility in Lancaster, Pennsylvania. On August 10, 1994, the U.S. District Court for the Eastern District of Pennsylvania entered judgment in favor of the Company, awarding the Company all of its past and future costs associated with such environmental remediation. The Company and CBS subsequently negotiated and concluded a resolution of the matter involving CBS' waiver of its rights to appeal the judgment, a payment by CBS to the Company on account of costs to date associated with environmental remediation together with interest and certain litigation costs, CBS' undertaking responsibility for future remediation of the site, the termination by the Pennsylvania Department of Environmental Resources of the consent order directing the Company to undertake such responsibility and the Company's agreement to sell the site to CBS on or before April 15, 1995. The Company is not aware of any material amounts of potential exposure relating to environmental matters and does not believe its compliance costs or liabilities to be material to its operating results or financial position.

On February 17, 1995, the Company announced a 14% increase in its quarterly cash dividend from that previously in effect. The first dividend at the increased rate of $.08 per share is payable on May 19, 1995 to shareholders of record on May 5, 1995.

On February 23, 1995, the Company announced that it had acquired the Super Soaker(R) line of products and certain other assets from the Larami Group of companies. This acquisition brings to the Company a core franchise in an area in which it had not previously been represented.

## FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See attached pages.

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Hasbro, Inc.:

We have audited the accompanying consolidated balance sheets of Hasbro, Inc. and subsidiaries as of December 25, 1994 and December 26, 1993 and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the fiscal years in the three-year period ended December 25, 1994. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hasbro, Inc. and subsidiaries at December 25, 1994 and December 26, 1993 and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended December 25, 1994 in conformity with generally accepted accounting principles.

/s/ KPMG Peat Marwick LLP

Providence, Rhode Island

February 8, 1995

HASBRO, INC. AND SUBSIDIARIES

Consolidated Balance Sheets
December 25, 1994 and December 26, 1993

(Thousands of Dollars Except Share Data)

| Assets | 1994 | 1993 |
|---|---|---|
| Current assets | | |
| Cash and cash equivalents | $ 137,028 | 186,254 |
| Accounts receivable, less allowance for doubtful accounts of $51,000 in 1994 and $54,200 in 1993 | 717,890 | 720,442 |
| Inventories | 244,407 | 250,067 |
| Prepaid expenses and other current assets | 153,138 | 144,372 |
| Total current assets | 1,252,463 | 1,301,135 |
| Property, plant and equipment, net | 308,879 | 279,803 |
| Other assets | | |
| Cost in excess of acquired net assets, less accumulated amortization of $82,949 in 1994 and $68,122 in 1993 | 479,960 | 475,607 |
| Other intangibles, less accumulated amortization of $58,178 in 1994 and $85,290 in 1993 | 295,333 | 185,953 |
| Other | 41,740 | 50,520 |
| Total other assets | 817,033 | 712,080 |
| Total assets | $2,378,375 | 2,293,018 |

HASBRO, INC. AND SUBSIDIARIES

Consolidated Balance Sheets, Continued
December 25, 1994 and December 26, 1993

(Thousands of Dollars Except Share Data)

| Liabilities and Shareholders' Equity | 1994 | 1993 |
|---|---|---|
| Current liabilities | | |
| Short-term borrowings | $ 81,805 | 62,242 |
| Trade payables | 165,378 | 173,545 |
| Accrued liabilities | 417,763 | 420,476 |
| Income taxes | 98,786 | 92,051 |
| Total current liabilities | 763,732 | 748,314 |
| Long-term debt, excluding current installments | 150,000 | 200,510 |
| Deferred liabilities | 69,226 | 67,511 |

| | | |
|---|---|---|
| Total liabilities | 982,958 | 1,016,335 |
| 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 88,085,802 shares in 1994 and 87,795,251 shares in 1993 | 44,043 | 43,898 |
| Additional paid-in capital | 282,151 | 296,823 |
| Retained earnings | 1,071,416 | 920,956 |
| Cumulative translation adjustments | 14,526 | 15,006 |
| Treasury stock, at cost, 557,455 shares in 1994 | (16,719) | - |
| Total shareholders' equity | 1,395,417 | 1,276,683 |
| Total liabilities and shareholders' equity | $2,378,375 | 2,293,018 |

See accompanying notes to consolidated financial statements.

HASBRO, INC. AND SUBSIDIARIES

Consolidated Statements of Earnings
Fiscal Years Ended in December

(Thousands of Dollars Except Share Data)

| | 1994 | 1993 | 1992 |
|---|---|---|---|
| Net revenues | $2,670,262 | 2,747,176 | 2,541,055 |
| Cost of sales | 1,161,479 | 1,182,567 | 1,094,031 |
| Gross profit | 1,508,783 | 1,564,609 | 1,447,024 |
| Expenses | | | |
| Amortization | 36,903 | 35,366 | 33,528 |
| Royalties, research and development | 273,039 | 280,571 | 249,851 |
| Advertising | 397,094 | 383,918 | 377,219 |
| Selling, distribution and administration | 493,570 | 498,066 | 461,888 |
| Restructuring charges | 12,500 | 15,500 | - |
| Total expenses | 1,213,106 | 1,213,421 | 1,122,486 |
| Operating profit | 295,677 | 351,188 | 324,538 |
| Nonoperating (income) expense | | | |
| Interest expense | 30,789 | 29,814 | 35,891 |
| Other (income), net | (26,681) | (3,836) | (3,729) |
| Total nonoperating expense | 4,108 | 25,978 | 32,162 |
| Earnings before income taxes and cumulative effect of change in accounting principles | 291,569 | 325,210 | 292,376 |
| Income taxes | 112,254 | 125,206 | 113,212 |
| Earnings before cumulative effect of change in accounting principles | 179,315 | 200,004 | 179,164 |
| Cumulative effect of change in accounting principles | (4,282) | - | - |
| Net earnings | $ 175,033 | 200,004 | 179,164 |
| Per common share | | | |
| Earnings before cumulative effect of change in accounting principles | $ 2.01 | 2.22 | 2.01 |
| Net earnings | $ 1.96 | 2.22 | 2.01 |
| Cash dividends declared | $ .28 | .24 | .20 |

See accompanying notes to consolidated financial statements.

HASBRO, INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity
Fiscal Years Ended in December

(Thousands of Dollars)

| | 1994 | 1993 | 1992 |
|---|---|---|---|
| **Common stock** | | | |
| Balance at beginning of year | $ 43,898 | 43,588 | 43,397 |
| Stock option and warrant transactions | 145 | 310 | 191 |
| Balance at end of year | 44,043 | 43,898 | 43,588 |
| **Additional paid-in capital** | | | |
| Balance at beginning of year | 296,823 | 287,478 | 276,725 |
| Stock option and warrant transactions | (14,672) | 9,345 | 10,753 |
| Balance at end of year | 282,151 | 296,823 | 287,478 |
| **Retained earnings** | | | |
| Balance at beginning of year | 920,956 | 741,987 | 580,211 |
| Net earnings | 175,033 | 200,004 | 179,164 |
| Dividends declared | (24,573) | (21,035) | (17,388) |
| Balance at end of year | 1,071,416 | 920,956 | 741,987 |
| **Cumulative translation adjustments** | | | |
| Balance at beginning of year | 15,006 | 32,568 | 60,297 |
| Equity adjustments from foreign currency translation | (480) | (17,562) | (27,729) |
| Balance at end of year | 14,526 | 15,006 | 32,568 |
| **Treasury stock** | | | |
| Balance at beginning of year | - | - | (5,361) |
| Purchases | (26,140) | - | - |
| Stock option and warrant transactions | 9,421 | - | 5,361 |
| Balance at end of year | (16,719) | - | - |
| Total shareholders' equity | $1,395,417 | 1,276,683 | 1,105,621 |

See accompanying notes to consolidated financial statements.

HASBRO, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Fiscal Years Ended in December

(Thousands of Dollars)

| | 1994 | 1993 | 1992 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net earnings | $175,033 | 200,004 | 179,164 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Depreciation and amortization of plant and equipment | 85,368 | 65,282 | 62,087 |

| | | | |
|---|---|---|---|
| Other amortization | 36,903 | 35,366 | 33,528 |
| Deferred income taxes | (1,245) | 2,281 | 2,228 |
| Gain on investments | (25,284) | - | - |
| Change in operating assets and liabilities (other than cash and cash equivalents): | | | |
| (Increase) decrease in accounts receivable | 9,871 | (90,833) | (132,935) |
| (Increase) decrease in inventories | 28,678 | (34,088) | (15,182) |
| (Increase) decrease in prepaid expenses and other current assets | (3,142) | (8,434) | 9,555 |
| (Decrease) increase in trade payables and accrued liabilities | (22,231) | 52,761 | 94,820 |
| Other | (166) | (5,102) | (3,455) |
| Net cash provided by operating activities | 283,785 | 217,237 | 229,810 |
| Cash flows from investing activities | | | |
| Additions to property, plant and equipment | (110,944) | (99,792) | (90,431) |
| Investments and acquisitions, net of cash acquired | (192,379) | (32,171) | (13,516) |
| Purchase of marketable securities | - | (141,411) | (144,000) |
| Sale of investments | 59,322 | 141,839 | 144,000 |
| Other | (177) | 5,534 | 9,953 |
| Net cash utilized by investing activities | (244,178) | (126,001) | (93,994) |
| Cash flows from financing activities | | | |
| Net (payments) proceeds of short-term borrowing | 18,938 | (9,054) | 38,397 |
| Repayment of long-term debt | (53,736) | (11,705) | (161,413) |
| Purchase of common stock | (26,140) | - | - |
| Stock option and warrant transactions | (5,106) | 9,655 | 16,305 |
| Dividends paid | (23,711) | (20,125) | (16,476) |
| Net cash utilized by financing activities | (89,755) | (31,229) | (123,187) |

HASBRO, INC. AND SUBSIDIARIES

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

(Thousands of Dollars)

| | 1994 | 1993 | 1992 |
|---|---|---|---|
| Effect of exchange rate changes on cash | 922 | 294 | (7,290) |
| Increase (decrease) in cash and cash equivalents | (49,226) | 60,301 | 5,339 |
| Cash and cash equivalents at beginning of year | 186,254 | 125,953 | 120,614 |
| Cash and cash equivalents at end of year | $137,028 | 186,254 | 125,953 |
| Supplemental information | | | |
| Cash paid during the year for | | | |
| Interest | $ 33,471 | 31,842 | 41,665 |
| Income taxes | $ 99,601 | 107,716 | 83,160 |

See accompanying notes to consolidated financial statements.

HASBRO, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

## (1) Summary of Significant Accounting Policies

### Principles of Consolidation

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

### Fiscal Year

The Company's fiscal year ends on the last Sunday in December. Each of the three fiscal years reported are fifty-two week periods.

### Cash and Cash Equivalents

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

### Inventories

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

### Cost in Excess of Net Assets Acquired and Other Intangibles

The Company continually monitors its cost in excess of net assets acquired (goodwill) and its other intangibles to determine whether any impairment of these assets has occurred. In making such determination with respect to goodwill, the Company evaluates the performance, on an undiscounted basis, of the underlying businesses which gave rise to such amount. With respect to other intangibles, which include the cost of license agreements, trademarks and copyrights and cost in excess of net assets acquired through the purchase of product rights and licenses, the Company bases its determination on the performance, on an undiscounted basis, of the related products or product lines. Approximately 75% of the Company's goodwill and other intangibles result from the 1984 acquisition of Milton Bradley Company, including its Playskool and international subsidiaries, and the 1991 acquisition of Tonka Corporation, including its Kenner, Parker Brothers and international units. The assets acquired in these transactions continue to contribute a significant portion of the Company's net revenues and earnings. A further 19% is attributable to the Company's two acquisitions during 1994 (see note 2).



Substantially all costs in excess of net assets (goodwill) of subsidiaries acquired are being amortized on the straight-line method over forty years.

Other intangibles, which include the cost of license agreements, trademarks and copyrights and cost in excess of net assets acquired through the purchase of product rights and licenses, are being amortized over five to twenty-five years using the straight-line method.

### Depreciation and Amortization

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

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

### Income Taxes

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

### Foreign Currency Translation

Foreign currency assets and liabilities are translated into dollars at current rates, and revenues, costs and expenses are translated at average rates during each reporting period. Gains or losses resulting from foreign currency transactions are included in earnings currently, while those resulting from translation of financial statements are shown as a separate component of shareholders' equity.



### Pension Plans, Postretirement and Postemployment Benefits

The Company, except for certain foreign subsidiaries, has pension plans covering substantially all of its full-time employees. Pension expense is based on actuarial computations of current and future benefits. The Company's policy is to fund amounts which are required by applicable regulations and which are tax deductible. The estimated amounts of future payments to be made under other retirement programs are being accrued currently over the period of active employment and are also included in pension expense.

The Company has a contributory postretirement health and life insurance plan covering substantially all employees who retire under any of the Company's domestic defined benefit pension plans and meet certain age and length of service requirements. It also has several plans covering certain groups of employees which may provide benefits to such employees following their period of employment but prior to their retirement. At the beginning of 1994, the Company adopted Statement of Financial Accounting Standards No. 112, Employers' Accounting for Postemployment Benefits (SFAS 112) and at the beginning of 1992, adopted Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions (SFAS 106). Both SFAS 112 and SFAS 106 require that the cost of such benefits be accrued over the employee service period, a change from the Company's prior practice of recording those costs when incurred.

### Research and Development

Research and product development costs for 1994, 1993 and 1992 were $135,406, $125,566 and $109,655, respectively.

### Advertising

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

### Earnings Per Common Share

Earnings per common share are based on the weighted average number of shares of common stock and dilutive common stock equivalents outstanding during each period. Common stock equivalents include stock options and warrants for the period prior to their exercise. Under the treasury stock method, the unexercised options and warrants were assumed to be exercised at the beginning of the period or at issuance, if later. The assumed proceeds were then used to purchase common stock at the average market price during the period.



The weighted average number of shares outstanding used in the computation of earnings per common share was 89,330,752, 90,030,568 and 89,085,751 in

(Thousands of Dollars Except Share Data)

1994, 1993 and 1992, respectively.

The difference between primary and fully diluted earnings per share was not significant for any year.

(2) Acquisitions and Investments

On August 4, 1994, the Company purchased certain game and puzzle assets of Western Publishing Company, Inc. and on November 30, 1994 purchased the Games Division of John Waddington PLC. The total consideration for these purchases is estimated by the Company to be $177,379. Accounting for these acquisitions using the purchase method, the Company allocated the purchase price based on estimates of fair market value which included $28,890 of net tangible assets, $132,022 of product rights and licenses and $16,467 of cost in excess of net assets acquired.

During the third quarter of 1994, the Company liquidated its minority investments in J.W. Spear & Sons PLC and Virgin Interactive Entertainment plc, acquired in 1990 and 1993, respectively. While these investments had initially been made for the long-term, the 1994 disposition of their interests by the majority shareholders of each entity resulted in the Company's decision to do likewise.

(3) Inventories

| | 1994 | 1993 |
|---|---|---|
| Finished products | $181,202 | 183,899 |
| Work in process | 19,342 | 22,486 |
| Raw materials | 43,863 | 43,682 |
| | $244,407 | 250,067 |



(4) Property, Plant and Equipment

| | 1994 | 1993 |
|---|---|---|
| Land and improvements | $ 15,655 | 12,010 |
| Buildings and improvements | 206,523 | 188,713 |
| Machinery and equipment | 209,794 | 173,050 |
| | 431,972 | 373,773 |
| Less accumulated depreciation | 163,358 | 133,182 |
| | 268,614 | 240,591 |
| Tools, dies and molds, less accumulated amortization | 40,265 | 39,212 |
| | $308,879 | 279,803 |

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

(5) Short-Term Borrowings

The Company has available unsecured committed and uncommitted lines of credit from various banks approximating $450,000 and $900,000, respectively. All of the short-term borrowings outstanding at the end of 1994 and 1993 represent bank borrowings of foreign units made under these lines of credit at weighted average interest rates of 9.6% and 9.0%, respectively. The Company's working capital needs were fulfilled by borrowing under these lines of credit and through the issuance of commercial paper, both of which were on terms and at interest rates generally extended to companies of comparable credit worthiness. Included as part of the committed line is $440,000 available from a revolving credit agreement. This agreement contains certain restrictive covenants with which the Company is in compliance. Compensating balances and facility fees were not material.

(Thousands of Dollars Except Share Data)

(6) Accrued Liabilities

| | 1994 | 1993 |
|---|---|---|
| Royalties | $ 76,602 | 83,820 |
| Advertising | 119,334 | 116,243 |
| Payroll and management incentives | 30,880 | 37,438 |
| Other | 190,947 | 182,975 |
| | $417,763 | 420,476 |



(7) Long-Term Debt

| | 1994 | 1993 |
|---|---|---|
| 6% Convertible Subordinated Notes Due 1998. Interest is paid semi-annually.(a) | $150,000 | 150,000 |
| Subordinated variable rate notes due 1995.(b) | - | 50,000 |
| Other (excluding current installments). | - | 510 |
| | $150,000 | 200,510 |

(a) These notes are convertible into common stock at a conversion price of $29.33 per share and are redeemable, at a premium, by the Company.

(b) These notes were redeemed on September 22, 1994.

Current installments aggregated $3,236 at December 26, 1993 and were included in trade payables. All of the long-term debt outstanding at December 25, 1994 matures in 1998.

(8) Income Taxes

Income taxes attributable to earnings before income taxes are:

| | 1994 | 1993 | 1992 |
|---|---|---|---|
| Current | | | |
| Federal | $ 60,539 | 81,770 | 64,825 |
| Foreign | 42,543 | 28,614 | 33,147 |
| State and local | 10,417 | 12,541 | 13,012 |
| | 113,499 | 122,925 | 110,984 |
| Deferred | | | |
| Federal | 1,924 | 315 | 2,612 |
| Foreign | (3,349) | 1,817 | (663) |
| State and local | 180 | 149 | 279 |
| | (1,245) | 2,281 | 2,228 |
| | $112,254 | 125,206 | 113,212 |



The cumulative effect of the change in accounting principles resulting from the adoption of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, increased 1992 net earnings by $12,349.

(Thousands of Dollars Except Share Data)

Certain tax benefits are not reflected in income taxes on the Consolidated Statements of Earnings. Such benefits of $9,800 in 1994, $6,299 in 1993 and $12,583 in 1992, relate primarily to stock options and cumulative effect of changes in accounting principles.

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

| | 1994 | 1993 | 1992 |
|---|---|---|---|
| Statutory income tax rate | 35.0% | 35.0% | 34.0% |
| State and local income taxes, net of federal income tax effect | 2.4 | 2.6 | 3.0 |
| Amortization of goodwill | 1.6 | 1.4 | 1.4 |
| Foreign earnings taxed at rates other than the United States statutory rate | (.7) | - | (.6) |
| Other, net | .2 | (.5) | .9 |
| | 38.5% | 38.5% | 38.7% |

The components of earnings before income taxes are as follows:

| | 1994 | 1993 | 1992 |
|---|---|---|---|
| Domestic | $177,672 | 243,820 | 190,268 |
| Foreign | 113,897 | 81,390 | 102,108 |
| | $291,569 | 325,210 | 292,376 |



The components of deferred income tax expense arise from various temporary differences and relate to items included in the statements of earnings. During 1993, domestic deferred tax assets and liabilities were adjusted for the effect of legislation enacted that year increasing the United States federal tax rate from 34% to 35%. The adjustment decreased the 1993 deferred tax expense by $1,266.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 25, 1994 and December 26, 1993 are:

| | 1994 | 1993 |
|---|---|---|
| Deferred tax assets: | | |
| Accounts receivable | $ 27,782 | 30,049 |
| Inventories | 12,600 | 12,090 |
| Net operating loss and other loss carryovers | 16,923 | 11,073 |
| Operating expenses | 33,948 | 32,393 |
| Postretirement benefits | 11,487 | 8,675 |
| Other | 41,223 | 39,554 |
| Total gross deferred tax assets | 143,963 | 133,834 |
| Valuation allowance | (11,829) | (10,376) |
| Net deferred tax assets | 132,134 | 123,458 |
| Deferred tax liabilities: | | |
| Property rights and property, plant and equipment | 64,743 | 68,614 |
| Other | 7,786 | 6,468 |
| Total gross deferred tax liabilities | 72,529 | 75,082 |
| Net deferred income taxes | $ 59,605 | 48,376 |

The Company has a valuation allowance for deferred tax assets at December 25, 1994 of $11,829, which is an increase of $1,453 from the $10,376 at December 26, 1993. These allowances pertain to certain foreign operating loss carryforwards, some of which have no expiration and others that will expire beginning in 1997. If fully realized, future income tax expense will be reduced by $11,829.



Based on the Company's history of taxable income and the anticipation of sufficient taxable income in years when the temporary differences are expected to become tax deductions, the Company believes that it will realize the benefit of the deferred tax assets, net of the existing valuation allowance. More than 70% of the deferred tax assets are expected to be realized during the next two years.

Deferred income taxes of $83,730 and $78,413 at the end of 1994 and 1993, respectively, are included as a component of prepaid expenses and other current assets.

The cumulative amounts of undistributed earnings of the Company's foreign subsidiaries held for reinvestment amounted to approximately $289,000 and $271,000 at December 25, 1994 and December 26, 1993, respectively.

## (9) Capital Stock

### Preference Share Purchase Rights

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

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

### Common Stock

In August 1990, the Board authorized the purchase of up to 4,500,000 shares of the Company's common stock and in June 1994, the Executive Committee of the Board authorized the purchase of up to an additional 5,000,000 shares. At December 25, 1994, a balance of 6,564,100 shares remained under these authorizations.



## (10) Employee Stock Options and Warrants

The Company has a Non-Qualified Stock Option Plan, an Incentive Stock Option Plan, a 1992 Stock Incentive Plan and a Stock Option Plan for Non-Employee Directors (the plans).

The Company has reserved 7,105,011 shares of its common stock for issuance upon exercise of options granted or to be granted under the plans. These options generally vest in equal annual amounts over three to five years beginning one year after grant. The plans provide that options be granted at exercise prices not less than market value on the date the option is granted and options are adjusted for such changes as stock splits and stock dividends. No options are exercisable for periods of more than ten years after date of grant. Although certain of the plans may permit the granting of awards in the form of stock options, stock appreciation rights, stock awards and cash awards, to date, only stock options have been granted.

On July 12, 1994, the Company's outstanding warrants expired. The Company elected to pay exercising warrantholders in cash rather than issue shares of its stock.

The changes in outstanding options and warrants for the three years ended December 25, 1994 follow:

| | Shares (In Thousands) | Exercise Price Per Share |
|---|---|---|
| Outstanding at December 29, 1991 | 4,944 | $ 1.48 - $53.88 |
| Granted | 1,333 | 25.00 - 31.88 |
| Exercised | (1,012) | 1.48 - 25.00 |
| Expired and canceled | (61) | 7.58 - 53.88 |
| Outstanding at December 27, 1992 | 5,204 | 7.58 - 43.49 |
| Granted | 2,712 | 31.62 - 37.44 |
| Exercised | (730) | 7.58 - 31.62 |
| Expired and canceled | (63) | 10.25 - 38.29 |
| Outstanding at December 26, 1993 | 7,123 | 7.58 - 43.49 |
| Granted | 1,246 | 29.56 - 36.58 |
| Exercised | (1,994) | 7.58 - 31.88 |
| Expired and canceled | (505) | 10.25 - 38.29 |
| Outstanding at December 25, 1994 | 5,870 | $ 7.58 - $43.49 |



The number of shares exercisable at the end of 1994, 1993 and 1992 were 2,176,568, 2,919,654 and 2,831,801, respectively. The prices at which these shares may be exercised are those shown for outstanding options and warrants in the preceding table.

## (11) Pension, Postretirement and Postemployment Benefits

### Pension Benefits

The Company's net pension and profit sharing cost for 1994, 1993 and 1992 was approximately $12,500, $12,900 and $11,400, respectively.

### Domestic Plans

Substantially all of the Company's domestic employees are members of one of three non-contributory defined benefit plans. In addition, the Company has a supplementary unfunded pension plan providing benefits otherwise due employees under the benefit formula but which are in excess of those permitted for such plan under the Internal Revenue Code. Benefits under the major plan, covering non-union employees, are based primarily on salary and years of service. Benefits under plans covering members of collective bargaining units are based primarily on fixed amounts for specified years of service. The Company also has an unfunded plan covering those members of its Board who are not covered by employee plans. Benefits for this plan are based on the annual retainer paid to Board members.

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

| | 1994 | 1993 | 1992 |
|---|---|---|---|
| Benefits earned during the year | $ 7,029 | 5,630 | 5,248 |
| Interest cost on projected benefits | 8,219 | 7,243 | 5,438 |

(Thousands of Dollars Except Share Data)

| | | | |
|---|---|---|---|
| Actual return on plan assets | (521) | (10,834) | (5,183) |
| Net amortization and deferral | (8,429) | 3,190 | (1,099) |
| | $ 6,298 | 5,229 | 4,404 |

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



| | 1994 | | 1993 | |
|---|---|---|---|---|
| | Plans With Assets Exceeding Accumulated Benefits | Plans With Accumulated Benefits Exceeding Assets | Plans With Assets Exceeding Accumulated Benefits | Plans With Accumulated Benefits Exceeding Assets |
| Actuarial present value of: | | | | |
| Vested benefits | $ 76,761 | 4,626 | 14,144 | 58,581 |
| Nonvested benefits | 1,403 | 719 | 409 | 1,447 |
| Accumulated benefit obligation | 78,164 | 5,345 | 14,553 | 60,028 |
| Effect of assumed increase in compensation level | 21,937 | 6,024 | - | 30,301 |
| Projected benefit obligation | 100,101 | 11,369 | 14,553 | 90,329 |
| Net assets available for benefits | 108,990 | 630 | 23,159 | 80,413 |
| Plan assets in excess of (less than) projected benefits | $ 8,889 | (10,739) | 8,606 | (9,916) |
| Consisting of: | | | | |
| Unrecognized net asset | $ 2,059 | - | 782 | 1,618 |
| Unrecognized prior service cost | (897) | (4,850) | (841) | (2,204) |
| Unrecognized net gain (loss) | 8,313 | (425) | 5,864 | 2,146 |
| Prepaid (accrued) pension recognized in the balance sheet | (586) | (5,464) | 2,801 | (11,476) |
| | $ 8,889 | (10,739) | 8,606 | (9,916) |

The assets of the funded plans are managed by investment advisors and consist primarily of pooled indexed and actively managed bond and stock funds. The projected benefits have been determined using assumed discount rates of 8.5% for 1994, 7.2% for 1993 and 8% for 1992, assumed long-term rates of compensation increase of 5% for 1994 and 1993 and 5.5% for 1992 and an assumed long-term rate of return on plan assets of 9% for all years.



The Company also has a profit sharing plan covering substantially all of its domestic non-union employees. The plan provides for an annual discretionary contribution by the Company which for 1994, 1993 and 1992 was approximately $5,100, $6,100 and $5,400, respectively.

(Thousands of Dollars Except Share Data)

Foreign Plans

Pension coverage for employees of the Company's foreign subsidiaries is provided, through separate plans, to the extent deemed appropriate. These plans were neither significant individually nor in the aggregate.

Postretirement Benefits

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

The cumulative effect of the change in accounting principles resulting from the adoption of SFAS 106 reduced 1992 earnings by $19,457 ($12,135 after tax).

The accumulated benefit obligation relating to this plan at December 25, 1994 and December 26, 1993 consists of:

| | 1994 | 1993 |
|---|---|---|
| Retired employees | $16,148 | 16,265 |
| Fully eligible active employees | 1,267 | 1,329 |
| Other active employees | 7,086 | 5,898 |
| | $24,501 | 23,492 |



The net periodic postretirement benefit cost included the following components:

| | 1994 | 1993 | 1992 |
|---|---|---|---|
| Benefits earned during the period | $ 403 | 338 | 290 |
| Interest cost on projected benefits | 1,709 | 1,783 | 1,640 |
| | 2,112 | 2,121 | 1,930 |
| Recognition of transition obligation | - | - | 19,457 |
| | $ 2,112 | 2,121 | 21,387 |

For measuring the expected postretirement benefit obligation, a 9.2%, 10.4% and 12.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for 1994, 1993 and 1992, respectively. These rates were further assumed to decrease gradually to 6%, 5% and 6%, respectively, in 2012 and remain level thereafter. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 8.5% in 1994, 7.2% in 1993 and 8.0% in 1992.

If the health care cost trend rate were increased one percentage point in each year, the accumulated postretirement benefit obligation at December 25, 1994 would have increased by approximately 11% and the aggregate of the benefits earned during the period and the interest cost would have each increased by approximately 12%.

Postemployment Benefits

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

(Thousands of Dollars Except Share Data)

The Company adopted the provisions of SFAS 112 as of the beginning of 1994. SFAS 112 requires that the cost of certain postemployment benefits be accrued over the employee service period which is a change from the Company's prior practice of recording such benefits when incurred. The effect of initially applying SFAS 112, net of a deferred tax benefit of $2,513, has been recorded as the cumulative effect of a change in accounting principles. Other than this, the adoption of SFAS 112 has neither had a significant effect on the Company's earnings or its financial condition nor is it expected to in the future.



## (12) Leases

The Company occupies certain manufacturing facilities and sales offices and uses certain equipment under various operating lease arrangements. The rent expense under such arrangements, net of sublease income which is not material, for 1994, 1993 and 1992 amounted to $39,186, $37,917 and $34,609, respectively.

Minimum rentals, net of minimum sublease income which is not material, under long-term operating leases for the five years subsequent to 1994 and in the aggregate are as follows:

| | |
|---|---|
| 1995 | $ 30,695 |
| 1996 | 21,762 |
| 1997 | 17,697 |
| 1998 | 14,621 |
| 1999 | 12,061 |
| Later years | 66,792 |
| | $163,628 |

All leases expire prior to 2014. Real estate taxes, insurance and maintenance expenses are generally obligations of the Company. It is expected that in the normal course of business, leases that expire will be renewed or replaced by leases on other properties; thus, it is anticipated that future minimum lease commitments will not be less than the amounts shown for 1994.

In addition, the Company leases certain facilities which, as a result of the restructuring of operations, are no longer in use. Future costs relating to such facilities were included as a component of the restructuring charge and thus are not included in the table above.

## (13) Restructuring

During the fourth quarter of 1993, the Company recorded a restructuring charge of $15,500, primarily related to the closure of its manufacturing facility in The Netherlands. This closure was initially planned for the second quarter of 1994, however, the actions necessary to comply with local regulations relating to such closure took longer than anticipated and the closure will not be completed until the first quarter of 1995. As a result, the major portion of the liability established for this action remains to be paid.

During the third quarter of 1994, the Company recorded a restructuring charge of $12,500, primarily related to the reorganization of its Domestic Toy Group and the consolidation of its domestic manufacturing operations. While these actions have been substantially completed, due to timing of the pay-outs, a majority of the liability remains to be paid.

(Thousands of Dollars Except Share Data)

(14) Financial Instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, short- and long-term borrowings, accounts payable, accrued liabilities and foreign currency forward exchange contracts. At December 25, 1994, the carrying value of these instruments approximated their fair value based on current market prices and rates and there were no material unrealized gains or losses on foreign currency forward exchange contracts.

As estimates of the fair values of financial instruments are subjective and involve uncertainties and judgments, they cannot be determined with precision. Any changes in assumptions would affect these estimates.

The Company's policy is not to enter into derivative financial instruments for speculative purposes. It does enter into certain foreign currency forward exchange contracts to protect itself from adverse currency rate fluctuations on identifiable foreign currency commitments made in the ordinary course of business. These contracts, which relate to future purchases of inventory, are denominated in currencies of major industrial countries and entered into with creditworthy banks for terms of not more than twelve months. The Company does not anticipate any material adverse effect on its results of operations or financial position from these contracts.

(15) Commitments and Contingencies

The Company had unused open letters of credit of approximately $15,000 and $19,000 at December 25, 1994 and December 26, 1993, respectively.

The Company had the equivalent of approximately $80,000 and $65,000 of forward exchange contracts outstanding at December 25, 1994 and December 26, 1993, respectively. Such contracts have been determined to be hedges of foreign currency commitments and as such any gain or loss has been deferred and will be included in the measurement of the related transaction. The aggregate amount of gains and losses resulting from foreign currency transactions was not material.

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's future results of operations or liquidity.



(16) Segment Reporting

Industry and Geographic Information

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

Information about the Company's operations in different geographic areas, determined by the location of the subsidiary or unit, for each of the fiscal years in the three-year period ended December 1994 follows. The Company's primary operations in areas outside of the United States include Europe, Canada, Mexico, Australia and New Zealand and Hong Kong. As the foreign areas have similar business environments and the Company's operations in those areas are similar, they are presented as one category.

| | 1994 | 1993 | 1992 |
|---|---|---|---|
| Net revenues: | | | |
| United States | $1,530,928 | 1,670,272 | 1,506,522 |
| Foreign | 1,139,334 | 1,076,904 | 1,034,533 |
| | $2,670,262 | 2,747,176 | 2,541,055 |
| Operating profit: | | | |
| United States | $ 169,782 | 242,038 | 193,466 |
| Foreign | 125,895 | 109,150 | 131,072 |

| | | | |
|---|---|---|---|
| | $ 295,677 | 351,188 | 324,538 |
| Identifiable assets: | | | |
| United States | $1,612,982 | 1,540,887 | 1,451,951 |
| Foreign | 765,393 | 752,131 | 630,815 |
| | $2,378,375 | 2,293,018 | 2,082,766 |

HASBRO, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(Thousands of Dollars Except Share Data)

Other Information

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

Sales to the Company's two largest customers, Toys R Us, Inc. and Wal-Mart Stores, Inc., amounted to 21% and 12%, respectively, of consolidated net revenues during 1994, 20% and 11%, respectively, in 1993 and 17% and 9%, respectively, in 1992.

(17) Quarterly Financial Data (Unaudited)

| 1994 | Quarter First | Second | Third | Fourth | Full Year |
|---|---|---|---|---|---|
| Net revenues | $489,133 | 444,324 | 796,222 | 940,583 | 2,670,262 |
| Gross profit | $280,933 | 241,146 | 444,093 | 542,611 | 1,508,783 |
| Earnings before income taxes and cumulative effect of changes in accounting principles | $ 43,443 | 2,657 | 122,196(a) | 123,273 | 291,569 |
| Net earnings | $ 22,435 | 1,634 | 75,151 | 75,813 | 175,033 |
| Per common share | | | | | |
| Earnings before cumulative effect of change in accounting principles | $ .30 | .02 | .85 | .86 | 2.01 |
| Earnings | $ .25 | .02 | .85 | .86 | 1.96 |
| Market price | | | | | |
| High | $ 36 5/8 | 36 1/8 | 32 1/8 | 33 1/2 | 36 5/8 |
| Low | $ 33 3/8 | 28 1/8 | 28 1/8 | 27 7/8 | 27 7/8 |
| Cash dividends declared | $ .07 | .07 | .07 | .07 | .28 |



| 1993 | Quarter First | Second | Third | Fourth | Full Year |
|---|---|---|---|---|---|
| Net revenues | $487,036 | 515,551 | 812,393 | 932,196 | 2,747,176 |
| Gross profit | $279,015 | 294,031 | 461,329 | 530,234 | 1,564,609 |

| | | | | | |
|---|---|---|---|---|---|
| Earnings before income taxes | $ 42,871 | 43,791 | 122,865 | 115,683(b) | 325,210 |
| Net earnings | $ 26,580 | 27,150 | 75,548 | 70,726 | 200,004 |
| Per common share | | | | | |
| Earnings | $ .30 | .30 | .84 | .78 | 2.22 |
| Market price | | | | | |
| High | $ 34 7/8 | 38 3/8 | 39 5/8 | 40 1/8 | 40 1/8 |
| Low | $ 28 1/8 | 29 7/8 | 34 | 35 1/8 | 28 1/8 |
| Cash dividends declared | $ .06 | .06 | .06 | .06 | .24 |

| | Quarter | | | | |
|---|---|---|---|---|---|
| 1992 | First | Second | Third | Fourth | Full Year |
| Net revenues | $452,569 | 485,958 | 771,192 | 831,336 | 2,541,055 |
| Gross profit | $256,609 | 276,545 | 437,373 | 476,497 | 1,447,024 |
| Earnings before income taxes | $ 38,552 | 37,540 | 111,415 | 104,869 | 292,376 |
| Net earnings | $ 23,408 | 22,712 | 67,406 | 65,638 | 179,164 |
| Per common share | | | | | |
| Earnings | $ .26 | .26 | .75 | .73 | 2.01 |
| Market price | | | | | |
| High | $ 28 1/4 | 29 3/4 | 34 3/8 | 35 7/8 | 35 7/8 |
| Low | $ 23 3/4 | 23 1/8 | 26 1/2 | 31 1/2 | 23 1/8 |
| Cash dividends declared | $ .05 | .05 | .05 | .05 | .20 |

(a) Includes the effect of a nonrecurring charge of $12,500 relating to restructuring of operations. (See note 13)

(b) Includes the effect of a nonrecurring charge of $15,500 relating to restructuring of operations. (See note 13)

EXHIBIT 22

HASBRO, INC. AND SUBSIDIARIES

Subsidiaries of the Registrant (a)

| Name Under Which Subsidiary Does Business | State or Other Jurisdiction of Incorporation or Organization |
|---|---|
| Claster Television, Inc. | Maryland |
| Hasbro International, Inc. | Delaware |
|   Hasbro Asia-Pacific Marketing Ltd. | Hong Kong |
|   Hasbro Australia Pty. Limited | Australia |
|   Hasbro Canada, Inc. | Canada |
|   Hasbro de Mexico S.A. de C.V. | Mexico |
|   Hasbro Deutschland GmbH | Germany |
|   Hasbro Far East LTD | Hong Kong |
|   Hasbro Israel Ltd. | Israel |
|   Hasbro New Zealand Limited | New Zealand |
|   Hasbro Schweiz AG | Switzerland |
|   Hasbro U.K. Limited | United Kingdom |
|   HMS Juquetes S.A. de C.V. | Mexico |
|   K'NEX International U.K. | United Kingdom |
|   MB France S.A. | France |
|   MB International B.V. | The Netherlands |
|     Hasbro B.V. | The Netherlands |
|     Hasbro Hellas S.A. | Greece |
|     Hasbro Importacao e Exportacao de Jogos e Brinquedos Lds | Portugal |
|     Hasbro Magyarorszag Kft | Hungary |
|     Hasbro Scandinavia AS | Denmark |
|     MB Nederland B.V. | The Netherlands |
|     MB Espana, S.A. | Spain |
|     S.A. Hasbro N.V. | Belgium |
|   MB Ireland Limited | Ireland |
|   Nomura Toys Limited | Japan |
|   Palmyra Holding Pte. Ltd. | Singapore |
|     Palmyra (Hong Kong) Limited | Hong Kong |
|     Palmyra (Malaysia) Sdn. Bhd. | Malaysia |
|     Palmyra (Singapore) Pte. Ltd. | Singapore |
|   3D Licensing Limited | United Kingdom |
| Hasbro Managerial Services, Inc. | Rhode Island |
| Larami Limited | Delaware |
| Tonka Corporation | Minnesota |
|   Hasbro Italy S.r.l. | Italy |
|   Hasbro Osterreich Ges.m.b.H | Austria |
|   Juguetrenes S.A. de C.V. | Mexico |

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

EXHIBIT 24(a)

ACCOUNTANTS' CONSENT

The Board of Directors
Hasbro, Inc.:

We consent to incorporation by reference in the Registration Statements Nos. 2-78018, 2-93483 and 33-57344 on Form S-8 and No. 33-41548 on Form S-3 of Hasbro, Inc. of our reports dated February 8, 1995 relating to the consolidated balance sheets of Hasbro, Inc. and subsidiaries as of December 25, 1994 and December 26, 1993 and the related consolidated statements of earnings, shareholders' equity and cash flows and related schedule for each of the fiscal years in the three-year period ended December 25, 1994, which report on the consolidated financial statements is incorporated by reference and which report on the related schedules is included in the Annual Report on Form 10-K of Hasbro, Inc. for the fiscal year ended December 25, 1994.

/s/ KPMG Peat Marwick LLP

Providence, Rhode Island

March 24, 1995

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HASBRO, INC.
1,000

YEAR
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DEC-25-1994
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2,670,262
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