

## SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the period ended June 27, 1999

Commission file number 1-6682

HASBRO, INC.

-----  
(Name of Registrant)

Rhode Island

05-0155090

-----  
(State of Incorporation)-----  
(I.R.S. Employer Identification No.)

1027 Newport Avenue, Pawtucket, Rhode Island 02861

-----  
(Principal Executive Offices)

(401) 431-8697

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

Yes X or No  
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The number of shares of Common Stock, par value \$.50 per share, outstanding as of July 25, 1999 was 194,693,412.

HASBRO, INC. AND SUBSIDIARIES  
 Consolidated Balance Sheets

(Thousands of Dollars Except Share Data)  
 (Unaudited)

Assets	Jun. 27, 1999	Jun. 28, 1998	Dec. 27, 1998
	-----	-----	-----
Current assets			
Cash and cash equivalents	\$ 97,765	180,595	177,748
Accounts receivable, less allowance for doubtful accounts of \$60,200, \$52,400 and \$64,400	843,580	600,254	958,826
Inventories:			
Finished products	372,917	277,608	283,160
Work in process	12,409	17,215	12,698
Raw materials	48,134	36,815	38,943
Total inventories	433,460	331,638	334,801
Deferred income taxes	106,895	92,929	100,332
Prepaid expenses	479,220	130,811	218,279
Total current assets	1,960,920	1,336,227	1,789,986
Property, plant and equipment, net	308,420	281,327	330,355

Other assets			
Cost in excess of acquired net assets, less accumulated amortization of \$169,332, \$138,162 and \$152,008	696,614	615,297	704,282
Other intangibles, less accumulated amortization of \$209,620, \$154,513 and \$192,268	811,423	707,775	837,899
Other	123,760	87,139	131,323
	-----	-----	-----
Total other assets	1,631,797	1,410,211	1,673,504
	-----	-----	-----
Total assets	\$3,901,137	3,027,765	3,793,845
	=====	=====	=====

HASBRO, INC. AND SUBSIDIARIES  
Consolidated Balance Sheets, continued

(Thousands of Dollars Except Share Data)  
(Unaudited)

Liabilities and Shareholders' Equity	Jun. 27, 1999	Jun. 28, 1998	Dec. 27, 1998
	-----	-----	-----
Current liabilities			
Short-term borrowings	\$ 823,202	527,259	372,249
Trade payables	132,787	124,479	209,119
Accrued liabilities	606,435	486,715	729,605
Income taxes	46,954	65,666	55,327
	-----	-----	-----
Total current liabilities	1,609,378	1,204,119	1,366,300
Long-term debt, excluding current installments	409,937	-	407,180
Deferred liabilities	77,700	77,886	75,570
	-----	-----	-----
Total liabilities	2,097,015	1,282,005	1,849,050
Shareholders' equity			
Preference stock of \$2.50 par value. Authorized 5,000,000 shares; none issued	-	-	-
Common stock of \$.50 par value. Authorized 300,000,000 shares; issued 209,694,630, 209,698,516 and 209,698,516	104,847	104,849	104,849
Additional paid-in capital	466,821	453,425	521,316
Retained earnings	1,644,460	1,449,609	1,621,799
Accumulated other comprehensive income	(26,009)	(20,076)	(9,625)
Treasury stock, at cost; 14,860,988, 11,680,232 and 13,523,983 shares	(385,997)	(242,047)	(293,544)
	-----	-----	-----
Total shareholders' equity	1,804,122	1,745,760	1,944,795
	-----	-----	-----
Total liabilities and shareholders' equity	\$3,901,137	3,027,765	3,793,845
	=====	=====	=====

See accompanying condensed notes to consolidated financial statements.

HASBRO, INC. AND SUBSIDIARIES  
Consolidated Statements of Earnings

(Thousands of Dollars Except Share Data)  
(Unaudited)

	Quarter Ended		Six Months Ended	
	Jun. 27, 1999	Jun. 28, 1998	Jun. 27, 1999	Jun. 28, 1998
Net Revenues	\$ 874,574	572,057	1,542,972	1,054,877
Cost of Sales	345,026	247,095	601,543	451,407
Gross Profit	529,548	324,962	941,429	603,470
Expenses				
Amortization	31,918	15,880	57,844	30,023
Royalties, Research and Development	179,776	82,129	291,718	149,465
Advertising	101,274	73,213	182,358	128,970
Selling, Distribution and Administration	158,368	141,479	321,649	276,728
Total Expenses	471,336	312,701	853,569	585,186
Operating Profit	58,212	12,261	87,860	18,284
Nonoperating (income) expense				
Interest Expense	13,625	6,416	25,598	8,728
Other (Income) Expense, Net	(2,209)	(2,417)	(4,527)	(10,514)
Total nonoperating (income) expense	11,416	3,999	21,071	(1,786)
Earnings Before Income Taxes	46,796	8,262	66,789	20,070
Income Taxes	14,507	2,809	20,705	6,824
Net Earnings	\$ 32,289	5,453	46,084	13,246
Per Common Share				
Net Earnings				
Basic	\$ .17	.03	.24	.07
Diluted	\$ .16	.03	.22	.06
Cash Dividends Declared	\$ .06	.05	.12	.10

See accompanying condensed notes to consolidated financial statements.

HASBRO, INC. AND SUBSIDIARIES  
Consolidated Statements of Cash Flows  
Six Months Ended June 27, 1999 and June 28, 1998

(Thousands of Dollars)  
(Unaudited)

	1999	1998
	-----	-----
Cash flows from operating activities		
Net earnings	\$ 46,084	13,246
Adjustments to reconcile net earnings to net cash utilized by operating activities:		
Depreciation and amortization of plant and equipment	48,437	43,857
Other amortization	57,844	30,023
Deferred income taxes	(6,184)	(1,153)
Change in operating assets and liabilities (other than cash and cash equivalents):		
Decrease in accounts receivable	102,603	176,595
Increase in inventories	(106,718)	(69,208)
Increase in prepaid expenses	(264,842)	(30,447)
Decrease in trade payables and accrued liabilities	(197,450)	(254,312)
Other	(772)	(1,739)
	-----	-----
Net cash utilized by operating activities	(320,998)	(93,138)
	-----	-----
Cash flows from investing activities		
Additions to property, plant and equipment	(41,130)	(47,969)
Purchase of product rights and licenses	(13,800)	-
Investments and acquisitions, net of cash acquired	-	(355,000)
Other	3,317	9,019
	-----	-----
Net cash utilized by investing activities	(51,613)	(393,950)
	-----	-----
Cash flows from financing activities		
Proceeds from borrowings with original maturities of more than three months	3,500	850
Repayments of borrowings with original maturities of more than three months	(6)	(25,775)
Net proceeds of other short-term borrowings	461,465	433,825
Purchase of common stock	(191,345)	(107,647)
Stock option transactions	44,396	39,350
Dividends paid	(22,196)	(21,268)
	-----	-----
Net cash provided by financing activities	295,814	319,335
	-----	-----
Effect of exchange rate changes on cash	(3,186)	(13,437)
	-----	-----
Decrease in cash and cash equivalents	(79,983)	(181,190)
Cash and cash equivalents at beginning of year	177,748	361,785
	-----	-----
Cash and cash equivalents at end of period	\$ 97,765	180,595
	=====	=====

HASBRO, INC. AND SUBSIDIARIES  
 Consolidated Statements of Cash Flows (continued)  
 Six Months Ended June 27, 1999 and June 28, 1998

(Thousands of Dollars)  
 (Unaudited)

	1999	1998
	-----	-----
Supplemental information		
Cash paid during the period for:		
Interest	\$ 24,745	8,033
Income taxes	\$ 32,850	33,495

See accompanying condensed notes to consolidated financial statements.

HASBRO, INC. AND SUBSIDIARIES  
 Consolidated Statements of Comprehensive Earnings

(Thousands of Dollars)  
 (Unaudited)

	Quarters Ended		Six Months Ended	
	Jun. 27, 1999	Jun. 28, 1998	Jun. 27, 1999	Jun. 28, 1998
	-----	-----	-----	-----
Net earnings	\$ 32,289	5,453	46,084	13,246
Other comprehensive loss	(4,774)	(7,891)	(16,384)	(16,173)
Total comprehensive earnings (loss)	\$ 27,515	(2,438)	29,700	(2,927)
	=====	=====	=====	=====

See accompanying condensed notes to consolidated financial statements.

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

(Thousands of Dollars)  
(Unaudited)

(1) In the opinion of management and subject to year-end audit, the accompanying unaudited interim financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position of the Company as of June 27, 1999 and June 28, 1998, and the results of operations and cash flows for the periods then ended.

The results of operations for the six months ended June 27, 1999 are not necessarily indicative of results to be expected for the full year.

(2) All share and per share amounts have been adjusted to reflect the three-for-two stock split paid March 15, 1999.

(3) The Company's other comprehensive earnings (loss) primarily results from foreign currency translation adjustments.

(4) Hasbro is a worldwide marketer and distributor of family entertainment products, principally engaged in the development, manufacture and marketing of toy and game products. During the second quarter of 1999, the Company redefined its focus and method of managing its business into two major areas, Toys and Games. Following this organizational adjustment, within its two key areas, under the provisions of Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information, the Company's reportable segments are U.S. Toys, U.S. Games, International and Global Operations.

In the United States, the U.S. Toy segment includes the development, marketing and selling of boys action figures, vehicles and playsets, girls toys, preschool toys and infant products and creative play products. The U.S. Games segment includes the development, marketing and selling of traditional board games and puzzles, handheld electronic games and interactive software games based on the Company's owned and licensed brands. The Company markets and sells both toy and game products in non-U.S markets, and develops and manages certain toy and game products and properties within the International segment. Global Operations manufactures and sources product for all segments. The Company also has other segments which develop and market non-traditional toy and game based product and license certain toy properties. These other segments do not meet the quantitative thresholds for reportable segments and have been aggregated.

Segment performance is measured at the operating profit level. Included in Corporate and eliminations are general corporate expenses, the elimination of intersegment transactions and assets not identified with a specific segment. Intersegment sales and transfers are reflected in management reports at amounts approximating cost.

The accounting policies of the segments are the same as those described in

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

(Thousands of Dollars)  
 (Unaudited)

note 1 to the Company's financial statements for the year ended December 27, 1998.

Amounts shown for the first six months of 1999 are not necessarily representative of those which may be expected for the full year 1999 nor are those of the first six months of 1998 representative of those actually experienced for the full year 1998. Similarly, such results are not necessarily those which would be achieved were each segment an unaffiliated business enterprise.

Information by segment and a reconciliation to reported amounts for the three and six months ended June 27, 1999 and June 28, 1998 are as follows.

Three Months  
 -----

Net revenues	1999		1998	
	External	Affiliate	External	Affiliate
U.S. Toys	\$ 299,916	11	169,486	-
U.S. Games	312,422	(328)	167,523	(950)
International	201,537	1,260	173,861	624
Global Operations (a)	6,413	276,235	511	204,600
Other segments	54,286	3,285	60,676	3,394
Corporate and eliminations	-	(280,463)	-	(207,668)
	-----	-----	-----	-----
	\$ 874,574	-	572,057	-
	=====	=====	=====	=====

Six Months  
 -----

Net revenues	1999		1998	
	External	Affiliate	External	Affiliate
U.S. Toys	\$ 529,524	-	331,012	61
U.S. Games	511,728	1,356	261,217	(949)
International	349,975	2,970	323,167	1,590
Global Operations (a)	8,625	458,594	873	373,968
Other segments	143,120	8,347	138,608	7,809
Corporate and eliminations	-	(471,267)	-	(382,479)
	-----	-----	-----	-----
	\$1,542,972	-	1,054,877	-
	=====	=====	=====	=====



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

(Thousands of Dollars)  
(Unaudited)

	Quarter ended		Six Months ended	
	June 27, 1999	June 28, 1998	June 27, 1999	June 28, 1998
	----	----	----	----
Operating profit				
U.S. Toys	\$ 33,072	2,521	49,035	2,249
U.S. Games	34,661	14,509	38,631	16,909
International	(4,571)	(9,312)	(24,963)	(23,035)
Global Operations (a)	(1,940)	(4,059)	(3,624)	(10,222)
Other segments	3,953	7,316	31,027	27,020
Corporate and eliminations	(6,963)	1,286	(2,246)	5,363
	-----	-----	-----	-----
	\$ 58,212	12,261	87,860	18,284
	=====	=====	=====	=====
Depreciation				
U.S. Toys and U.S. Games (b)	\$ 3,586	2,083	6,791	4,007
International	2,134	2,200	4,558	4,624
Global Operations	18,420	16,888	28,746	28,507
Other segments	937	676	2,174	1,691
Corporate and eliminations	3,135	2,462	6,168	5,028
	-----	-----	-----	-----
	\$ 28,212	24,309	48,437	43,857
	=====	=====	=====	=====
Amortization of intangibles				
U.S. Toys and U.S. Games (b)	\$ 20,910	8,523	35,998	15,127
International	6,094	3,642	12,044	7,487
Global Operations	564	-	1,015	-
Other segments	4,350	3,715	8,787	7,409
	-----	-----	-----	-----
	\$ 31,918	15,880	57,844	30,023
	=====	=====	=====	=====
Capital additions				
U.S. Toys and U.S. Games (b)	\$ 2,588	2,200	5,180	2,890
International	1,200	14,153	2,029	15,233
Global Operations	15,804	10,816	28,259	19,256
Other segments	484	570	2,174	1,509
Corporate and eliminations	2,507	2,671	3,488	9,081
	-----	-----	-----	-----
	\$ 22,583	30,410	41,130	47,969
	=====	=====	=====	=====

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

(Thousands of Dollars)  
(Unaudited)

	June 27, 1999	June 28, 1998
	-----	-----
Total assets		
U.S. Toys and U.S. Games (b)	\$2,485,673	1,741,283
International	872,042	703,060
Global Operations	515,389	363,327
Other segments	315,920	347,948
Corporate and eliminations	(287,887)	(127,853)
	-----	-----
	\$3,901,137	3,027,765
	=====	=====

(a) The Global Operations segment derives substantially all of its revenues and thus its operating results from intersegment activities.

(b) As a result of the complexity of the Company's organizational changes, it currently is unable to segregate assets and related expenses between the U.S. Toys and U.S. Games segments, and thus they are currently reported as one. It is anticipated that such items will be segregated in the future and will then be separately reported.

The following table presents consolidated net revenues by classes of principal products for the quarter and six months ended June 27, 1999 and June 28, 1998.

	Quarter ended		Six Months ended	
	June 27, 1999	June 28, 1998	June 27, 1999	June 28, 1998
	----	----	----	----
Boys toys	\$ 341,900	170,900	573,000	329,800
Games and puzzles	330,700	216,700	539,100	345,100
Interactive software games	39,300	16,300	77,700	34,700
Preschool toys	38,300	44,200	85,500	82,100
Other	124,374	123,957	267,672	263,177
	-----	-----	-----	-----
Net revenues	\$ 874,574	572,057	1,542,972	1,054,877
	=====	=====	=====	=====

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

(Thousands of Dollars)  
(Unaudited)

(5) Earnings per share data for the fiscal quarters and six months ended June 27, 1999 and June 28, 1998 were computed as follows:

Quarter -----	1999		1998	
	Basic	Diluted	Basic	Diluted
Net earnings	\$ 32,289	32,289	5,453	5,453
Average shares outstanding (in thousands)	195,330	195,330	198,839	198,839
Effect of dilutive securities; Options and warrants	-	11,722	-	8,502
Equivalent shares	195,330	207,052	198,839	207,341
Earnings per share	\$ .17	.16	.03	.03
-----				
Six Months -----	1999		1998	
	Basic	Diluted	Basic	Diluted
Net earnings	\$ 46,084	46,084	13,246	13,246
Average shares outstanding (in thousands)	195,614	195,614	199,252	199,252
Effect of dilutive securities; Options and warrants	-	10,222	-	8,075
Equivalent shares	195,614	205,836	199,252	207,327
Earnings per share	\$ .24	.22	.07	.06

(6) Late in the fourth quarter of 1997, the Company announced a global integration and profit enhancement program which anticipated the redundancy of approximately 2,500 employees, principally in manufacturing, and provided for actions in three principal areas: a continued consolidation of the Company's manufacturing operations; the streamlining of marketing and sales, while exiting from certain underperforming markets and product lines; and the further leveraging of overheads. Of the \$140,000 estimated costs related to these actions, \$125,000 was reported as a nonrecurring charge and \$15,000 was

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

(Thousands of Dollars)  
(Unaudited)

reflected in cost of sales. Of the nonrecurring amount, approximately \$54,000 related to severance and people costs, \$52,000 to property, plant and equipment and leases and \$19,000 to product line related costs. During 1998, all employees planned for redundancy had their employment terminated. The approximate \$44,000 accrual remaining at June 27, 1999, is principally attributable to costs associated with lease terminations and closing of certain facilities, and severance costs, which will be disbursed over the employee's entitlement period. In the balance sheet, such property, plant and equipment is included as a component of other assets. The program has been substantially completed.

(7) The Company made three major acquisitions during 1998, having an aggregate purchase price of \$669,737. On April 1, 1998, the Company acquired substantially all of the business and operating assets of Tiger Electronics, Inc. and certain affiliates (Tiger). On September 14, 1998, the Company acquired MicroProse, Inc. (MicroProse) through a cash tender offer of \$6.00 for each outstanding share of MicroProse. Upon completion of a short-form merger, MicroProse became a wholly-owned subsidiary of the Company and each untendered share was converted into the right to receive \$6.00 in cash. On October 30, 1998, the Company acquired Galoob Toys, Inc. (Galoob) through a cash tender offer of \$12.00 for each outstanding share of Galoob. Upon completion of a short-form merger, Galoob became a wholly-owned subsidiary of the Company and each untendered Galoob share was converted into the right to receive \$12.00 in cash.

These three acquisitions were accounted for using the purchase method, and accordingly, the net assets acquired have been recorded at their estimated fair value and the results of their operations included from the dates of acquisition. Based on estimates of fair market value, \$90,494 has been allocated to net tangible assets, \$306,710 to product rights, \$252,827 to goodwill and \$20,000 to acquired in-process research and development. The appraised fair value of this acquired in-process research and development (interactive game software projects under development at the date of acquisition) was determined using the discounted cash flow approach, considered the percentage of completion at the date of acquisition and was expensed at acquisition.

On a pro forma basis, reflecting these three acquisitions as if they had taken place at the beginning of the period and after giving effect to adjustments recording the acquisitions, and excluding the charge for in-process research and development, unaudited net revenues, net loss and basic and diluted loss per share for the twenty six weeks ended June 28, 1998 would have been \$1,186,600, \$(28,300), \$(.14) and \$(.14), respectively. These pro forma results are not indicative of either future performance or actual results which would have occurred had the acquisitions taken place at the beginning of the period.

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

(Thousands of dollars)

NET EARNINGS

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Net earnings for the 1999 second quarter and six months increased to \$32,289 and \$46,084, respectively, from 1998 levels of \$5,453 and \$13,246. Diluted earnings per share for the second quarter was \$.16 in 1999 and \$.03 in 1998. For the six months ended June 1999, diluted earnings per share was \$.22 and \$.06 for the same period in 1998. A more detailed discussion of the various items that impacted net earnings follows.

NET REVENUES

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Worldwide net revenues increased 52.9% to \$874,574 in the second quarter of 1999 compared to \$572,057 in the second quarter of 1998. This increase is due to significantly higher revenues from STAR WARS product, in conjunction with the release of STAR WARS: EPISODE I: THE PHANTOM MENACE, FURBY, and increased volume of Hasbro Interactive games as well as new products including POKEMON. In addition, the second quarter of 1998 was adversely affected by changes in inventory flow policies at Toys `R Us which were initiated in the first quarter of 1998. The stronger US dollar negatively impacted net revenues for the 1999 second quarter compared to the same period last year by \$6,300. For the six months, revenues were \$1,542,972 and \$1,054,877 in 1999 and 1998, respectively. In addition to the second quarter factors noted above, the 1999 six month amounts reflect the impact of Tiger Electronics, Inc. (Tiger), which was acquired on April 1, 1998, TELETUBBIES, which began shipping in the second quarter of 1998 and an approximate \$7,700 negative impact of the strengthened U.S. dollar.

GROSS PROFIT

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The Company's gross profit margin, expressed as a percentage of net revenues, was 60.5% and 61.0% for the quarter and six months, respectively, compared to the 1998 levels of 56.8% and 57.2%. These improvements are attributable primarily to increased sales of promotional entertainment based and interactive products which have a higher gross margin and more favorable material prices, and secondarily to the removal of excess capacity resulting from the closure of seven manufacturing facilities throughout 1998.

EXPENSES

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Amortization expense in both periods of 1999 was greater than in the comparable periods of 1998, reflecting the Company's 1998 acquisitions (see note 7).

Royalties, research and development expenses for the quarter and year to date increased in both amount and as a percentage of net revenues from comparable

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

(Thousands of dollars)

1998 levels. The royalty component increased in both dollars and as a percentage of net revenues principally reflecting increased volumes of STAR WARS, and to a lesser extent, increased volumes of Tiger and TELETUBBIES product, POKEMON product which began shipping in the fourth quarter of 1998, and product acquired in connection with the Galoob acquisition. The Company believes this trend of increasing royalty expense is likely to continue in line with the expected higher percentage of the Company's product arising from licensed product carrying higher royalty rates. Research and development, at \$51,301 and \$94,088 for the quarter and six months of 1999, respectively, increased in dollars from \$39,103 and \$74,379 a year ago, while decreasing as a percentage of higher 1999 net revenues. The increase in amount results primarily from the Company's 1998 acquisitions as well as continued investment to expand Hasbro Interactive game titles. Advertising expense for the 1999 second quarter and six months increased in amount while decreasing as a percentage of net revenues from the comparable periods last year. The increase in dollars primarily reflects higher advertising expense of Tiger while the decrease in percentage reflects the mix of more entertainment based product in the second quarter of 1999; the latter is not as extensively advertised as the Company's non-entertainment based products.

Selling, distribution and administration expenses, which are largely fixed, increased in amount and decreased as a percentage of net revenues during both the second quarter and six months of 1999 from comparable 1998 levels. The increase in amount for the quarter is due largely to the effect of 1999 increased volume on shipping and warehousing costs. Coupled with this factor, the inclusion of Tiger for the full six months of 1999 contributes to the increase over the six months of 1998. The decrease in percentage from 1998 reflects the increase in 1999 revenues and the further leveraging of costs relating to the 1998 acquisitions of MicroProse and Galoob.

NONOPERATING (INCOME) EXPENSE

- - - - -

Interest expense for the 1999 second quarter and six months was \$13,625 and \$25,598, respectively, compared with \$6,416 and \$8,728 in 1998. This increase reflects costs associated with borrowing requirements to fund the Company's 1998 acquisitions and the continuation of the share repurchase program, coupled with the higher level of business activities in 1999. The change in other nonoperating income, net, in both the quarter and six months, primarily reflects lower earnings from short-term investments, the impact of minority investments in certain subsidiaries, as well as the impact of foreign exchange.

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

(Thousands of dollars)

INCOME TAXES

- - - - -

Income tax expense as a percentage of pretax earnings for the second quarter and six months of 1999 decreased to 31.0% from the full year 1998 rate of 32.0%, while decreasing from 34.0% in the second quarter and six months of 1998. The decrease in the period to period rates reflects the continued impact of the Tiger acquisition and the downward trend of the tax on international earnings due to the reorganization of the Company's global business.

OTHER INFORMATION

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During the past several years the Company has experienced a shift in its revenue pattern wherein the second half of the year has grown in significance to its overall business and, within that half, the fourth quarter has become more prominent. Although the first half of 1999 may represent a greater proportion of full year revenues than the first half of 1998, principally because of the May 19, 1999 theatrical release of STAR WARS: EPISODE 1: THE PHANTOM MENACE, the Company expects that this trend generally will continue. This concentration increases the risk of (a) underproduction of popular items, (b) overproduction of less popular items and (c) failure to achieve tight and compressed shipping schedules. The business of the Company is characterized by customer order patterns which vary from year to year largely because of differences in the degree of consumer acceptance of a product line, product availability, marketing strategies, inventory levels, policies of retailers and differences in overall economic conditions. Also, the quick response inventory management practices now being used results in fewer orders being placed in advance of shipment and more orders, when placed, for immediate delivery. As a result, comparisons of unshipped orders on any date in a given year with those at the same date in a prior year are not necessarily indicative of sales for the entire year. In addition, it is a general industry practice that orders are subject to amendment or cancellation by customers prior to shipment. At July 25, 1999 and July 26, 1998 the Company's unshipped orders were approximately \$1,060,000 and \$670,000, respectively.

Late in the fourth quarter of 1997, the Company announced a global integration and profit enhancement program which anticipated the redundancy of approximately 2,500 employees, principally in manufacturing, and provided for actions in three principal areas: a continued consolidation of the Company's manufacturing operations; the streamlining of marketing and sales, while exiting from certain underperforming markets and product lines; and the further leveraging of overheads. Of the \$140,000 estimated costs related to these actions, \$125,000 was reported as a nonrecurring charge and \$15,000 was

HASBRO, INC. AND SUBSIDIARIES  
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(Thousands of dollars)

reflected in cost of sales. Of the nonrecurring amount, approximately \$54,000 related to severance and people costs, \$52,000 to property, plant and equipment and leases and \$19,000 to product line related costs. During 1998, all employees planned for redundancy had their employment terminated. The approximate \$44,000 accrual remaining at June 27, 1999, is principally attributable to costs associated with lease terminations and closing of certain facilities and severance costs, which will be disbursed over the employee's entitlement period. In the balance sheet, such property, plant and equipment is included as a component of other assets. The program has been substantially completed. The Company initially estimated its pretax cost savings from this initiative to be \$40,000 in 1998 and \$350,000 over the period 1998 through 2002. Because of the unanticipated shortfall in sales to Toys 'R Us during 1998 and product mix, factory utilization rates were not as high as initially anticipated, which resulted in below target savings in 1998. The Company estimates that it realized pretax savings of approximately \$30,000 for the full year 1998 and approximately \$20,000 for the second quarter and \$30,000 for the first six months of 1999. The positive cash flow impact from this program has and will occur largely in the form of reduced outflows for payment of costs associated with the manufacture and sourcing of products.

LIQUIDITY AND CAPITAL RESOURCES

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

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



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(Thousands of dollars)

Receivables were \$843,580 at the end of June 1999 compared to \$600,254 at the end of June 1998. The increase reflects higher first half revenues and the impact of 1998 acquisitions, offset by the increased impact of the Company's letter of credit business and promotional and non-traditional toy and game business, all of which have shorter payment terms. Inventories increased 30.7% from 1998 levels, reflecting the Company's 1998 acquisitions and build up for increased 1999 activity. Other current assets increased to \$586,115 at June 1999 from \$223,740 at June 1998 reflecting advance royalties under the STAR WARS license agreement and the impact of the MicroProse acquisition. Property, plant and equipment and other assets, as a group, increased from their 1998 levels, reflecting the Company's 1998 acquisitions of MicroProse and Galoob as well as several acquisitions of product rights and licenses during the most recent twelve months, all partially offset by twelve additional months of depreciation and amortization expense.

Net borrowings (short and long-term borrowings less cash and cash equivalents) increased to \$1,135,374 at June 27, 1999 from \$346,664 at June 28, 1998. This reflects the use of approximately \$600,000 of cash in the prior twelve months for acquisitions and the Company's continued repurchase of its common stock, both of which are traditionally funded through a combination of cash provided by operating activities and short and long-term borrowings. During the second quarter, the Company accelerated a portion of its planned 1999 share buyback through the purchase of 3.1 million shares of its common stock (obtained through the exercise of a warrant) from DreamWorks LLC, at market price. The increase in net borrowings is also impacted by the advance royalty payments made in the fourth quarter of 1998 and second quarter of 1999 under the STAR WARS license agreement, discussed above. During the year ended December 27, 1998, the Company issued \$150,000 of 6.15% notes due July 15, 2008, \$100,000 of 5.60% notes due November 1, 2005 and \$150,000 of 6.60% debentures due July 15, 2028. At June 27, 1999, the Company had committed unsecured lines of credit totaling approximately \$700,000 available to it. It also had available uncommitted lines approximating \$670,000. The Company believes that these amounts are adequate for its needs. Of these available lines, approximately \$870,000 was in use at June 27, 1999. Trade payables and accrued liabilities both increased from the comparable 1998 levels, reflecting the impact of the Company's 1998 acquisitions and increased level of business activity.

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

(Thousands of dollars)

YEAR 2000

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

The Company has completed the awareness and assessment phases of this project through the inventorying and assessment of its critical financial, operational (including imbedded and non-information technology) and information systems. The remediation phase is nearing completion, as a number of non-compliant systems have been modified or replaced and modifications or replacements of other non-compliant systems are in progress. A planned global 'enterprise' system became operational at several of the Company's major units during 1998 and the first half of 1999, replacing a number of older non-compliant systems. As the global rollout of this enterprise system continues, additional Year 2000 compliance will occur in the second half of 1999. The Company is now in the validation and implementation phases and believes that approximately 95% of its mission critical systems are currently Year 2000 compliant and 100% will be compliant or operating under contingency plans, discussed below, by mid-December 1999. Excluding costs related to the enterprise system, the Company's out of pocket costs associated with becoming Year 2000 compliant are estimated to approximate \$3,000. These costs are being expensed as incurred and approximately two-thirds of this amount has been spent to date.

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

The Company's risk management program includes disaster recovery contingency plans that have been expanded to include Year 2000 issues. This includes a review of customer Year 2000 readiness and discontinuing credit or shortening payment terms accordingly, identification and selection of alternative Year 2000 ready suppliers and service providers and specific contingency plans for non-compliant systems where implementation of the global enterprise system may be delayed beyond the end of 1999, specifically legacy system updates and manual workarounds. In addition, the Company may carry a modest temporary increase in its inventory of certain items going into 2000 to guard against any disruption in supply.

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

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

RECENT INFORMATION

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In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). The effective date of this statement has recently been delayed to fiscal years beginning after June 15, 2000, requiring the Company to adopt not later than the beginning of fiscal 2001. SFAS 133 will require that the Company record all derivatives, such as foreign exchange contracts, on the balance sheet at fair value. Changes in derivative fair values will either be recognized in earnings as an offset to the changes in

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the fair value of the related hedged assets, liabilities and firm commitments or, for forecasted transactions, deferred and recorded as a component of other shareholders' equity until the hedged transactions occur and are recognized in earnings. Any portion of a hedging derivative's change in fair value which does not offset the change in fair value of the underlying exposure will be immediately recognized in earnings. The Company does not believe adoption of SFAS 133 will have a material impact on either its financial condition or results of operations.

PART II. Other Information

Item 1. Legal Proceedings.

None.

Item 2. Changes in Securities.

On June 18, 1999, the Company issued 3,115,071 shares of common stock, par value \$.50 per share, of the Company (the "Common Stock") to DreamWorks LLC ("DreamWorks") in exchange for, and upon exercise of, warrants to purchase 5,737,500 shares of Common Stock at \$14.00 per share held by DreamWorks. Such issuance was made in reliance upon Section 4(2) of the Securities Act of 1933.

Item 3. Defaults Upon Senior Securities.

None.

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

At the Company's Annual Meeting of Shareholders held on May 12, 1999, the Company's shareholders elected the following persons to the Board of Directors of the Company: Herbert M. Baum (171,057,975 votes for, 2,203,728 votes withheld), and E. Gordon Gee (169,791,579 votes for, 3,470,124 votes withheld). The following persons were reelected to the Board of Directors of the Company: Sylvia K Hassenfeld (171,006,909 votes for, 2,254,794 votes withheld); Norma T. Pace (171,020,717 votes for, 2,240,986 votes withheld); E. John Rosenwald, Jr. (171,035,841 votes for, 2,225,862 votes withheld); and Alfred J. Verrecchia (171,035,841 votes for, 2,200,863 votes withheld). The Company's shareholders also approved the 1999 Senior Management Annual Performance Plan by a vote of 170,357,501 votes for, 2,430,368 votes against and 473,834 abstentions.

Item 5. Other Information

None.

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

(a) Exhibits.

- 3.1 Restated Articles of Incorporation of the Company.
- 3.2 Certificate of Designations of Series C Junior Participating Preference Stock of Hasbro, Inc. dated June 29, 1999.
- 3.3 Certificate of Vote(s) authorizing decrease of a class or series of any class of shares.
- 10.1 First Amendment to Hasbro, Inc. Stock Incentive Plan and Stock Incentive Performance Plan.
- 10.2 First Amendment to Hasbro, Inc. Stock Option Plan for Non-Employee Directors
- 11.1 Computation of Earnings Per Common Share - Six Months Ended June 27, 1999 and June 28, 1998.
- 11.2 Computation of Earnings Per Common Share - Quarter Ended June 27, 1999 and June 28, 1998.
- 12 Computation of Ratio of Earnings to Fixed Charges - Six Months and Quarter Ended June 27, 1999.
- 27 Article 5 Financial Data Schedule - Second Quarter 1999

(b) Reports on Form 8-K

A Current Report on Form 8-K, dated June 16, 1999, was filed to announce that the Board of Directors approved the extension of the benefits afforded by the Company's then existing rights plan by adopting a new shareholder rights plan. Pursuant to the new shareholder rights plan, one right was issued for each outstanding share of common stock on June 30, 1999, the expiration date of the old shareholder rights plan.

A Current Report on Form 8-K, dated July 15, 1999 was filed by the Company and included the Press Release dated July 15, 1999, announcing the Company's results for the current quarter. Consolidated Statements of Earnings (without notes) for the quarters and six months ended June 27, 1999 and June 28, 1998 and Consolidated Condensed Balance Sheets (without notes) as of said dates were also filed.

SIGNATURES

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

HASBRO, INC.

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(Registrant)

Date: August 11, 1999

By: /s/ John T. O'Neill

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

HASBRO, INC. AND SUBSIDIARIES  
Quarterly Report on Form 10-Q  
For the Period Ended June 27, 1999

Exhibit Index

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## RESTATED ARTICLES OF INCORPORATION

OF

HASBRO, INC.

Pursuant to the provisions of Section 7-1.1-59 of the General Laws, 1956, as amended, the undersigned corporation adopts the following Restated Articles of Incorporation:

FIRST: The name of the corporation is HASBRO, INC.

SECOND: The period of its duration is perpetual.

THIRD: The purposes or purposes which the corporation is authorized to pursue are:

manufacturing, processing, buying, selling, photographing, printing and/or otherwise dealing in all kinds of toys, novelties, school supplies, games, plastics, pens, pencils, erasers and other articles of a similar nature; manufacturing, processing, buying, selling, photographing, printing and otherwise dealing in other articles of personal property bearing the names, pictures, likenesses and/or reproduction of any toys, novelties, school supplies, games, plastics, pens, pencils, erasers and other articles of a similar nature; to apply for, obtain, register, purchase, lease, or otherwise to acquire and hold, own, use, develop, operate and introduce, and to sell, assign, grant and/or receive licenses or territorial rights in respect to, or otherwise to turn to account or dispose of, any copyrights, trademarks, trade names, patents, labels, patent rights or letters patent of the United States, or of any other country or government, inventions, improvements and processes, whether used in connection or secured under letters patent or otherwise; and generally to engage in any other lawful business, except as hereinafter and/or by law prohibited; and generally to do any and all acts necessary, incident or related to any of the foregoing specific purposes.

In addition to the foregoing, said corporation shall have the following power and authority, viz:-- (See Sec. 7-2-10 of the General Laws).

To do any lawful act which is necessary or proper to accomplish the purposes of its incorporation. Without limiting or enlarging the effect of this general grant of authority, it is hereby specifically provided that every corporation shall have power:

(a) to have perpetual succession in its corporate name, unless a period for its duration is limited in its articles of association or charter;

(b) to sue and be sued in its corporate name;

(c) to have and use a common seal, and alter the same at pleasure;

(d) to elect such officers and appoint such agents as its business requires, and to fix their compensation and define their duties;

(e) to make by-laws not inconsistent with the Constitution or laws of the United States or of this state, or with the corporation's charter, or articles of association, determining the time and place of holding and the manner of calling and of conducting meetings of its stockholders and directors, the manner of electing its officers and directors, the mode of voting by proxy, the number, qualifications, powers, duties and term of office of its officers and directors, the number of directors and of shares of stock necessary to constitute a quorum, which number may be less than a majority, and the method of making demand for payment of subscriptions to its capital stock and providing for an executive committee to be elected from and by the board of directors and defining its powers and duties, and containing any other provisions, whether of the same or of a different nature, for the management of the corporation's property and the regulation and government of its affairs;

(f) to make contracts, incur liabilities and borrow money;

(g) to acquire, hold, sell and transfer shares of its own capital stock; provided, that no corporation shall use its funds or property for the purchase of its own shares of capital stock when such use would cause any impairment of the capital of the corporation;

(h) to acquire, hold, sell, assign, transfer, mortgage, pledge or otherwise dispose of any bonds, securities or evidences of indebtedness created by, or the shares of the capital stock of any other corporation or corporations of this state or of any other state, country, nation or government, and while owner of said stock to exercise all the rights, powers and privileges of ownership, including the right to vote thereon;

(i) to guarantee any bonds, securities or evidences of indebtedness created by or dividends on or a certain amount per share in liquidation of the capital stock of any other corporation or corporations created by this state or by any other state, country, nation or government;

(j) to acquire, hold, use, manage, convey, lease, mortgage, pledge or otherwise dispose of within or without this state any other property, real or personal, which its purposes shall require;

(k) to conduct business and have offices in this state and elsewhere; provided, however, that nothing in this section contained shall authorize any corporation to carry on the business of a bank, savings bank or trust company."

FOURTH: The total amount of authorized capital stock of the Corporation, with par value, shall be One Hundred Sixty-Two Million Five Hundred Thousand Dollars (\$162,500,000), as follows, viz:

Common Stock in the amount of One Hundred Fifty Million Dollars (\$150,000,000), to be divided into Three Hundred Million (300,000,000) shares of the par value of Fifty Cents (\$.50) each;

Preference Stock in the amount of Twelve Million Five Hundred Thousand Dollars (\$12,500,000), to be divided into Five Million (5,000,000) shares of the par value of Two and 50/100 Dollars (\$2.50) each.

FIFTH: A description of the terms, conditions, rights, privileges and other provisions regarding the Preference Stock is as follows, viz:

The Board of Directors of the corporation is authorized to issue the Preference Stock of the Corporation from time to time in one or more series, each series to have such dividend rates, convertibility features, redemption rates and prices, liquidation preferences, voting rights and other rights, limitations and qualifications as the Board of Directors may determine, including but not limited to the following:

(a) the serial designation of each series;

(b) the rate or rates of preferential, non-participating dividends, if any, payable either in cash or in property, or in the shares of the same series or another series of Preference Stock, or in shares of the Common Stock or in any combination thereof;

(c) the dates of payment of dividends and whether dividends shall be cumulative and if cumulative the dates from which dividends shall be cumulative;

(d) the price or prices and the time at which the same may be redeemed, which shall be not less than the par value thereof, plus dividend arrearages, if any;

(e) the notice of redemption required;

(f) the amount and terms of a sinking fund, if any, for the redemption thereof, provided such sinking fund is payable only out of funds legally available therefor;

(g) the terms, conditions, rights, privileges and other provision, if any, respecting the conversion of any or all series of Preference Stock into either Preference Stock of the same series or another series of Preference Stock, or into Common Stock or into any other class of capital stock which the corporation may then be authorized to issue, or into any combination thereof;

(h) the preferential amount or amounts which shall be paid to the holders thereof in the event of liquidation, dissolution, or winding up of the corporation, whether voluntary or involuntary, which shall be not less than the par value plus dividend arrearages, if any;

(i) the voting powers, if any, rights to participate in meetings of stockholders, or rights to have notice of meetings of stockholders; and

(j) such other designations, preferences and relative, participating

optional or other special rights, and qualifications, limitations or restrictions thereof, as are permitted by the provisions of Section 7-3-1 of the General Laws of Rhode Island, and all amendments thereof and additions thereto.

Each series of the Preference Stock shall have such preferences as to dividends and assets and amounts distributable on liquidation, dissolution or winding up as shall be declared by the resolution or resolutions of the Board of Directors establishing such series; provided that all Preference Stock shall be preferred over all Common Stock as to dividends. All shares of any one series shall rank equally.

The shares of any series of Preference Stock which have been issued and redeemed, will have the status of authorized and unissued shares and may be reissued as shares of the series of which they were originally a part or may be issued as shares of a new series or as shares of any other series, all subject to the conditions and restrictions of any series of Preference Stock.

Subject to the limitations prescribed in this Article Fifth and any further limitations in accordance herewith, the holders of shares of Common Stock shall be entitled to receive, when and as declared by the Board of Directors of the corporation out of the assets of the corporation which are by law available therefor, dividends payable either in cash, or in property, or in shares of any series of Preference Stock, or in Common Stock, or in any combination thereof. No dividends, however, other than dividends payable in shares of Common Stock shall be paid on Common Stock if dividends in full on all outstanding shares of Preference Stock to which the holders thereof are entitled shall not have been paid or declared and set apart for payment. Each issued and outstanding share of Common Stock shall entitle the holder thereof to full voting power.

The board of directors may authorize the issuance of additional shares of Common Stock and/or Preference Stock, not exceeding the number of shares authorized, or in the event of the issuance of additional shares as aforesaid, the stockholders shall not have any preemptive right to subscribe for any new stock to be issued by the corporation, in proportion to and/or by virtue of their respective holdings of stock at the time of such issue.

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Hasbro, Inc., a corporation organized and existing under the Business Corporation Act of the State of Rhode Island (hereinafter called the "Corporation"), hereby certifies that the following resolution was adopted by the Board of Directors of the Corporation as required by Section 7.1.1-15 of the Rhode Island Business Corporation Act at a meeting duly called and held on June 4, 1989:

RESOLVED, that pursuant to the authority granted to and vested in the Board of Directors of this Corporation (hereinafter called the "Board of Directors" or the "Board") in accordance with the provisions of the Articles of Incorporation, the Board of Directors hereby creates a series of Preference Stock, par value \$2.50 per share. The designation, number of shares, rights, preferences, and limitations is as follows:

Series B Junior Participating Preference Stock:

Section 1. Designation and Amount. The shares of such series shall be designated as "Series B Junior Participating Preference Stock" (the "Series B Preference Stock") and the number of shares constituting the Series B Preference Stock shall be 100,000. Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, that no decrease shall reduce the number of shares of Series B Preference Stock to a number less than the number of shares then outstanding plus the number of shares reserved for issuance upon the exercise of outstanding options, rights or warrants or upon the conversion of any outstanding securities issued by the Corporation convertible into Series B Preference Stock.

Section 2. Dividends and Distributions.

(A) Subject to the rights of the holders of any shares of any series of Preference Stock (or any similar stock) ranking prior and superior to the Series B Preference Stock with respect to dividends, the holders of shares of Series B Preference Stock, in preference to the holders of Common Stock, par value \$.50 per share (the "Common Stock"), of the Corporation, and of any other junior stock, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the last day of March, June, September and December in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series B Preference

Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$10 or (b) subject to the provision for adjustment hereinafter set forth, 1,000 times the aggregate per share amount of all cash dividends, and 1,000 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions, other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series B Preference Stock. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of shares of Series B Preference Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Corporation shall declare a dividend or distribution on the Series B Preference Stock as provided in paragraph (A) of this Section immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$10 per share on the Series B Preference Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Series B Preference Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series B Preference Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series B Preference Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series B Preference Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than 60 days prior to the date fixed for the payment thereof.

Section 3. Voting Rights. The holders of shares of Series B Preference Stock shall have the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth, each share of Series B Preference Stock shall entitle the holder thereof to 1,000 votes on all matters submitted to a vote of the stockholders of the Corporation. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the number of votes per share to which holders of shares of Series B Preference Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided herein, in any other Certificate of Designations creating a series of Preference Stock or any similar stock, or by law, the holders of shares of Series B Preference Stock and the holders of shares of Common Stock and any other capital stock of the Corporation having general voting rights shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

(C) Except as set forth herein, or as otherwise provided by law, holders of Series B Preference Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

#### Section 4. Certain Restrictions.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series B Preference Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series B Preference Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends, or make any other distributions, on any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series B Preference Stock;

(ii) declare or pay dividends or make any other distributions, on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series B Preference Stock, except dividends paid ratably on the Series B Preference Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series B Preference Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series B Preference Stock; or

(iv) redeem or purchase or otherwise acquire for consideration any shares of Series B Preference Stock, or any shares of stock ranking on a parity with the Series B Preference Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

Section 5. Reacquired Shares. Any shares of Series B Preference Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preference Stock and may be reissued as part of a new series of Preference Stock subject to the conditions and restrictions on issuance set forth herein, in the Articles of Incorporation, or in any other Certificate of Designations creating a series of Preference Stock or any similar stock or as otherwise required by law.

Section 6. Liquidation, Dissolution or Winding Up. Upon any liquidation, dissolution or winding up of the Corporation, no distribution shall be made (1) to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series B Preference Stock unless, prior thereto, the holders of shares of Series B Preference Stock shall have received \$1,000 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, provided that the holders of shares of Series B Preference Stock shall be entitled to receive an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 1,000 times the aggregate amount to be distributed per share to holders of shares of Common Stock, or (2) to the holders of shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series B Preference Stock, except distributions made ratably on the Series B Preference Stock and all such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up. In the event the Corporation shall at

any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount to which holders of shares of Series B Preference Stock were entitled immediately prior to such event under the proviso in clause (1) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 7. Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case each share of Series B Preference Stock shall at the same time be similarly exchanged or changed into an amount per share, subject to the provision for adjustment hereinafter set forth, equal to 1,000 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series B Preference Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 8. No Redemption. The shares of Series B Preference Stock shall not be redeemable.

Section 9. Rank. The Series B Preference Stock shall rank, with respect to the payment of dividends and the distribution of assets, junior to the Corporation's 8% Convertible Preference Stock, par value \$2.50 per share, and to all series of any other class of the Corporation's Preference Stock.

Section 10. Amendment. The Articles of Incorporation of the Corporation shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series B Preference Stock so as to affect them adversely without the affirmative vote of the holders of at least two-thirds of the outstanding shares of Series B Preference Stock, voting together as a single class.

SIXTH: The principal office of said corporation shall be located in Pawtucket, Rhode Island.

SEVENTH: The corporation may contract for any lawful purpose with one or more of its directors or with any corporation having with it a common director or directors, if the contract is entered into in good faith, if it is approved or ratified by vote of the holders of a majority in interest of its stock or by a majority vote at any meeting of its board of directors excluding any vote by the contracting or common director or directors and if the contracting or common director or directors shall not be necessary for a quorum at the meeting for this purpose. A contract made in compliance with the foregoing provisions shall be voidable by the corporation complying with the said provision only in case it would be voidable if made with a stranger. A contract not otherwise void or voidable shall not be rendered void or voidable merely because not approved or ratified in accordance with the foregoing provisions.

EIGHTH: 8.1 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) exists, such majority must include the affirmative vote of at least a majority of the Continuing Directors (as hereinafter defined).

8.2 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.

8.3 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 paragraph, 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 8.3) 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.

8.4 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.

NINTH: The Board of Directors is authorized to adopt, repeal, alter, amend or rescind the By-Laws of the Corporation 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).

TENTH: 10.1 For the purposes of these Articles Eighth through Twelfth:

(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 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 Section 10.1.

(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 Section 10.1. 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 Eighth, Ninth and Twelfth only of these Articles of Association, 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 these Articles of Association and the 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 Eighth, Ninth and Twelfth of these Articles of Association.

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 Section 10.1 and the definition of Person set forth in subsection (6) of this Section 10.1, 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 these Articles of Association.

(10) The term "Voting Stock" shall mean stock or other securities of

the Corporation entitled to vote generally in the election of directors.

10.2 Subject to Section 10.3 of this Article Tenth, but notwithstanding any other provisions of these Articles of Association 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 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 Tenth 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 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.

10.3 The approval requirements of Section 10.2 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 Association, 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.

10.4 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 Section 10.1, except that for purposes of this Section 10.4 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.

10.5 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;

(b) Whether a Person is an Affiliate or Associate 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 hereinabove defined;

(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 these Articles of Association would have the effect of modifying or permitting circumvention of the provisions of Article Eighth through Twelfth of these Articles of Association; and

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

Any such determination shall be conclusive and binding for all purposes of Articles Eighth through Twelfth of these Articles of Association.

10.6 The affirmative votes required by this Article Tenth 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 Association, 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.

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

ELEVENTH: 11.1 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.

11.2 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 60 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. Any shareholder may make any other proposal at the annual meeting and the same may be discussed and considered, but unless stated in writing and filed with the Secretary of the Corporation at least 60 days before the meeting, such proposal shall, if appropriate under applicable law, be held over for action at an adjourned, special or annual meeting of shareholders taking place 30 days or more thereafter. 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.

TWELFTH: 12.1 Any amendment, change or repeal of Articles Eighth and Articles Tenth through Twelfth (an "Amendment") or any other amendment of these Articles of Association which would have the effect of modifying or permitting circumvention of the provisions of Article Eighth and Articles Tenth through Twelfth (an "Other Amendment") shall require approval by the affirmative votes of at least:

(1) a majority of the Entire Board of Directors, which shall include, if an Interested Person exists for purposes of this Article Twelfth, a majority of the Continuing Directors; and

(2) a majority of the votes held by the holders of Voting Stock except that if an Interested Person exists for purposes of this Article Twelfth, the affirmative votes of at least 80% of the votes held by the holders of shares of Voting Stock including an Independent Majority of Shareholders, shall be required; provided, however, that if 66-2/3% of the Continuing Directors shall approve such Amendment or Other Amendment, then notwithstanding the existence of an Interested Person for purposes of this Article Twelfth, such Amendment or Other Amendment shall require only such affirmative vote as is required by law, by any other provision of these Articles of Association, by the terms of any outstanding classes or series of capital stock of the Corporation or by any agreement with any national securities exchange to effect a Business Combination, but in no event by less than a majority of the votes held by the holders of Voting Stock.

12.2 Any amendment, change or repeal of Article Ninth of these Articles of Association or any amendment of these Articles of Association which would have the effect of modifying or permitting circumvention of the provisions of Article Ninth shall require approval by the affirmative votes of at least:

(1) a majority of the Entire Board of Directors, which shall include, if an Interested Person exists for purposes of this Article Twelfth, a majority of the Continuing Directors; and

(2) 66-2/3% of the votes held by holders of Voting Stock, except that if an Interested Person exists, by the affirmative votes of at least 80% of the votes held by the holders of shares of Voting Stock, including an Independent Majority of Shareholders.

THIRTEENTH: A director of the Corporation shall not be personally liable to the Corporation or its shareholders for monetary damages for breach of the director's duty as a director, except for liability of a director (i) for any breach of the director's duty of loyalty to the Corporation or its shareholders; (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (iii) the liability imposed pursuant to the provisions of Section 7-1.1-43 of the Rhode Island Business Corporation Act; or (iv) for any transaction from which the director derived an improper personal benefit (unless said transaction is permitted by Section 7-1.1-37 of the Rhode Island Business Corporation Act). If the Rhode Island Business Corporation Act is amended after approval by the shareholders of this Article to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation or its shareholders shall be eliminated or limited to the fullest extent permitted by the Rhode Island Business Corporation Act, as so amended.

Any repeal or modification of the foregoing paragraph by the shareholders

of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

FOURTEENTH: The restated articles of incorporation correctly set forth without change the corresponding provisions of the Articles of Incorporation as heretofore amended, and supersede the original articles of incorporation and all amendments thereto.

Dated: July , 1993 HASBRO, INC.

/s/ Alan G. Hassenfeld

Its President

/s/ Donald M. Robbins

Its Secretary

STATE OF RHODE ISLAND )  
 :Sc.  
COUNTY OF PROVIDENCE )

At Pawtucket in said county on this 14th day of July, 1993, personally appeared before me Alan G. Hassenfeld, who, being by me first duly sworn, declared that he is the President of Hasbro, Inc. that he signed the foregoing document as President of the corporation, and that the statements therein contained are true.

/s/ Marie D. Pamental

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Notary Public

My Commission Expires 2/5/95

[NOTARIAL SEAL]

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
OFFICE OF THE SECRETARY OF STATE

RESTATED CERTIFICATE OF INCORPORATION

OF

HASBRO, INC.

I, Andred Totolo, Acting Deputy Secretary of State hereby certify that duplicate originals of Restated Articles of Incorporation of Hasbro, Inc., duly signed and certified pursuant to the provisions of Chapter 7-1.1 of the General Laws, 1956, as amended, have been received in this office and are found to conform to law, and that the foregoing is a duplicate original of the restated Articles of Incorporation.

Witness my hand and the seal of  
State of Rhode Island this 14th day  
of July 1993.

/s/ Andred Totolo

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Acting Deputy Secretary of State

CERTIFICATE OF DESIGNATIONS  
OF  
SERIES C JUNIOR PARTICIPATING PREFERENCE STOCK  
OF  
HASBRO, INC.

(Pursuant to Section 7.1.1-15 of the  
Rhode Island Business Corporation Act)

Hasbro, Inc., a corporation organized and existing under the Business Corporation Act of the State of Rhode Island (hereinafter called the "Corporation"), hereby certifies that the following resolution was adopted by the Board of Directors as required by Section 7.1.1-15 of the Rhode Island Business Corporation Act at a meeting duly called and held on June 16, 1999:

RESOLVED, that pursuant to the authority granted to and vested in the Board of Directors of this Corporation (hereinafter called the "Board of Directors" or the "Board") in accordance with the provisions of its Restated Articles of Incorporation, the Board of Directors hereby creates a series of Preference Stock, par value \$2.50 per share (the "Preference Stock"), of the Corporation and hereby states the designation and number of shares, and fixes the relative rights, preferences, and limitations thereof as follows:

Series C Junior Participating Preference Stock:

Section 1. Designation and Amount. The shares of such series shall be designated as "Series C Junior Participating Preference Stock" and the number of shares constituting such series shall be 60,000.

Section 2. Dividends and Distributions.

(A) Subject to the prior and superior rights of the holders of any shares of any series of Preference Stock ranking prior and superior to the shares of Series C Junior Participating Preference Stock with respect to dividends, the holders of shares of Series C Junior Participating Preference Stock, in preference to the holders of shares of Common Stock, par value \$.50 per share (the "Common Stock"), of the Corporation, and of any other junior stock, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the last day of March, June, September and December in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series C Junior Participating Preference Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$10.00 or (b) subject to the provision for adjustment hereinafter set forth, 10,000 times the aggregate per share amount of all cash dividends, and 10,000 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series C Junior Participating Preference Stock. In the event the Corporation shall at any time after June 30, 1999 (the "Rights Declaration Date") (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount to which holders of shares of Series C Junior Participating Preference Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Corporation shall declare a dividend or distribution on the Series C Junior Participating Preference Stock as provided in Paragraph (A) above immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$10.00 per share on the Series C Junior Participating Preference Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Series C Junior Participating Preference Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of

Series C Junior Participating Preference Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series C Junior Participating Preference Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series C Junior Participating Preference Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series C Junior Participating Preference Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 30 days prior to the date fixed for the payment thereof.

Section 3. Voting Rights. The holders of shares of Series C Junior Participating Preference Stock shall have the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth, each share of Series C Junior Participating Preference Stock shall entitle the holder thereof to 10,000 votes on all matters submitted to a vote of the shareholders of the Corporation. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the number of votes per share to which holders of shares of Series C Junior Participating Preference Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided herein, in any other Certificate of Designations creating a Series of Preference Stock or any similar stock or by law, the holders of shares of Series C Junior Participating Preference Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of shareholders of the Corporation.

(C) (i) If at any time dividends on any Series C Junior Participating Preference Stock shall be in arrears in an amount equal to six (6) quarterly dividends thereon, the occurrence of such contingency shall mark the beginning of a period (herein called a "default period") which shall extend until such time when all accrued and unpaid dividends for all previous quarterly dividend periods and for the current quarterly dividend period on all shares of Series C Junior Participating Preference Stock then outstanding shall have been declared and paid or set apart for payment. During each default period, all holders of Preference Stock (including holders of the Series C Junior Participating Preference Stock) with dividends in arrears in an amount equal to six (6) quarterly dividends thereon, voting as a class, irrespective of series, shall have the right to elect two (2) directors.

(ii) During any default period, such voting right of the holders of Series C Junior Participating Preference Stock may be exercised initially at a special meeting called pursuant to subparagraph (iii) of this Section 3(C) or at any annual meeting of shareholders, and thereafter at annual meetings of shareholders, provided that neither such voting right nor the right of the holders of any other series of Preference Stock, if any, to increase, in certain cases, the authorized number of directors shall be exercised unless the holders of ten percent (10%) in number of shares of Preference Stock outstanding shall be present in person or by proxy. The absence of a quorum of the holders of Common Stock shall not affect the exercise by the holders of Preference Stock of such voting right. At any meeting at which the holders of Preference Stock shall exercise such voting right initially during an existing default period, they shall have the right, voting as a class, to elect directors to fill such vacancies, if any, in the Board of Directors as may then exist up to two (2) directors or, if such right is exercised at an annual meeting, to elect two (2) directors. If the number which may be so elected at any special meeting does not amount to the required number, the holders of the Preference Stock shall have the right to make such increase in the number of directors as shall be necessary to permit the election by them of the required number. After the holders of the Preference Stock shall have exercised their right to elect directors in any default period and during the continuance of such period, the number of directors shall not be increased or decreased except by vote of the holders of Preference Stock as herein provided or pursuant to the rights of any equity securities ranking senior to or *pari passu* with the Series C Junior Participating Preference Stock.

(iii) Unless the holders of Preference Stock shall, during an existing default period, have previously exercised their right to elect directors, the Board of Directors may order, or any shareholder or shareholders owning in the aggregate not less than ten percent (10%) of the total number of shares of Preference Stock outstanding, irrespective of series, may request, the calling of a special meeting of the holders of Preference Stock, which meeting shall thereupon be called by the Chairman of the Board, any Vice Chairman, the President or the Secretary of the Corporation. Notice of such meeting and of any annual meeting at which holders of Preference Stock are entitled to vote pursuant to this Paragraph (C)(iii) shall be given to each holder of record of Preference Stock by mailing a copy of such notice to him at his last address as the same appears on the books of the Corporation. Such meeting shall be called for a time not earlier than 20 days and not later than 60 days after such order or request or in default of the calling of such meeting within 60 days after such order or request, such meeting may be called on similar notice by any shareholder or shareholders owning in the aggregate not less than ten percent (10%) of the total number of shares of Preference Stock outstanding. Notwithstanding the provisions of this Paragraph (C)(iii), no such special meeting shall be called during the period within 60 days immediately preceding the date fixed for the next annual meeting of the shareholders.

(iv) In any default period, the holders of Common Stock, and other classes of stock of the Corporation if applicable, shall continue to be entitled to elect the whole number of directors until the holders of Preference Stock shall have exercised their right to elect two (2) directors voting as a class, after the exercise of which right (x) the directors so elected by the holders of Preference Stock shall continue in office until their successors shall have been elected by such holders or until the expiration of the default period, and (y) any vacancy in the Board of Directors may (except as provided in Paragraph (C)(ii) of this Section 3) be filled by vote of a majority of the remaining directors theretofore elected by the holders of the class of stock which elected the director whose office shall have become vacant. References in this Paragraph (C) to directors elected by the holders of a particular class of stock shall include directors elected by such directors to fill vacancies as provided in clause (y) of the foregoing sentence.

(v) Immediately upon the expiration of a default period, (x) the right of the holders of Preference Stock as a class to elect directors shall cease, (y) the term of any directors elected by the holders of Preference Stock as a class shall terminate, and (z) the number of directors shall be such number as may be provided for in the Restated Articles of Incorporation or the Amended and Restated By-laws irrespective of any increase made pursuant to the provisions of Paragraph (C)(ii) of this Section 3 (such number being subject, however, to change thereafter in any manner provided by law or in the Restated Articles of Incorporation or Amended and Restated By-laws). Any vacancies in the Board of Directors effected by the provisions of clauses (y) and (z) in the preceding sentence may be filled by a majority of the remaining directors.

(D) Except as set forth herein, holders of Series C Junior Participating Preference Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

#### Section 4. Certain Restrictions.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series C Junior Participating Preference Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series C Junior Participating Preference Stock outstanding shall have been paid in full, the Corporation shall not

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series C Junior Participating Preference Stock;

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series C Junior Participating Preference Stock, except dividends paid ratably on the Series C Junior Participating Preference Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;



(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series C Junior Participating Preference Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series C Junior Participating Preference Stock; or

(iv) redeem or purchase or otherwise acquire for consideration any shares of Series C Junior Participating Preference Stock, or any shares of stock ranking on a parity with the Series C Junior Participating Preference Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under Paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

Section 5. Reacquired Shares. Any shares of Series C Junior Participating Preference Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preference Stock and may be reissued as part of a new series of Preference Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein, in the Restated Articles of Incorporation, or in any other Certificate of Designations creating a series of Preference Stock or any similar stock or as otherwise required by law.

Section 6. Liquidation, Dissolution or Winding Up. (A) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Corporation, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series C Junior Participating Preference Stock unless, prior thereto, the holders of shares of Series C Junior Participating Preference Stock shall have received an amount equal to \$10,000 per share of Series C Participating Preference Stock, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series C Liquidation Preference"). Following the payment of the full amount of the Series C Liquidation Preference, no additional distributions shall be made to the holders of shares of Series C Junior Participating Preference Stock unless, prior thereto, the holders of shares of Common Stock shall have received an amount per share (the "Common Adjustment") equal to the quotient obtained by dividing (i) the Series C Liquidation Preference by (ii) 10,000 (as appropriately adjusted as set forth in subparagraph (C) below to reflect such events as stock splits, stock dividends and recapitalizations with respect to the Common Stock) (such number in clause (ii), the "Adjustment Number"). Following the payment of the full amount of the Series C Liquidation Preference and the Common Adjustment in respect of all outstanding shares of Series C Junior Participating Preference Stock and Common Stock, respectively, holders of Series C Junior Participating Preference Stock and holders of shares of Common Stock shall receive their ratable and proportionate share of the remaining assets to be distributed in the ratio of the Adjustment Number to 1 with respect to such Preference Stock and Common Stock, on a per share basis, respectively.

(B) In the event, however, that there are not sufficient assets available to permit payment in full of the Series C Liquidation Preference and the liquidation preferences of all other series of Preference Stock, if any, which rank on a parity with the Series C Junior Participating Preference Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences. In the event, however, that there are not sufficient assets available to permit payment in full of the Common Adjustment, then such remaining assets shall be distributed ratably to the holders of Common Stock.

(C) In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 7. Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Series C Junior Participating Preference Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 10,000 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series C Junior Participating Preference Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 8. No Redemption. The shares of Series C Junior Participating Preference Stock shall not be redeemable.

Section 9. Ranking. The Series C Junior Participating Preference Stock shall rank junior to all other series of the Corporation's Preference Stock as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise.

Section 10. Amendment. At any time when any shares of Series C Junior Participating Preference Stock are outstanding, neither the Restated Articles of Incorporation of the Corporation nor this Certificate of Designations shall be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series C Junior Participating Preference Stock so as to affect them adversely without the affirmative vote of the holders of a majority or more of the outstanding shares of Series C Junior Participating Preference Stock, voting separately as a class.

Section 11. Fractional Shares. Series C Junior Participating Preference Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series C Junior Participating Preference Stock.

IN WITNESS WHEREOF, we have executed and subscribed this Certificate and do affirm the foregoing as true under the penalties of perjury this 29th day of June, 1999.

/s/ Herbert M. Baum  
-----  
President

/s/ Phillip H. Waldoks  
-----  
Secretary

STATE OF RHODE ISLAND     )  
                                  : Sc.  
COUNTY OF PROVIDENCE    )

At Pawtucket in said county on this 29th day of June, 1999, personally appeared before me Herbert M. Baum, who, being by me first duly sworn, declared that he is the President of Hasbro, Inc. that he signed the foregoing document as President of the corporation, and that the statements therein contained are true.

/s/ Marie W. Pamental  
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Notary Public

Filing Fee: \$10.00

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
 Office of the Secretary of State  
 Corporations Division  
 100 North Main Street  
 Providence, Rhode Island 02903-1335

BUSINESS CORPORATION  
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CERTIFICATE OF VOTE(S) AUTHORIZING DECREASE  
 OF A CLASS OR SERIES OF ANY CLASS OF SHARES

Pursuant to the provisions of Section 7-1.1-15 of the General Laws, 1956, as amended, the undersigned corporation submits the following certificate of vote(s) for the purpose of decreasing the number of designated but unissued shares of Series B Junior Participating Preference Stock from 100,000 to zero:

1. The name of the corporation is Hasbro, Inc.
2. The following vote(s), decreasing the number of designated but unissued shares of Series B Junior Participating Preference Stock from 100,000 to zero, was provided for in the following vote or votes adopted by the board of directors of the corporation on June 16, 1999.

FURTHER RESOLVED, that effective June 30, 1999, the number of shares of Series B Junior Participating Preference Stock, which series was originally designated by this Board of Directors on June 4, 1989, but none of which shares have ever been issued, shall be decreased from 100,000 to zero and such shares and such series shall resume the status of authorized but unissued and undesignated Preference Stock which may be reissued as shares of any new series or as shares of any other series, all subject to the conditions and restrictions of any such new or other series; and it is

FURTHER RESOLVED, that the proper officers of the Company are authorized and directed to file a Certificate of Vote(s) as to said decrease with the Secretary of State of the State of Rhode Island and to take any other action as they may deem necessary or desirable to implement the foregoing resolution.

3. Upon filing, this certificate shall constitute an amendment to the articles of incorporation.

Dated: July 20, 1999

HASBRO, INC.

/s/ John T. O'Neill  
 -----

Executive Vice President and  
 Chief Financial Officer

and

/s/ Phillip H. Waldoks  
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Secretary

STATE OF RHODE ISLAND  
 COUNTY OF PAWTUCKET

In Pawtucket, on this 20th day of July, 1999, personally appeared before me John T. O'Neill, who being by me first duly sworn, declared that he is the Executive Vice President and Chief Financial Officer of HASBRO, INC. and that he signed the foregoing document as the Executive Vice President and Chief Financial Officer of the corporation, and that the statements therein contained are true.

/s/ Marie D. Pamental  
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Notary Public  
 My Commission Expires: 2/5/2001

FIRST AMENDMENT  
TO HASBRO, INC.  
STOCK INCENTIVE PLAN AND  
STOCK INCENTIVE PERFORMANCE PLAN

WHEREAS, on February 18, 1992, the Board of Directors ("Board") of Hasbro, Inc. (the "Company"), at the recommendation of the Compensation and Stock Option Committee of the Board (the "Committee") adopted the Hasbro, Inc. 1992 Stock Incentive Plan (the "1992 Plan"), subject to shareholder approval, which was obtained on May 13, 1992; and

WHEREAS, on February 8, 1995, the Committee adopted the Stock Incentive Performance Plan (the "1995 Plan"), subject to shareholder approval, which was obtained on May 10, 1995 (the "1992 Plan" and the "1995 Plan" being collectively referred to hereafter as the "Plans"); and

WHEREAS, the Company desires to amend the Plans.

NOW THEREFORE, each of the Plans is hereby amended by deleting subsections (3) and (4) of Section 16(b) thereof and substituting the following, effective May 11, 1999:

"(3) Notwithstanding the foregoing subsections (1) and (2), to the extent that implementation of said subsections would preclude a Change of Control transaction intended to qualify for "pooling of interests" accounting treatment from so qualifying, the Committee shall have the discretion to take alternative action with respect to then outstanding awards (including, but not limited to, conversion of such awards to an award of the corporation resulting from such transaction or the settlement of such awards in shares of stock of Hasbro or such resulting corporation) as may be necessary so as not to preclude such transaction from so qualifying."

IN WITNESS WHEREOF, the Company has caused this First Amendment to be executed by its duly authorized officer, as of the 11th day of May 1999.

HASBRO, INC.

By: /s/ Phillip H. Waldoks  
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Senior Vice President --  
Corporate Legal Affairs  
and Secretary

FIRST AMENDMENT  
TO HASBRO, INC.  
STOCK OPTION PLAN FOR  
NON-EMPLOYEE DIRECTORS

WHEREAS, on February 18, 1994, the Board of Directors ("Board") of Hasbro, Inc. (the "Company") adopted the Hasbro, Inc. Stock Option Plan for Non-Employee Directors (the "Plan"), subject to shareholder approval, which was obtained on May 11, 1994; and

WHEREAS, the Company desires to amend the Plan.

NOW THEREFORE, the Plan is hereby amended by deleting subsections (3) and (4) of Section 9(b) thereof and substituting the following, effective June 16, 1999:

"(3) Notwithstanding the foregoing subsections (1) and (2), to the extent that implementation of said subsections would preclude a Change of Control transaction intended to qualify for "pooling of interests" accounting treatment from so qualifying, the Board shall have the discretion to take alternative action with respect to then outstanding awards (including, but not limited to, conversion of such awards to an award of the corporation resulting from such transaction or the settlement of such awards in shares of stock of the Company or such resulting corporation) as may be necessary so as not to preclude such transaction from so qualifying."

IN WITNESS WHEREOF, the Company has caused this First Amendment to be executed by its duly authorized officer, as of the 16th day of June, 1999.

HASBRO, INC.

By: /s/ Phillip H. Waldoks

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Senior Vice President --  
Corporate Legal Affairs  
and Secretary

HASBRO, INC. AND SUBSIDIARIES  
 Computation of Earnings Per Common Share  
 Six Months Ended June 27, 1999 and June 28, 1998

(Thousands of Dollars and Shares Except Per Share Data)

	1999		1998	
	----- Basic -----	Diluted -----	----- Basic -----	Diluted -----
Net earnings	\$ 46,084	46,084	13,246	13,246
	=====	=====	=====	=====
Weighted average number of shares outstanding:				
Outstanding at beginning of period	196,175	196,175	200,162	200,162
Exercise of stock options and warrants:				
Actual	1,206	1,206	1,371	1,371
Assumed	-	10,222	-	8,075
Purchase of common stock	(1,767)	(1,767)	(2,281)	(2,281)
	-----	-----	-----	-----
Total	195,614	205,836	199,252	207,327
	=====	=====	=====	=====
Per common share:				
Net earnings	\$ .24	.22	.07	.06
	=====	=====	=====	=====

HASBRO, INC. AND SUBSIDIARIES  
 Computation of Earnings Per Common Share  
 Quarter Ended June 27, 1999 and June 28, 1998

(Thousands of Dollars and Shares Except Per Share Data)

	1999		1998	
	Basic	Diluted	Basic	Diluted
Net earnings	\$ 32,289	32,289	5,453	5,453
Weighted average number of shares outstanding:				
Outstanding at beginning of period	195,599	195,599	199,608	199,608
Exercise of stock options and warrants:				
Actual	1,159	1,159	293	293
Assumed	-	11,722	-	8,502
Purchase of common stock	(1,428)	(1,428)	(1,062)	(1,062)
Total	195,330	207,052	198,839	207,341
Per common share:				
Net earnings	\$ .17	.16	.03	.03

HASBRO, INC. AND SUBSIDIARIES  
 Computation of Ratio of Earnings to Fixed Charges  
 Six Months and Quarter Ended June 27, 1999

(Thousands of Dollars)

	Six Months -----	Quarter -----
Earnings available for fixed charges:		
Net earnings	\$ 46,084	32,289
Add:		
Fixed charges	34,033	17,879
Income taxes	20,705	14,507
	-----	-----
Total	\$100,822	64,675
	=====	=====
 Fixed Charges:		
Interest on long-term debt	\$ 12,649	6,476
Other interest charges	12,949	7,149
Rental expense representative of interest factor	8,435	4,254
	-----	-----
Total	\$ 34,033	17,879
	=====	=====
 Ratio of earnings to fixed charges	2.96	3.62
	=====	=====



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JUN-27-1999  
97,765  
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903,780  
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433,460  
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583,055  
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46,084  
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