



The  
to Power  
Entertain

# Financial Highlights

| (Thousands of Dollars and Shares Except Per Share Data)     | 1998        | 1997      | 1996      | 1995      | 1994      |
|---|-------------|-----------|-----------|-----------|-----------|
| <b>FOR THE YEAR</b>   |             |           |           |           |           |
| Net revenues  | \$3,304,454 | 3,188,559 | 3,002,370 | 2,858,210 | 2,670,262 |
| Operating profit  | \$ 324,882  | 235,108   | 332,267   | 273,572   | 295,677   |
| Earnings before income taxes                                | \$ 303,478  | 204,525   | 306,893   | 252,550   | 291,569   |
| Net earnings  | \$ 206,365  | 134,986   | 199,912   | 155,571   | 175,033   |
| Cash provided by operating activities                       | \$ 126,587  | 543,841   | 279,993   | 227,400   | 283,785   |
| Cash utilized by investing activities                       | \$ 792,700  | 269,277   | 127,286   | 209,331   | 244,178   |
| Weighted average number of<br>common shares outstanding (1) |             |           |           |           |           |
| Basic   | 197,927     | 193,089   | 195,061   | 197,272   | 197,554   |
| Diluted   | 205,420     | 206,353   | 209,283   | 210,075   | 212,501   |
| EBITDA (2)  | \$ 514,081  | 541,692   | 470,532   | 434,580   | 430,448   |
| <b>PER COMMON SHARE (1)</b>                                 |             |           |           |           |           |
| Net earnings  |             |           |           |           |           |
| Basic   | \$ 1.04     | .70       | 1.02      | .79       | .89       |
| Diluted   | \$ 1.00     | .68       | .98       | .77       | .85       |
| Cash dividends declared (3)                                 | \$ .21      | .21       | .18       | .14       | .12       |
| Shareholders' equity  | \$ 9.91     | 9.18      | 8.55      | 7.76      | 7.09      |
| <b>AT YEAR END</b>  |             |           |           |           |           |
| Shareholders' equity  | \$1,944,795 | 1,838,117 | 1,652,046 | 1,525,612 | 1,395,417 |
| Total assets  | \$3,793,845 | 2,899,717 | 2,701,509 | 2,616,388 | 2,378,375 |
| Long-term debt  | \$ 407,180  | —         | 149,382   | 149,991   | 150,000   |
| Debt to capitalization ratio                                | .29         | .06       | .14       | .15       | .14       |



- (1) Adjusted to reflect the three-for-two stock split declared on February 19, 1999 and paid on March 15, 1999.
- (2) EBITDA (earnings before interest, taxes, depreciation and amortization) represents operating profit plus acquired in-process research and development, restructuring and discontinued development project charges and depreciation and all amortization. EBITDA is not adjusted for all noncash expenses or for working capital, capital expenditures or other investment requirements and, accordingly, is not necessarily indicative of amounts that may be available for discretionary uses. Thus, EBITDA should not be considered in isolation or as a substitute for net earnings or cash provided by operating activities, each prepared in accordance with generally accepted accounting principles, when measuring Hasbro's profitability or liquidity as more fully discussed in Management's Review.
- (3) On February 19, 1999, the Company announced a 13% increase in its dividend to an annual rate of \$.24. The first quarterly dividend at the increased rate will be paid on May 17, 1999 to shareholders of record on May 3, 1999.
- (4) Amounts shown on charts are in millions of dollars. Special charges include acquired in-process research and development in 1998, restructuring in each of 1997 and 1994, and discontinued development project in 1995.

## To Our Shareholders

A year ago, I predicted that 1998 would represent a strong finish to Hasbro's current century, with our new millennium coming a year early in 1999 — led by the excitement and anticipation of STAR WARS and the POWER OF THE FORCE. My prediction came true!

I am very proud of our accomplishments in 1998 — especially the promises we delivered on and the tremendous growth opportunities we secured for our future. I am pleased with our financial results in the context of the challenging industry and retail environment we faced all year. Make no mistake: the significant, and unanticipated, changes in inventory management policies at Toys 'R Us had a profound impact on our entire industry. I am proud that we preserved our credibility during this difficult transition period.

Hasbro achieved another **record** fourth quarter in revenues and earnings, which provided momentum heading into 1999. For the year, net revenues increased almost 4% to \$3.3 billion, led by our highly successful acquisition of Tiger Electronics, which had the year's hottest toy — FURBY, and by the Hasbro Interactive line, where sales doubled again.

Net earnings were \$220.0 million, or \$1.07 per share (diluted), prior to a \$20.0 million one-time, pre-tax charge (\$13.6 million after-tax) to write off acquired in-process research and development of MicroProse, a veteran publisher of interactive entertainment software. Reported net earnings were \$206.4 million, or \$1.00 per share. In 1997, net earnings were \$227.4 million or \$1.13 per share, prior to the \$140.0 million one-time pre-tax charges (\$92.4 million after-tax) to implement our Global Integration and Profit Enhancement Program. Reported net earnings in 1997 were \$135.0 million, or \$.68 per share.

*We also delivered on several important financial promises:*

- Implementation of the Global Integration and Profit Enhancement Program, announced in December 1997, is on track. We rationalized Hasbro's manufacturing system worldwide by closing seven facilities. In global brands and marketing, we streamlined and consolidated several business units around the world. For example, in Europe we now operate as four focused regions rather than 15 separate countries. We are working smarter in many other areas, too, including packaging, advertising, and optimizing the use of our New York showroom, to name a few.

- We continued to repurchase our stock, bringing the total investment under the new \$500 million repurchase authorization, approved in December 1997, to \$190 million for 8.0 million shares.

- We added \$400 million of long-term debt at very attractive rates, while preserving our high credit ratings and leveraging our strong balance sheet. Hasbro also continues to be



a cash powerhouse: we generated Earnings Before Interest, Taxes, Depreciation and Amortization of \$514.1 million, more than double our net earnings.

In addition, we delivered on **all** of the rest of our promises:

- We made great strides with **technology**. I passionately believe that technology and innovation in all aspects of our business — coupled with brand and product content — are imperative to our being a global leader in children’s and family leisure time and entertainment. Here are a few of our technology initiatives:

- Our new HasbroCollectors.com web site is a premier resource which not only sells some of Hasbro’s terrific products, but also provides valuable information for collectors.
- Hasbro Interactive laid the groundwork to launch two exciting new games early this year — EM@IL GAMES and games for the increasingly popular hand-held computers. We will continue finding ways to update the gaming experience of our classic brands — like MONOPOLY, SCRABBLE, BATTLESHIP and more.
- COMMTECH is an exclusive and innovative toy technology with a patented microchip system that enables Hasbro’s new action figures from STAR WARS: EPISODE I to “speak” and re-create scenes from the movie. This technology will redefine action figures, just as we redefined the market in 1977 with the first STAR WARS figures.
- The worldwide implementation of a new enterprise information system is on target and is also helping us achieve Year 2000 compliance.

- We also made several strategic **acquisitions** of terrific brand content and talent, with a focus on technology. In addition to Tiger and MicroProse, we acquired the game libraries of Atari — with over 75 titles including ASTEROIDS, CENTIPEDE, MISSILE COMMAND, and PONG, and of Avalon Hill — with well over a hundred of the all-time greatest strategy game brands including ACQUIRE and DIPLOMACY. The acquisition of Galoob Toys gives us critical mass in the fast-growing vehicles category and the worldwide POWER OF THE FORCE as the world anticipates EPISODE I of the exciting new STAR WARS trilogy.

- We continued **building our partnership brands**. In the past year, we won several new licenses, including marketing rights for TELETUBBIES in over 30 countries, POKÉMON, ANIMORPHS, a new long-term agreement with the National Hockey League and its players’ association, additional NASCAR licenses including Interactive, rights to the evergreen titles WHEEL OF FORTUNE and JEOPARDY, and more.



- We **improved profitability to enhance shareholder value**. With streamlined product offerings and sharper focus, both Girls and Preschool returned to profitability, as did our marketing activities in Germany and Spain. In Japan, we expect to be profitable this year, as a result of a new long-term distribution agreement with Tomy Company, Ltd., a leading toy and game marketer who will be a valuable research and development partner, too.

- We **added outstanding new talent** to our senior management team, especially Herb Baum, who joined us in January 1999 as President and Chief Operating Officer. Herb has enjoyed a distinguished career in consumer products marketing and will be instrumental in leading Hasbro aggressively into the future.

Clearly, we ended 1998 in a position of strength, with a new look and a new promise: “MAKING THE WORLD SMILE.” Our new logo will appear on all packaging by the end of 1999, and in our commercials.

We enter our new millennium in 1999 with great **momentum** and excitement. Hasbro’s diversified and **unmatched portfolio** includes: STAR WARS, with the largest coordinated rollout of product ever undertaken in the history of the entertainment industry; more technology surprises from FURBY — including new FURBY BABIES and FURBY BUDDIES; TELETUBBIES; new **licensing opportunities** for our core brands like MONOPOLY and TONKA; an even deeper and broader array of popular **sports** offerings — including alliances with key professional sports leagues as well as extensions of Tiger’s SPORTS FEEL games — all of which strengthen our all-star lineup; and many new **games**, including a planned doubling of Hasbro Interactive titles and new hand-held electronic games like BOP IT EXTREME, which builds on the success of this best-seller.

In the short space of this annual report, it is impossible to do justice to the many exciting initiatives underway at Hasbro. We are taking the best of Hasbro’s successful yesterdays and the strength of Hasbro today to ensure Hasbro has the **Power to Entertain** tomorrow and well into the future!

Alan G. Hassenfeld  
Chairman and Chief Executive Officer





DARTH MAUL, DARK LORD OF THE SITH FROM STAR WARS: EPISODE I

Hasbro's brands and products translate into fun and fantasy for children and families around the world. Wherever or whenever you are at play, Hasbro has the "Power to Entertain" — in the backyard, through e-mails, eating candy, or enjoying a game in the living room, while traveling or at the computer.

As we embrace the new millennium, Hasbro's opportunities to entertain consumers at entirely new levels have never been greater. Thanks to our **unparalleled brands** — including a wide range of products linked to this Spring's STAR WARS: EPISODE I: THE PHANTOM MENACE — and **new technologies** that make products like FURBY possible, Hasbro's ability to "Make the World Smile" can only grow.

As you scan some of the components from Hasbro's "Entertainment Center" on the following pages, you will see that we are home to some of the world's premier brands.

From our home to your home, Hasbro... **The Power to Entertain.**



The MONOPOLY MILLENNIUM edition features a foil game-board, and eight new millennium tokens, including a computer, a globe and a cellular phone.

TRIVIAL PURSUIT MILLENNIUM, 1000 years in the making. Sample question: *What type of entertainers debuted in European courts in 1202?* See page 36 for answer.

The innovative and highly successful TONKA WORKSHOP CD-ROM playset provides a child with hands-on fun, by combining a tactile toy that straps onto the computer keyboard with the



STAR WARS: EPISODE I action figures actually “talk,” thanks to the innovative and patented COMMTECH micro-chip technology.

MICRO MACHINES — a highly successful brand for 12 years — joined the Hasbro family as part of the Galoob acquisition.

HasbroCollectors.com provides action figure and toy collectors with up-to-date information about Hasbro’s collectible brands and makes it fun, easy and secure to purchase rare and hard-to-find items.

Hasbro’s TALKING TELETUBBIES were the number one plush toy in North America in 1998. Here’s to continued success — “Again, Again!” as the TELETUBBIES would say — in 1999 for TINKY WINKY, DIPSY, LAA-LAA, PO and The NOO-NOO!

FROGGER is back, and he is a smash hit for Hasbro Interactive, selling more than two million units in the past 16 months. In 1999, FROGGER fans can play their favorite game on the PC and the SONY PLAYSTATION game console.

Technology enabled FURBY to reach store shelves quickly — in time for an incredibly successful launch at FAO Schwarz in New York on October 2, 1998. FURBY has even more excitement in

Hasbro’s WINNER’S CIRCLE brand die-cast 1:64 scale vehicles enjoyed big success in 1998. Some of our top drivers include Jeff Gordon, Dale Earnhardt, Dale Earnhardt Jr., Dale Jarrett

## *Financial Section*

|   |    |
|---|----|
| Management's Review .....                             | 9  |
| Consolidated Statements of Earnings .....             | 15 |
| Consolidated Balance Sheets .....                     | 16 |
| Consolidated Statements of Cash Flows .....           | 18 |
| Consolidated Statements of Shareholders' Equity ..... | 19 |
| Notes to Consolidated Financial Statements .....      | 20 |
| Independent Auditors' Report .....                    | 32 |
| Five-Year Summary .....                               | 33 |

## MANAGEMENT'S REVIEW

### Summary

A percentage analysis of results of operations follows:

|  | 1998        | 1997        | 1996        |
|--|-------------|-------------|-------------|
| Net revenues   | 100.0%      | 100.0%      | 100.0%      |
| Cost of sales  | <u>41.3</u> | <u>42.6</u> | <u>44.3</u> |
| Gross profit   | 58.7        | 57.4        | 55.7        |
| Amortization   | 2.2         | 1.7         | 1.3         |
| Royalties, research and development                                      | 12.9        | 12.1        | 10.6        |
| Advertising  | 13.3        | 12.9        | 13.9        |
| Selling, distribution and administration                                 | 19.8        | 19.4        | 18.8        |
| Acquired in-process research and development<br>and restructuring charge | .6          | 3.9         | —           |
| Interest expense   | 1.1         | .9          | 1.1         |
| Other (income) expense, net  | <u>(.4)</u> | <u>.1</u>   | <u>(.2)</u> |
| Earnings before income taxes   | 9.2         | 6.4         | 10.2        |
| Income taxes   | <u>2.9</u>  | <u>2.2</u>  | <u>3.5</u>  |
| Net earnings   | <u>6.3%</u> | <u>4.2%</u> | <u>6.7%</u> |

(Thousands of Dollars Except Share Data)

### Results of Operations

Net revenues for 1998 were \$3,304,454 compared to \$3,188,559 and \$3,002,370 for 1997 and 1996, respectively. This approximate 4% increase in revenues over 1997 levels was net of an approximate \$26,000 unfavorable impact of foreign currency translation rates. Revenue growth during the year was led by products from the Tiger line, including Furby, the year's most sought-after toy, the Hasbro Interactive line of CD-ROM interactive games, hand-held electronic games marketed under the Milton Bradley and Parker Brothers brands, and water toys from Larami. Within the Company's more traditional product lines, revenues from boys' toys, creative play and games and puzzles were all lower, reflecting both the lack of a major motion picture release related to the Company's products and the changes in inventory management policies at Toys 'R Us. The preschool line, reflecting the strength of the Teletubbies products, and girls' lines achieved moderate revenue growth.

The Company's gross profit margin increased to 58.7% from 57.4% in 1997, which had been negatively impacted by 0.5% due to the Company's global integration and profit enhancement program, and 55.7% in 1996. The improvement from the adjusted 1997 margin of 57.9% is attributable to a lower cost structure resulting from the removal of excess capacity, the increased level of sales of interactive products which have a higher gross margin and overall favorable material prices. This improvement in the 1998 gross margin was moderated by the unanticipated shortfall in business with Toys 'R Us which resulted in lower than anticipated factory utilization.

Amortization expense of \$72,208, which includes amortization of both property rights and cost in excess of net assets acquired, compares with \$53,767 in 1997 and \$40,064 in 1996. The increases in all years were attributable to the acquisitions made during the respective years. As a result of acquisitions made during 1998, 1999 amortization expense will exceed that of 1998.



Expenditures for royalties, research and development increased to \$424,673 from \$386,912 in 1997 and \$319,494 in 1996. Included in these amounts are expenditures for research and development of \$184,962 in 1998, \$154,710 in 1997 and \$152,487 in 1996. As percentages of net revenues, research and development was 5.6% in 1998, up from 4.9% in 1997, which had decreased from 5.1% in 1996. The 1998 increase reflects the expenditures of the Company's 1998 acquisitions as well as the continuing investment to grow Hasbro Interactive. While royalties increased in dollars during 1998, they remained constant as a percentage of net revenues. The increased percentage in 1997, when compared with 1996, was primarily attributable to the higher proportion of the Company's revenues arising from licensed products as well as the higher rates generally paid on such items. Royalty expense during 1999 is expected to increase in both amount and as a percentage of net revenues due to the expected higher percentage of the Company's products arising from licensed product carrying higher royalty rates.

Advertising expenses, at 13.3% of net revenues, increased four-tenths of a point from the 1997 level of 12.9% which had decreased a full point from 13.9% in 1996. The increase in 1998 and the decrease in 1997 both reflect the mix of more non-entertainment based product in 1998, in the absence of support from a major motion picture release.

During 1998, selling, distribution and administration costs increased by approximately 6% to \$655,938, or 19.8% of revenues, from the \$617,140, or 19.4%, in 1997 and \$563,645, or 18.8%, in 1996. In addition to normal inflationary trends, both the 1998 and 1997 increases reflect the impact of the Company's acquisitions and new operations in those years. Also adversely impacting the 1998 rate was the unanticipated reduction in revenues resulting from the changes in inventory management policies at Toys 'R Us.

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

Late in the fourth quarter of 1997, Hasbro announced a global integration and profit enhancement program which anticipated the redundancy of approximately 2,500 employees, principally in manufacturing, and provided for actions in three principal areas: a continued consolidation of the Company's manufacturing operations; the streamlining of marketing and sales, while exiting from certain underperforming markets and product lines; and the further leveraging of overheads. Of the \$140,000 estimated costs related to these actions, \$125,000 was reported as a nonrecurring charge and \$15,000 was reflected in cost of sales. Of the nonrecurring amount, approximately \$54,000 related to severance and people costs, \$52,000 to property, plant and equipment and leases and \$19,000 to product line related costs. During 1998 the employment of all employees planned for redundancy was terminated. The approximate \$63,000 accrual remaining at December 27, 1998, is principally attributable to severance costs, which will be disbursed over the employee's entitlement period, and costs associated with lease terminations and the closing of certain facilities. In the balance sheet, such property, plant and equipment is included as a component of other assets. With the exception of the ultimate disposition of certain facilities closed as a result of this program, the program has been substantially completed. The Company had initially estimated its pretax cost savings from this initiative to be \$40,000 in 1998 and \$350,000 over the period 1998 through 2002. Because of the unanticipated shortfall in sales to Toys 'R Us during the current year and changes in product mix, factory utilization rates were not as high as initially anticipated, which resulted in below target savings during 1998. During 1998, the Company estimates that it has realized pretax savings of approximately \$30,000. The positive cash flow impact from this program has and will occur largely in the form of reduced outflows for payment of costs associated with the manufacture and sourcing of products.

Interest expense was \$36,111 in 1998 compared to \$27,486 during 1997 and \$31,465 during 1996. The increase during the current year largely reflects the costs associated with funding the approximate \$670,000 of acquisitions during the year as well as the Company's stock repurchase program, both partially offset by the availability of funds generated during 1997. The decrease in 1997 reflected the impact of lower interest rates and the availability of funds generated from operations during 1996. Due to additional debt incurred during 1998, interest expense in 1999 is expected to increase.

Other income of \$14,707 in 1998 compares with expense of \$3,097 and income of \$6,091 in 1997 and 1996, respectively. The change between 1998 and 1997 primarily reflects the larger benefits to Hasbro from its consolidated and unconsolidated operations in which it either is, or has, a minority partner, increased interest income and a decrease in foreign currency transactional losses. The change between 1997 and 1996 reflects an increase in foreign currency transactional losses and larger amounts attributable to Hasbro's minority partners in various units.

Income tax expense as a percentage of pretax earnings in 1998 decreased to 32.0% from 34.0% and 34.9% in 1997 and 1996, respectively. The lower 1998 rate reflects the impact of the acquisitions made during the year and, in all years, the implementation of various tax strategies and the downward trend of the tax on international earnings due to the continued reorganization of the Company's global business.

## Liquidity and Capital Resources

The Company continued to have a strong and liquid balance sheet with cash and cash equivalents of \$177,748 at December 27, 1998. Cash and cash equivalents were \$361,785 and \$218,971 at December 28, 1997 and December 29, 1996, respectively.

Hasbro generated approximately \$127,000 of net cash from its operating activities in 1998, compared with approximately \$544,000 in 1997 and \$280,000 in 1996. The significant change between the 1998 and 1997 amounts results from a combination of factors. During 1998, \$267,231 was utilized by changes in operating assets and liabilities. With the \$170,723 increase in fourth quarter revenues, most of which, under Hasbro's normal trading terms, became due after the end of the Company's fiscal year, accounts receivable increased. Inventories also increased, in part reflecting acquisitions made during the year, as did prepaid expenses and other current assets, largely reflecting higher advance royalty payments. Partially offsetting these utilizations of funds was a small increase in accounts payable and other accrued liabilities. During 1997, \$273,344 was provided by changes in operating assets and liabilities. Contributing to this were reductions in accounts receivable, inventories and prepaid expenses and other current assets and an increase in trade payables and accrued liabilities, reflecting the unpaid portion of the costs associated with the Company's global integration and profit enhancement program. During 1996, changes in operating assets and liabilities utilized approximately \$50,000 with receivables, prepaid expenses and other current assets and trade payables and accrued liabilities all contributing to this utilization. Receivable growth reflected the \$83,000 increase in fourth quarter sales, partially offset by a non-recourse sale of certain receivables. The utilization of funds through prepaid expenses and other current assets and accounts payable and accrued liabilities was largely attributable to timing differences on certain payments. Partially offsetting these utilizations was approximately \$43,000 provided through the reduction of inventory levels in 1996.

Cash flows from investing activities were a net utilization of \$792,700, \$269,277 and \$127,286 in 1998, 1997 and 1996, respectively. During 1998, the Company expended approximately \$142,000 on additions to its property, plant and equipment while during each of 1997 and 1996 it expended approximately \$100,000. Of these amounts, 38% in 1998, 51% in 1997 and 57% in 1996 were for purchases of tools, dies and molds related to the Company's products. The 1998 additions also include the expenditures associated with the consolidation of its Spanish manufacturing operation within one facility. During the three years, depreciation and amortization of plant and equipment was \$96,991, \$112,817 and \$98,201, respectively.

Hasbro made three major acquisitions during 1998, having an aggregate purchase price of \$669,737. On April 1, it acquired substantially all of the business and operating assets of Tiger Electronics, Inc. and certain affiliates (Tiger). On September 14, 1998, it acquired the outstanding shares of MicroProse through a cash tender offer of \$6.00 for each outstanding share of MicroProse. On October 30, 1998, it acquired the outstanding shares of Galoob Toys, Inc. (Galoob) through a cash tender offer of \$12.00 for each outstanding share of Galoob. During 1997, Hasbro acquired certain assets of OddzOn Products, Inc. and Cap Toys, Inc., wholly owned subsidiaries of Russ Berrie and Company, Inc., for \$167,379. In 1996, the Company made several small acquisitions and investments, none of which was significant.

As part of the traditional marketing strategies of the toy industry, many sales made early in the year are not due for payment until the fourth quarter or early in the first quarter of the subsequent year, thus making it necessary for the Company to borrow significant amounts pending these collections. During the year, the Company borrowed through the issuance of commercial paper and short-term lines of credit to fund its seasonal working capital requirements in excess of funds available from operations and the issuance of long-term debt. During 1999, the Company expects to fund these needs in a similar manner and believes that the funds available to it are adequate to meet its needs. At February 28, 1999, the Company's unused committed and uncommitted lines of credit, including revolving credit agreements for \$350,000 (long-term) and \$150,000 (short-term), were in excess of \$1,000,000.

During 1998, net financing activities provided approximately \$490,000, principally through the issuance of \$100,000 of 5.60% notes due November 1, 2005, \$150,000 of 6.15% notes due July 15, 2008 and \$150,000 of 6.60% debentures due July 15, 2028. In 1997 and 1996, net financing activities utilized approximately \$125,000 and \$95,000, respectively, of Hasbro's funds. During the year, the Company also invested approximately \$180,000 to repurchase its common stock in the open market, which compares with approximately \$135,000 and \$84,000 repurchased in 1997 and 1996, respectively.

During October 1997, the Company called its 6% Convertible Subordinated Notes Due 1998 for redemption. Substantially all of these notes were converted into approximately 11.4 million shares (adjusted to reflect the three-for-two stock split discussed below) of Hasbro common stock.

On December 9, 1997, the Board of Directors canceled all prior share repurchase authorizations and authorized the purchase of up to an additional \$500,000 of the Company's common stock. At December 27, 1998, \$309,540 remained under this authorization. The Company anticipates that it will continue to repurchase its shares in the future, when it deems conditions to be favorable, and will fund such purchases from working capital or available lines of credit. The shares acquired under these programs are being used for corporate purposes including issuance upon the exercise of stock options.

### **Financial Risk Management**

The Company is exposed to market risks attributable to fluctuations in foreign currency exchange rates primarily as a result of sourcing products in five currencies while marketing those products in more than thirty currencies. Results of operations will be affected primarily by changes in the value of the U.S. dollar, Hong Kong dollar, British pound, French franc, Mexican peso, Irish punt and Spanish peseta versus other currencies, principally in Europe and the United States.

To manage this exposure, as of December 27, 1998, Hasbro has hedged a considerable portion of its estimated 1999 foreign currency transactions through the purchase of forward foreign exchange contracts. The Company estimates that a hypothetical immediate 10% unfavorable movement in the currencies involved could result in an approximate \$5.7 million decrease in the fair value of these instruments. The Company is also exposed to foreign currency risk with respect to its net cash and cash equivalents or short-term borrowing positions in other than the U.S. dollar. Hasbro believes, however, that the risk on this net exposure would not be material to its financial condition. In addition, the Company's revenues and costs have been and will likely continue to be affected by changes in foreign currency rates. Other than set forth above, the Company does not hedge, nor does it speculate, in foreign currencies.

At December 27, 1998 the Company had fixed rate debt of \$407,180. Interest rate changes affect the fair value of this fixed rate debt but do not impact earnings or cash flows. The Company estimates that a hypothetical one percentage point decrease or increase in interest rates would increase or decrease the fair value of this debt by approximately \$38,000 or \$33,000, respectively.

### **The Economy and Inflation**

The Company continued to experience difficult economic environments in some parts of the world during 1998. The principal market for the Company's products is the retail sector where certain customers have experienced economic difficulty. The Company closely monitors the creditworthiness of its customers and adjusts credit policies and limits as it deems appropriate.

The effect of inflation on the Company's operations during 1998 was not significant and the Company will continue its policy of monitoring costs and adjusting prices accordingly.

### **Year 2000**

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

The Company has completed the awareness and assessment phases of this project through the inventorying and assessment of its critical financial, operational (including imbedded and non-information technology) and information systems. The renovation phase is now well underway, as a number of non-compliant systems have been modified or replaced and plans are in place for the required modifications or replacements of other non-compliant systems. A planned global 'enterprise' system became operational at several of the Company's major units during 1998 and replaced a number of older non-compliant systems. As the global roll-out of this enterprise system continues, additional Year 2000 compliance will occur. The Company is now in the validation and implementation phases and believes that approximately 85% of its mission critical systems are currently Year 2000 compliant and virtually all will be by mid-1999. Excluding costs related to the enterprise system, the Company's out of pocket costs associated with becoming Year 2000 compliant are estimated to approximate \$3,000. These costs are being expensed as incurred and approximately half of this amount has been spent to date.

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

The Company's risk management program includes disaster recovery contingency plans that will be expanded by mid-year 1999 to include Year 2000 issues and may include, for example, the maintaining and development of back-up systems and procedures, early identification and selection of alternative Year 2000 ready suppliers and service providers, revisions to credit policies and possible temporary increases in levels of inventories.

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

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

## Other Information

The Company's revenue pattern continues to show the second half of the year more significant to its overall business and within that half, the fourth quarter most prominent. The Company believes that this will continue in 1999.

The Company is not aware of any material amounts of potential exposure relating to environmental matters and does not believe its compliance costs or liabilities to be material to its operating results or financial position.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), which the Company is required to adopt not later than the beginning of fiscal 2000. SFAS 133 will require that the Company record all derivatives, such as foreign exchange contracts, on the balance sheet at fair value. Changes in derivative fair values will either be recognized in earnings as an offset to the changes in the fair value of the related hedged assets, liabilities and firm commitments or, for forecasted transactions, deferred and recorded as a component of other shareholders' equity until the hedged transactions occur and are recognized in earnings. Any portion of a hedging derivative's change in fair value which does not offset the change in fair value of the underlying exposure will be immediately recognized in earnings. The Company does not believe adoption of SFAS 133 will have a material impact on either the Company's financial condition or its results of operations.

On February 19, 1999, the Company announced both a three-for-two stock split and a quarterly dividend of \$.06 per share, which represents a 13% increase from that previously in effect. The stock split, in the form of a 50% stock dividend, was paid on March 15, 1999 to shareholders of record on March 1, 1999, and the dividend is payable on May 17, 1999 to shareholders of record on May 3, 1999.

## CONSOLIDATED STATEMENTS OF EARNINGS

| Fiscal Years Ended in December (Thousands of Dollars Except Share Data) | 1998                     | 1997             | 1996             |
|---|--------------------------|------------------|------------------|
| <b>Net revenues</b>   | <b>\$3,304,454</b>       | 3,188,559        | 3,002,370        |
| <b>Cost of sales</b>  | <b><u>1,366,061</u></b>  | <u>1,359,058</u> | <u>1,328,897</u> |
| <b>Gross profit</b>   | <b><u>1,938,393</u></b>  | <u>1,829,501</u> | <u>1,673,473</u> |
| <b>Expenses</b>   |                          |                  |                  |
| Amortization  | 72,208                   | 53,767           | 40,064           |
| Royalties, research and development                                     | 424,673                  | 386,912          | 319,494          |
| Advertising   | 440,692                  | 411,574          | 418,003          |
| Selling, distribution and administration                                | 655,938                  | 617,140          | 563,645          |
| Acquired in-process research and development                            | 20,000                   | —                | —                |
| Restructuring charge  | —                        | 125,000          | —                |
| Total expenses  | <b><u>1,613,511</u></b>  | <u>1,594,393</u> | <u>1,341,206</u> |
| <b>Operating profit</b>   | <b><u>324,882</u></b>    | <u>235,108</u>   | <u>332,267</u>   |
| <b>Nonoperating (income) expense</b>                                    |                          |                  |                  |
| Interest expense  | 36,111                   | 27,486           | 31,465           |
| Other (income) expense, net   | <u>(14,707)</u>          | <u>3,097</u>     | <u>(6,091)</u>   |
| Total nonoperating expense  | <b><u>21,404</u></b>     | <u>30,583</u>    | <u>25,374</u>    |
| <b>Earnings before income taxes</b>                                     | <b><u>303,478</u></b>    | <u>204,525</u>   | <u>306,893</u>   |
| <b>Income taxes</b>   | <b><u>97,113</u></b>     | <u>69,539</u>    | <u>106,981</u>   |
| <b>Net earnings</b>   | <b><u>\$ 206,365</u></b> | <u>134,986</u>   | <u>199,912</u>   |
| <b>Per common share</b>   |                          |                  |                  |
| Net earnings  |                          |                  |                  |
| Basic   | <b><u>\$ 1.04</u></b>    | <u>.70</u>       | <u>1.02</u>      |
| Diluted   | <b><u>\$ 1.00</u></b>    | <u>.68</u>       | <u>.98</u>       |
| Cash dividends declared   | <b><u>\$ .21</u></b>     | <u>.21</u>       | <u>.18</u>       |

See accompanying notes to consolidated financial statements.

## CONSOLIDATED BALANCE SHEETS

December 27, 1998 and December 28, 1997 (Thousands of Dollars Except Share Data) 1998      1997

### Assets

#### Current assets

|   |                |                |
|---|----------------|----------------|
| Cash and cash equivalents   | \$ 177,748     | 361,785        |
| Accounts receivable, less allowance for doubtful accounts<br>of \$64,400 in 1998 and \$51,700 in 1997 | 958,826        | 783,008        |
| Inventories   | 334,801        | 242,702        |
| Prepaid expenses and other current assets   | <u>318,611</u> | <u>186,379</u> |

**Total current assets** 1,789,986      1,573,874

#### Property, plant and equipment, net

330,355      280,603

#### Other assets

|  |                |               |
|--|----------------|---------------|
| Cost in excess of acquired net assets, less accumulated<br>amortization of \$152,008 in 1998 and \$128,237 in 1997 | 704,282        | 486,502       |
| Other intangibles, less accumulated amortization<br>of \$192,268 in 1998 and \$135,467 in 1997                     | 837,899        | 478,798       |
| Other  | <u>131,323</u> | <u>79,940</u> |

**Total other assets** 1,673,504      1,045,240

**Total assets** \$3,793,845      2,899,717

**C O N S O L I D A T E D   B A L A N C E   S H E E T S**

|  | <u>1998</u>               | <u>1997</u>             |
|--|---------------------------|-------------------------|
| <b>Liabilities and Shareholders' Equity</b>                      |                           |                         |
| <b>Current liabilities</b>                                       |                           |                         |
| Short-term borrowings  | \$ 372,249                | 122,024                 |
| Trade payables   | 209,119                   | 179,156                 |
| Accrued liabilities  | 729,605                   | 596,033                 |
| Income taxes   | <u>55,327</u>             | <u>106,333</u>          |
| <b>Total current liabilities</b>                                 | <b>1,366,300</b>          | <b>1,003,546</b>        |
| <b>Long-term debt</b>  | <b>407,180</b>            | <b>—</b>                |
| <b>Deferred liabilities</b>                                      | <b><u>75,570</u></b>      | <b><u>58,054</u></b>    |
| <b>Total liabilities</b>   | <b><u>1,849,050</u></b>   | <b><u>1,061,600</u></b> |
| <b>Shareholders' equity</b>                                      |                           |                         |
| Preference stock of \$2.50 par value.                            |                           |                         |
| Authorized 5,000,000 shares; none issued                         | —                         | —                       |
| Common stock of \$.50 par value. Authorized 300,000,000 shares;  |                           |                         |
| issued 209,698,516 shares in 1998 and 139,799,011 shares in 1997 | 104,849                   | 69,900                  |
| Additional paid-in capital                                       | 521,316                   | 489,447                 |
| Retained earnings  | 1,621,799                 | 1,457,495               |
| Accumulated other comprehensive earnings                         | (9,625)                   | (3,903)                 |
| Treasury stock, at cost, 13,523,983 shares in 1998               |                           |                         |
| and 6,357,948 shares in 1997                                     | <u>(293,544)</u>          | <u>(174,822)</u>        |
| <b>Total shareholders' equity</b>                                | <b><u>1,944,795</u></b>   | <b><u>1,838,117</u></b> |
| <b>Total liabilities and shareholders' equity</b>                | <b><u>\$3,793,845</u></b> | <b><u>2,899,717</u></b> |

See accompanying notes to consolidated financial statements.



## CONSOLIDATED STATEMENTS OF CASH FLOWS

| Fiscal Years Ended in December (Thousands of Dollars)                               | 1998                    | 1997                    | 1996                    |
|---|-------------------------|-------------------------|-------------------------|
| <b>Cash flows from operating activities</b>   |                         |                         |                         |
| Net earnings  | \$206,365               | 134,986                 | 199,912                 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                         |                         |                         |
| Depreciation and amortization of plant and equipment                                | 96,991                  | 112,817                 | 98,201                  |
| Other amortization  | 72,208                  | 53,767                  | 40,064                  |
| Deferred income taxes   | 1,679                   | (40,555)                | (8,120)                 |
| Acquired in-process research and development  | 20,000                  | —                       | —                       |
| Change in operating assets and liabilities (other than cash and cash equivalents):  |                         |                         |                         |
| (Increase) decrease in accounts receivable  | (126,842)               | 11,920                  | (22,418)                |
| (Increase) decrease in inventories  | (44,606)                | 40,739                  | 42,959                  |
| (Increase) decrease in prepaid expenses and other current assets                    | (113,451)               | 20,326                  | (37,036)                |
| Increase (decrease) in trade payables and other current liabilities                 | 17,668                  | 200,359                 | (35,852)                |
| Other   | (3,425)                 | 9,482                   | 2,283                   |
| <b>Net cash provided by operating activities</b>                                    | <b><u>126,587</u></b>   | <b><u>543,841</u></b>   | <b><u>279,993</u></b>   |
| <b>Cash flows from investing activities</b>   |                         |                         |                         |
| Additions to property, plant and equipment  | (141,950)               | (99,356)                | (101,946)               |
| Investments and acquisitions, net of cash acquired                                  | (667,736)               | (172,116)               | (33,027)                |
| Other   | 16,986                  | 2,195                   | 7,687                   |
| <b>Net cash utilized by investing activities</b>                                    | <b><u>(792,700)</u></b> | <b><u>(269,277)</u></b> | <b><u>(127,286)</u></b> |
| <b>Cash flows from financing activities</b>   |                         |                         |                         |
| Proceeds from borrowings with original maturities of more than three months         | 407,377                 | 295,132                 | 265,017                 |
| Repayments of borrowings with original maturities of more than three months         | (24,925)                | (304,927)               | (255,636)               |
| Net proceeds (payments) of other short-term borrowings                              | 271,895                 | 21,599                  | (6,116)                 |
| Purchase of common stock  | (178,917)               | (134,880)               | (83,657)                |
| Stock option and warrant transactions   | 58,493                  | 37,258                  | 17,745                  |
| Dividends paid  | (42,277)                | (39,694)                | (32,959)                |
| <b>Net cash provided (utilized) by financing activities</b>                         | <b><u>491,646</u></b>   | <b><u>(125,512)</u></b> | <b><u>(95,606)</u></b>  |
| <b>Effect of exchange rate changes on cash</b>                                      | <b><u>(9,570)</u></b>   | <b><u>(6,238)</u></b>   | <b><u>840</u></b>       |
| <b>(Decrease) increase in cash and cash equivalents</b>                             | <b><u>(184,037)</u></b> | <b><u>142,814</u></b>   | <b><u>57,941</u></b>    |
| <b>Cash and cash equivalents at beginning of year</b>                               | <b><u>361,785</u></b>   | <b><u>218,971</u></b>   | <b><u>161,030</u></b>   |
| <b>Cash and cash equivalents at end of year</b>                                     | <b><u>\$177,748</u></b> | <b><u>361,785</u></b>   | <b><u>218,971</u></b>   |
| <b>Supplemental information</b>   |                         |                         |                         |
| Cash paid during the year for   |                         |                         |                         |
| Interest  | \$ 25,135               | 23,480                  | 29,430                  |
| Income taxes  | \$128,436               | 135,446                 | 92,670                  |
| Non-cash financing activities   |                         |                         |                         |
| 6% Convertible Subordinated Notes Due 1998, converted into common stock             | \$ —                    | 149,354                 | 609                     |

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

| (Thousands of Dollars)                | Common<br>Stock   | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Earnings | Treasury<br>Stock | Total<br>Shareholders'<br>Equity |
|---------------------------------------|-------------------|----------------------------------|----------------------|---|-------------------|----------------------------------|
| <b>Balance, December 31, 1995</b>     | \$ 44,043         | 279,288                          | 1,198,937            | 25,755  | (22,411)          | 1,525,612                        |
| Net earnings                          | —                 | —                                | 199,912              | —   | —                 | 199,912                          |
| Other comprehensive earnings          | —                 | —                                | —                    | (5,762)   | —                 | (5,762)                          |
| Comprehensive earnings                |                   |                                  |                      |   |                   | 194,150                          |
| Three-for-two stock split             | 22,027            | (22,027)                         | —                    | —   | —                 | —                                |
| Purchase of treasury stock            | —                 | —                                | —                    | —   | (83,657)          | (83,657)                         |
| Stock option and warrant transactions | —                 | 25,063                           | —                    | —   | 24,834            | 49,897                           |
| Dividends declared                    | —                 | —                                | (34,559)             | —   | —                 | (34,559)                         |
| Other                                 | 10                | 598                              | (5)                  | —   | —                 | 603                              |
| <b>Balance, December 29, 1996</b>     | 66,080            | 282,922                          | 1,364,285            | 19,993  | (81,234)          | 1,652,046                        |
| Net earnings                          | —                 | —                                | 134,986              | —   | —                 | 134,986                          |
| Other comprehensive earnings          | —                 | —                                | —                    | (23,896)  | —                 | (23,896)                         |
| Comprehensive earnings                |                   |                                  |                      |   |                   | 111,090                          |
| Purchase of treasury stock            | —                 | —                                | —                    | —   | (134,880)         | (134,880)                        |
| Stock option and warrant transactions | —                 | 57,378                           | —                    | —   | 41,287            | 98,665                           |
| Dividends declared                    | —                 | —                                | (41,783)             | —   | —                 | (41,783)                         |
| Conversion of 6% debt                 | 3,820             | 149,264                          | —                    | —   | —                 | 153,084                          |
| Other                                 | —                 | (117)                            | 7                    | —   | 5                 | (105)                            |
| <b>Balance, December 28, 1997</b>     | 69,900            | 489,447                          | 1,457,495            | (3,903)   | (174,822)         | 1,838,117                        |
| Net earnings                          | —                 | —                                | 206,365              | —   | —                 | 206,365                          |
| Other comprehensive earnings          | —                 | —                                | —                    | (5,722)   | —                 | (5,722)                          |
| Comprehensive earnings                |                   |                                  |                      |   |                   | 200,643                          |
| Three-for-two stock split             | 34,949            | (34,949)                         | —                    | —   | —                 | —                                |
| Purchase of treasury stock            | —                 | —                                | —                    | —   | (178,917)         | (178,917)                        |
| Stock option and warrant transactions | —                 | 66,818                           | —                    | —   | 60,195            | 127,013                          |
| Dividends declared                    | —                 | —                                | (42,061)             | —   | —                 | (42,061)                         |
| <b>Balance, December 27, 1998</b>     | <u>\$ 104,849</u> | <u>521,316</u>                   | <u>1,621,799</u>     | <u>(9,625)</u>                                    | <u>(293,544)</u>  | <u>1,944,795</u>                 |

See accompanying notes to consolidated financial statements.

(Thousands of Dollars Except Share Data)

## (1) Summary of Significant Accounting Policies

### *Principles of Consolidation*

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

### *Preparation of Financial Statements*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and notes thereto. Actual results could differ from those estimates.

### *Fiscal Year*

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

### *Cash and Cash Equivalents*

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

### *Inventories*

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

### *Long-Lived Assets*

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset.

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

Approximately 53% of Hasbro's goodwill results from the 1984 acquisition of Milton Bradley Company (Milton Bradley), including its Playskool and international units, and the 1991 acquisition of Tonka Corporation (Tonka), including its Kenner, Parker Brothers and international units. An additional approximate 35% results from the Company's 1998 acquisitions of Tiger Electronics, Inc., MicroProse, Inc. and Galoob Toys, Inc. Goodwill is being amortized on the straight-line basis over lives ranging from ten to forty years.

Substantially all of the other intangibles consist of the cost of acquired product rights. In establishing the value of such rights, the Company considers, but does not individually value, existing copyrights, trademarks, patents, license agreements and other product-related rights. Approximately 48% of these other intangibles relate to rights acquired in the acquisitions noted above. These rights, which were valued at their acquisition date based on the anticipated future cash flows from the underlying product lines, are being amortized over five to twenty-five years using the straight-line method. An additional approximate 15% of these other intangibles relate to rights acquired from a major motion picture studio and are being amortized over the contract life, in proportion to projected sales of the licensed products during the same period.

### *Depreciation and Amortization*

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

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

### *Research and Development*

Research and product development costs for 1998, 1997 and 1996 were \$184,962, \$154,710 and \$152,487, respectively.

### *Advertising*

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

### *Income Taxes*

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

### *Foreign Currency Translation*

Foreign currency assets and liabilities are translated into dollars at current rates, and revenues, costs and expenses are translated at average rates during each reporting period. Current earnings include gains or losses resulting from foreign currency transactions as well as translation gains and losses resulting from the use of the U.S. dollar as the functional currency in highly inflationary economies. Other gains and losses resulting from translation of financial statements are the principal component of other comprehensive earnings.

### *Pension Plans, Postretirement and Postemployment Benefits*

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

Hasbro has a contributory postretirement health and life insurance plan covering substantially all employees who retire under any of its United States defined benefit pension plans and meet certain age and length of service requirements. It also has several plans covering certain groups of employees which may provide benefits to such employees following their period of employment but prior to their retirement.

### *Risk Management Contracts*

Hasbro does not enter into derivative financial instruments for speculative purposes. The Company enters into foreign currency forward and option contracts to mitigate its exposure to foreign currency exchange rate fluctuations. This exposure relates to future purchases of inventory not denominated in the functional currency of the unit purchasing the inventory as well as other cross-border currency requirements. Premiums on option contracts are amortized over their term and if such contract is terminated before its maturity, the unamortized premium is expensed and included in other expense, net. The carrying value of options is included in prepaid expenses and other current assets. Gains and losses on forward and option contracts meeting hedge accounting requirements are deferred and recognized as adjustments to the carrying value of the related transactions. In the event hedge accounting requirements are not met, gains and losses on such instruments are included currently in the statements of earnings.

### *Earnings Per Common Share*

Basic earnings per share is computed by dividing net earnings by the weighted average number of shares outstanding for the year. Diluted earnings per share is similar except that the weighted average number of shares outstanding is increased by shares issuable upon exercise of stock options and warrants for which market price exceeds exercise price, less shares which could have been purchased by the Company with the related proceeds.

A reconciliation of earnings per share for the three fiscal years ended December 27, 1998 is as follows:

|  | 1998      |         | 1997    |         | 1996    |         |
|--|-----------|---------|---------|---------|---------|---------|
|  | Basic     | Diluted | Basic   | Diluted | Basic   | Diluted |
| Net earnings                                 | \$206,365 | 206,365 | 134,986 | 134,986 | 199,912 | 199,912 |
| Effect of dilutive securities:               |           |         |         |         |         |         |
| 6% Convertible Notes due 1998                | —         | —       | —       | 4,782   | —       | 5,757   |
| Adjusted net earnings                        | \$206,365 | 206,365 | 134,986 | 139,768 | 199,912 | 205,669 |
| Average shares outstanding<br>(in thousands) | 197,927   | 197,927 | 193,089 | 193,089 | 195,061 | 195,061 |
| Effect of dilutive securities:               |           |         |         |         |         |         |
| 6% Convertible Notes due 1998                | —         | —       | —       | 9,428   | —       | 11,499  |
| Options and warrants                         | —         | 7,493   | —       | 3,836   | —       | 2,723   |
| Equivalent shares                            | 197,927   | 205,420 | 193,089 | 206,353 | 195,061 | 209,283 |
| Earnings per share                           | \$ 1.04   | 1.00    | .70     | .68     | 1.02    | .98     |

## (2) Acquisitions

On May 2, 1997, Hasbro purchased certain assets of OddzOn Products, Inc., and Cap Toys, Inc. (OddzOn), wholly owned subsidiaries of Russ Berrie and Company, Inc., for a purchase price of \$167,379. This acquisition was accounted for using the purchase method and, based on estimates of fair market value, \$43,582 has been allocated to net tangible assets, \$76,700 to product rights and \$47,097 to goodwill.

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

These three acquisitions were accounted for using the purchase method, and accordingly, the net assets acquired have been recorded at their fair value and the results of their operations included from the dates of acquisition. Based on estimates of fair market value, \$90,494 has been allocated to net tangible assets, \$306,710 to product rights, \$252,533 to goodwill and \$20,000 to acquired in-process research and development. The appraised fair value of this acquired in-process research and development (interactive game software projects under development at the date of acquisition) was determined using the discounted cash flow approach, considered the percentage of completion at the date of acquisition and was expensed at acquisition.

On a pro forma basis, reflecting these three acquisitions as if they had taken place at the beginning of each period and after giving effect to adjustments recording the acquisitions, and excluding the charge for in-process research and development, unaudited net revenues, net earnings and basic and diluted earnings per share for the year ended December 27, 1998 would have been \$3,530,807, \$171,866, \$.87 and \$.84, respectively, and for the year ended December 28, 1997 would have been \$3,904,061, \$65,189, \$.34 and \$.34, respectively. These pro forma results are not indicative of either future performance or actual results which would have occurred had the acquisitions taken place at the beginning of the respective periods.

## (3) Inventories

|                   | 1998             | 1997           |
|-------------------|------------------|----------------|
| Finished products | \$283,160        | 198,215        |
| Work in process   | 12,698           | 12,208         |
| Raw materials     | 38,943           | 32,279         |
|                   | <u>\$334,801</u> | <u>242,702</u> |

## (4) Property, Plant and Equipment

|  | 1998             | 1997           |
|--|------------------|----------------|
| Land and improvements                      | \$ 14,748        | 13,297         |
| Buildings and improvements                 | 197,295          | 181,362        |
| Machinery and equipment                    | 295,810          | 265,313        |
|  | 507,853          | 459,972        |
| Less accumulated depreciation              | 227,820          | 219,106        |
|  | 280,033          | 240,866        |
| Tools, dies and molds, net of amortization | 50,322           | 39,737         |
|  | <u>\$330,355</u> | <u>280,603</u> |

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

## (5) Short-Term Borrowings

Hasbro has available unsecured committed and uncommitted lines of credit from various banks approximating \$500,000 and \$750,000, respectively. Substantially all of the short-term borrowings outstanding at the end of 1998 and 1997 represent borrowings made under, or supported by, these lines of credit and the weighted average interest rates of the outstanding borrowings were 6.0% and 6.3%, respectively. Hasbro's working capital needs were fulfilled by borrowing under these lines of credit and through the issuance of commercial paper, both of which were on terms and at interest rates generally extended to companies of comparable creditworthiness. The committed line includes \$350,000 and \$150,000 available under long-term and short-term revolving credit agreements, respectively. These agreements contain certain restrictive covenants with which the Company is in compliance. Compensating balances and facility fees were not material.

## (6) Accrued Liabilities

|                                   | 1998             | 1997           |
|-----------------------------------|------------------|----------------|
| Royalties                         | \$116,603        | 95,418         |
| Advertising                       | 172,621          | 112,299        |
| Payroll and management incentives | 54,622           | 44,014         |
| 1997 restructuring accruals       | 62,996           | 120,099        |
| Other                             | 322,763          | 224,203        |
|                                   | <u>\$729,605</u> | <u>596,033</u> |

## (7) Long-Term Debt

|                           | 1998             | 1997     |
|---------------------------|------------------|----------|
| 5.60% Notes Due 2005      | \$100,000        | —        |
| 6.15% Notes Due 2008      | 150,000          | —        |
| 6.60% Debentures Due 2028 | 150,000          | —        |
| Other                     | 7,180            | —        |
|                           | <u>\$407,180</u> | <u>—</u> |

Current installments of \$260 in 1998 are aggregated with short-term borrowings. The maturities of long-term debt in 2000 and in the succeeding three years are \$296, \$310, \$324 and \$339.

## (8) Income Taxes

Income taxes attributable to earnings before income taxes are:

|                 | 1998             | 1997            | 1996           |
|-----------------|------------------|-----------------|----------------|
| Current         |                  |                 |                |
| United States   | \$ 40,256        | 62,042          | 58,580         |
| State and local | 5,226            | 8,296           | 9,033          |
| International   | 49,952           | 39,756          | 47,488         |
|                 | <u>95,434</u>    | <u>110,094</u>  | <u>115,101</u> |
| Deferred        |                  |                 |                |
| United States   | (6,458)          | (31,533)        | 4,309          |
| State and local | (554)            | (2,793)         | 406            |
| International   | 8,691            | (6,229)         | (12,835)       |
|                 | <u>1,679</u>     | <u>(40,555)</u> | <u>(8,120)</u> |
|                 | <u>\$ 97,113</u> | <u>69,539</u>   | <u>106,981</u> |

Certain tax benefits are not reflected in income taxes in the statements of earnings. Such benefits of \$14,377 in 1998, \$4,036 in 1997 and \$6,793 in 1996, relate primarily to stock options.

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

|                                   | 1998         | 1997         | 1996         |
|-----------------------------------|--------------|--------------|--------------|
| Statutory income tax rate         | 35.0%        | 35.0%        | 35.0%        |
| State and local income taxes, net | 1.0          | 1.7          | 2.0          |
| Goodwill amortization             | 1.8          | 2.4          | 1.6          |
| Tax on international earnings     | (5.4)        | (4.9)        | (2.2)        |
| Reduction of valuation allowance  | —            | —            | (1.1)        |
| Other, net                        | (.4)         | (.2)         | (.4)         |
|                                   | <u>32.0%</u> | <u>34.0%</u> | <u>34.9%</u> |

The components of earnings before income taxes, determined by tax jurisdiction, are as follows:

|               | 1998             | 1997           | 1996           |
|---------------|------------------|----------------|----------------|
| United States | \$123,969        | 157,987        | 208,864        |
| International | 179,509          | 46,538         | 98,029         |
|               | <u>\$303,478</u> | <u>204,525</u> | <u>306,893</u> |

The components of deferred income tax expense arise from various temporary differences and relate to items included in the statements of earnings.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 27, 1998 and December 28, 1997 are:

|                               | 1998             | 1997           |
|-------------------------------|------------------|----------------|
| Deferred tax assets:          |                  |                |
| Accounts receivable           | \$ 27,556        | 24,497         |
| Inventories                   | 14,718           | 12,576         |
| Net operating loss carryovers | 31,608           | 22,821         |
| Operating expenses            | 44,491           | 45,503         |
| Postretirement benefits       | 12,269           | 12,343         |
| Other                         | 74,955           | 53,689         |
| Gross deferred tax assets     | 205,597          | 171,429        |
| Valuation allowance           | (13,261)         | (8,649)        |
| Net deferred tax assets       | 192,336          | 162,780        |
| Deferred tax liabilities      | 46,174           | 49,060         |
| Net deferred income taxes     | <u>\$146,162</u> | <u>113,720</u> |

Hasbro has a valuation allowance for deferred tax assets at December 27, 1998 of \$13,261, which is an increase of \$4,612 from the \$8,649 at December 28, 1997. The allowance pertains to United States and international operating loss carry-forwards, some of which have no expiration and others that would expire beginning in 2001. If fully realized, \$8,760 will reduce goodwill and the balance will reduce future income tax expense. Deferred tax liabilities relate primarily to property rights.

Based on Hasbro's history of taxable income and the anticipation of sufficient taxable income in years when the temporary differences are expected to become tax deductions, it believes that it will realize the benefit of the deferred tax assets, net of the existing valuation allowance.

Deferred income taxes of \$100,332 and \$96,489 at the end of 1998 and 1997, respectively, are included as a component of prepaid expenses and other current assets, and \$53,331 and \$21,541, respectively, are included as a component of other assets. At the same dates, deferred income taxes of \$7,010 and \$1,553, respectively, are included as a component of deferred liabilities.

The cumulative amount of undistributed earnings of Hasbro's international subsidiaries held for reinvestment is approximately \$282,000 at December 27, 1998. In the event that all international undistributed earnings were remitted to the United States, the amount of incremental taxes would be approximately \$39,000.

## (9) Capital Stock

### *Preference Share Purchase Rights*

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

Prior to the acquisition by the person or group of beneficial ownership of a certain percentage of Hasbro's common stock, the Rights are redeemable for \$.00296 per Right. The Rights Plan contains certain exceptions with respect to the Hassenfeld family and related entities.

### *Common Stock*

On December 9, 1997, the Board canceled all prior share repurchase authorizations and authorized the purchase of up to an additional \$500,000 of the Company's common stock. At December 27, 1998, \$309,540 remained under this authorization.

On February 19, 1999, the Board declared a three-for-two stock split, payable in the form of a 50% stock dividend, on March 15, 1999 to shareholders of record on March 1, 1999. Appropriate changes to reflect the split have been effected in the stock options and warrants. Except for balance sheet presentation of the December 28, 1997 outstanding and treasury shares, all share and per share amounts have been adjusted to reflect this split.

## (10) Stock Options and Warrants

Hasbro has various stock option plans for employees as well as a plan for non-employee members of the Board (collectively, the plans) and has reserved 25,351,914 shares of its common stock for issuance upon exercise of options granted or to be granted under the plans. These options generally vest in equal annual amounts over three to five years. The plans provide that options be granted at exercise prices not less than market value on the date the option is granted and options are adjusted for such changes as stock splits and stock dividends. No options are exercisable for periods of more than ten years after date of grant. Although certain of the plans permit the granting of awards in the form of stock options, stock appreciation rights, stock awards and cash awards, to date, only stock options have been granted.

As permitted by Statement of Financial Accounting Standards No. 123 (SFAS 123), Hasbro continues to apply Accounting Principles Board Opinion No. 25 (APB 25) in accounting for the plans under which no compensation cost is recognized. Had compensation expense been recorded under the provisions of SFAS 123, the impact on the Company's net earnings and earnings per share would have been:

|  | 1998             | 1997           | 1996           |
|--|------------------|----------------|----------------|
| Reported net earnings                      | \$206,365        | 134,986        | 199,912        |
| Pro forma compensation expense, net of tax | <u>(10,339)</u>  | <u>(5,880)</u> | <u>(3,001)</u> |
| Pro forma net earnings                     | <u>\$196,026</u> | <u>129,106</u> | <u>196,911</u> |
| Pro forma earnings per share               |                  |                |                |
| Basic                                      | \$ .99           | .67            | 1.01           |
| Diluted                                    | <u>\$ .95</u>    | <u>.65</u>     | <u>.97</u>     |

The weighted average fair value of options granted in 1998, 1997 and 1996 were \$8.66, \$5.76 and \$4.62, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in 1998, 1997 and 1996, respectively: risk-free interest rates of 5.70%, 6.20% and 5.51%; expected dividend yields of 0.85%, 1.12% and 1.13% and expected volatility of approximately 26% in 1998 and 21% in 1997 and 1996, and lives of approximately 6 years.

Additionally, the Company has reserved 22,500,000 shares of its common stock for issuance upon exercise of outstanding warrants. During 1998, warrants to purchase 6,000,000 shares at an exercise price of \$23.3333 per share were issued in connection with the acquisition of certain rights. The fair value of these warrants was \$11.42 each on the date of grant.



Information with respect to options and warrants, in thousands of shares, for the three years ended December 27, 1998 is as follows:

|                                  | 1998            | 1997          | 1996          |
|----------------------------------|-----------------|---------------|---------------|
| Number of shares:                |                 |               |               |
| Outstanding at beginning of year | 31,424          | 20,452        | 13,315        |
| Granted                          | 8,639           | 14,191        | 9,508         |
| Exercised                        | (3,468)         | (2,651)       | (1,854)       |
| Expired or canceled              | (234)           | (568)         | (517)         |
| Outstanding at end of year       | <u>36,361</u>   | <u>31,424</u> | <u>20,452</u> |
| Exercisable at end of year       | <u>11,673</u>   | <u>11,090</u> | <u>9,878</u>  |
| Weighted average exercise price: |                 |               |               |
| Granted                          | \$ 23.86        | 18.77         | 14.50         |
| Exercised                        | \$ 13.34        | 12.30         | 9.65          |
| Expired or canceled              | \$ 18.75        | 15.80         | 14.78         |
| Outstanding at end of year       | \$ 18.17        | 16.08         | 13.71         |
| Exercisable at end of year       | <u>\$ 14.43</u> | <u>13.46</u>  | <u>12.88</u>  |

Information, in thousands of shares, with respect to the 36,361 options and warrants outstanding and the 11,673 exercisable at December 27, 1998, is as follows:

| Range of Exercise Prices | Shares       | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price |
|--------------------------|--------------|---|---------------------------------|
| Outstanding              |              |   |                                 |
| \$ 4.56 – \$13.86        | 2,024        | 4.1 years                                   | \$10.61                         |
| \$14.00 – \$17.68        | 12,250       | 4.6 years                                   | \$14.72                         |
| \$18.67 – \$20.06        | 13,478       | 9.7 years                                   | \$18.80                         |
| \$23.04 – \$29.72        | <u>8,609</u> | 10.7 years                                  | <u>\$23.86</u>                  |
| Exercisable              |              |   |                                 |
| \$ 4.56 – \$13.86        | 2,024        |   | \$10.61                         |
| \$14.00 – \$17.68        | 8,648        |   | \$14.78                         |
| \$18.67 – \$20.06        | 988          |   | \$19.06                         |
| \$23.04 – \$29.72        | <u>13</u>    |   | <u>\$24.88</u>                  |

## (11) Pension, Postretirement and Postemployment Benefits

### *Pension and Postretirement Benefits*

Hasbro's net pension and profit sharing cost for 1998, 1997 and 1996 was approximately \$12,900, \$13,400 and \$15,700, respectively.

### *United States Plans*

Substantially all United States employees are covered under at least one of several non-contributory defined benefit pension plans maintained by the Company. Benefits under the two major plans, principally covering non-union employees, are based primarily on salary and years of service. One of these plans is funded. Benefits under the remaining plans are based primarily on fixed amounts for specified years of service. One of these plans is also funded. At December 27, 1998, the two funded plans have plan assets of \$219,410 and accumulated benefit obligations of \$149,907. The unfunded plans have accumulated benefit obligations of \$15,740.

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

|   | Pension            |                 | Postretirement     |                 |
|---|--------------------|-----------------|--------------------|-----------------|
|   | 1998               | 1997            | 1998               | 1997            |
| Change in projected benefit obligation      |                    |                 |                    |                 |
| Projected benefit obligation                |                    |                 |                    |                 |
| at beginning of year                        | \$184,589          | 147,349         | \$ 28,885          | 24,562          |
| Service cost                                | 9,362              | 8,022           | 224                | 205             |
| Interest cost                               | 12,798             | 11,451          | 1,893              | 2,039           |
| Plan amendments                             | —                  | 1,062           | —                  | —               |
| Actuarial (gain) loss                       | 6,468              | 21,989          | (271)              | 3,799           |
| Benefits paid                               | (5,539)            | (4,744)         | (2,303)            | (1,720)         |
| Expenses paid                               | (615)              | (540)           | —                  | —               |
| Projected benefit obligation at end of year | <u>\$207,063</u>   | <u>184,589</u>  | <u>\$ 28,428</u>   | <u>28,885</u>   |
| Change in plan assets                       |                    |                 |                    |                 |
| Fair value of plan assets                   |                    |                 |                    |                 |
| at beginning of year                        | \$196,634          | 162,641         | \$ —               | —               |
| Actual return on plan assets                | 28,522             | 37,987          | —                  | —               |
| Employer contribution                       | 408                | 1,290           | —                  | —               |
| Benefits paid                               | (5,539)            | (4,744)         | —                  | —               |
| Expenses paid                               | (615)              | (540)           | —                  | —               |
| Fair value of plan assets at end of year    | <u>\$219,410</u>   | <u>196,634</u>  | <u>\$ —</u>        | <u>—</u>        |
| Funded status                               | \$ 12,347          | 12,045          | \$ (28,428)        | (28,885)        |
| Unrecognized net (gain) loss                | (39,402)           | (36,435)        | 2,885              | 3,212           |
| Unrecognized prior service cost             | 9,268              | 10,443          | —                  | —               |
| Accrued benefit cost                        | <u>\$ (17,787)</u> | <u>(13,947)</u> | <u>\$ (25,543)</u> | <u>(25,673)</u> |

The assets of the funded plans are managed by investment advisors and consist primarily of pooled indexed and actively managed bond and stock funds. For measuring the expected pension accumulated benefit obligation, assumed discount rates of 6.75%, 7.00% and 7.75% were used for 1998, 1997 and 1996, respectively; assumed long-term rates of compensation increase of 4.50% in 1998 and 5.00% in 1997 and 1996, and an assumed long-term rate of return on plan assets of 9.00% in all years.

For measuring the expected postretirement benefit obligation, a 7.50%, 8.00% and 8.60% annual rate of increase in the per capita cost of covered health care benefits was assumed for 1998, 1997 and 1996, respectively. The 1998 rate was further assumed to decrease gradually to 4.50% in 2012, while the 1997 and 1996 rates were assumed to decrease to 5.00% over this same period. All were assumed to remain constant after 2012. The discount rates used in the pension calculation were also used for the postretirement calculation.

|                                 | 1998            | 1997         | 1996         |
|---------------------------------|-----------------|--------------|--------------|
| Components of net periodic cost |                 |              |              |
| Pension                         |                 |              |              |
| Service cost                    | \$ 9,362        | 8,022        | 8,583        |
| Interest cost                   | 12,798          | 11,451       | 9,869        |
| Expected return on assets       | (17,465)        | (14,517)     | (11,633)     |
| Net amortization and deferrals  | (448)           | (465)        | 168          |
| Net periodic benefit cost       | <u>\$ 4,247</u> | <u>4,491</u> | <u>6,987</u> |
| Postretirement                  |                 |              |              |
| Service cost                    | \$ 224          | 205          | 289          |
| Interest cost                   | 1,893           | 2,039        | 1,727        |
| Net amortization and deferrals  | 57              | 22           | —            |
| Net periodic benefit cost       | <u>\$ 2,174</u> | <u>2,266</u> | <u>2,016</u> |

If the health care cost trend rate were increased one percentage point in each year, the accumulated postretirement benefit obligation at December 28, 1998 and the aggregate of the benefits earned during the period and the interest cost would have each increased by approximately 10%.

Hasbro also has a profit sharing plan covering substantially all of its United States non-union employees. The plan provides for an annual discretionary contribution by the Company which for 1998, 1997 and 1996 was approximately \$5,000, \$5,100 and \$5,000, respectively.

#### *International Plans*

Pension coverage for employees of Hasbro's international subsidiaries is provided, to the extent deemed appropriate, through separate defined benefit and defined contribution plans. These plans were neither significant individually nor in the aggregate.

#### *Postemployment Benefits*

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

## **(12) Leases**

Hasbro occupies certain manufacturing facilities and sales offices and uses certain equipment under various operating lease arrangements. The rent expense under such arrangements, net of sublease income which is not material, for 1998, 1997 and 1996 amounted to \$50,932, \$48,090 and \$46,092, respectively.

Minimum rentals, net of minimum sublease income which is not material, under long-term operating leases for the five years subsequent to 1998 and in the aggregate are as follows:

|             |                  |
|-------------|------------------|
| 1999        | \$ 38,163        |
| 2000        | 29,251           |
| 2001        | 22,941           |
| 2002        | 17,954           |
| 2003        | 15,523           |
| Later years | <u>89,486</u>    |
|             | <u>\$213,318</u> |

All leases expire prior to 2014. Real estate taxes, insurance and maintenance expenses are generally obligations of the Company. It is expected that in the normal course of business, leases that expire will be renewed or replaced by leases on other properties; thus, it is anticipated that future minimum lease commitments will not be less than the amounts shown for 1998.

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

### **(13) Restructuring Charge**

Late in the fourth quarter of 1997, the Company announced a global integration and profit enhancement program which anticipated the redundancy of approximately 2,500 employees, principally in manufacturing, and provided for actions in three principal areas: a continued consolidation of the Company's manufacturing operations; the streamlining of marketing and sales, while exiting from certain underperforming markets and product lines; and the further leveraging of overheads. Of the \$140,000 estimated costs related to these actions, \$125,000 was reported as a nonrecurring charge and \$15,000 was reflected in cost of sales. Of the nonrecurring amount approximately \$54,000 related to severance and people costs, \$52,000 to property, plant and equipment and leases and \$19,000 to product line related costs. During 1998, the employment of all employees planned for redundancy was terminated. The approximate \$63,000 accrual remaining at December 27, 1998, is principally attributable to severance costs, which will be disbursed over the employee's entitlement period, and costs associated with lease terminations and closing of certain facilities. In the balance sheet, such property, plant and equipment is included as a component of other assets. With the exception of the ultimate disposition of certain facilities closed as a result of this program, the program has been substantially completed.

### **(14) Financial Instruments**

Hasbro's financial instruments include cash and cash equivalents, accounts receivable, short- and long-term borrowings, accounts payable and accrued liabilities. At December 27, 1998, the carrying cost of these instruments approximated their fair value. Its financial instruments also include foreign currency forwards and options. At December 27, 1998, the carrying value of these instruments approximated their fair value based on quoted or publicly available market information.

Hasbro uses foreign currency forwards and options, generally purchased for terms of not more than twelve months, to protect itself from adverse currency rate fluctuations on firmly committed and anticipated foreign currency transactions. These over-the-counter contracts, which hedge future purchases of inventory and other cross-border currency requirements, are primarily denominated in United States and Hong Kong dollars and Irish punts and entered into with counterparties who are major financial institutions with which Hasbro also has other financial relationships. The Company believes any risk related to default by a counterparty to be remote.

The Company had the equivalent of approximately \$130,000 and \$35,000 of foreign currency forwards outstanding at December 27, 1998 and December 28, 1997, respectively, and approximately \$135,000 of foreign currency options outstanding at December 28, 1997. Gains and losses deferred under hedge accounting provisions are subsequently included in the measurement of the related foreign currency transaction. Gains and losses on contracts not meeting hedge accounting provisions are included currently in earnings. The aggregate amount of gains and losses resulting from all foreign currency transactions was not material.

### **(15) Commitments and Contingencies**

Hasbro had unused open letters of credit of approximately \$20,000 and \$15,000 at December 27, 1998 and December 28, 1997, respectively.

The Company routinely enters into license agreements with inventors, designers and others for the use of intellectual properties in its products. Certain of these agreements contain provisions for the payment of guaranteed or minimum royalty amounts. Under terms of currently existing agreements, in certain circumstances the Company may become liable for guaranteed or minimum royalties of up to \$660,000 between 1998 and 2007. Of this amount, in excess of \$110,000 has been paid and is included in the \$145,066 of prepaid royalties which are a component of prepaid expenses and other current assets on the balance sheet. Of the remaining amount, Hasbro may be required to pay approximately \$250,000, \$120,000 and \$120,000 in 1999, 2002 and 2005, respectively. Such payments are related to royalties which are expected to be incurred on anticipated revenues in the years 1999 through 2007.

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

## (16) Segment Reporting

### *Segment and Geographic Information*

Effective at year end 1998, Hasbro adopted Statement of Financial Accounting Standards No. 131 (SFAS 131), Disclosures about Segments of an Enterprise and Related Information. Prior period amounts have been reclassified to conform to the requirements of SFAS 131.

Hasbro and its subsidiaries operate in one segment, the marketing, licensing, development, manufacture and sourcing of toy and game products on a global basis. Accounting policies for management reporting are those described in the summary of significant accounting policies.

Information as to Hasbro's operations in different geographical areas is presented below on the basis the Company uses to manage its business. Net revenues and the related pretax earnings are categorized based on location of the customer, while long-lived assets (property, plant and equipment, cost in excess of acquired net assets and other intangibles) are categorized based on their location:

|                    | 1998               | 1997             | 1996             |
|--------------------|--------------------|------------------|------------------|
| Net revenues:      |                    |                  |                  |
| United States      | \$2,113,057        | 1,947,824        | 1,777,579        |
| International      | <u>1,191,397</u>   | <u>1,240,735</u> | <u>1,224,791</u> |
|                    | <u>\$3,304,454</u> | <u>3,188,559</u> | <u>3,002,370</u> |
| Pretax earnings:   |                    |                  |                  |
| United States      | \$ 194,050         | 117,436          | 156,391          |
| International      | <u>109,428</u>     | <u>87,089</u>    | <u>150,502</u>   |
|                    | <u>\$ 303,478</u>  | <u>204,525</u>   | <u>306,893</u>   |
| Long-lived assets: |                    |                  |                  |
| United States      | \$1,694,967        | 1,119,836        | 986,344          |
| International      | <u>177,569</u>     | <u>126,067</u>   | <u>152,655</u>   |
|                    | <u>\$1,872,536</u> | <u>1,245,903</u> | <u>1,138,999</u> |

Principal international markets include Western Europe, Canada, Mexico, Australia, New Zealand and Hong Kong.

### *Other Information*

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

Sales to the Company's two largest customers, Wal-Mart Stores, Inc. and Toys 'R Us, Inc., amounted to 18% and 17%, respectively, of consolidated net revenues during 1998, 15% and 22%, respectively, during 1997 and 13% and 22%, respectively, during 1996.

Hasbro purchases certain components and accessories used in its manufacturing process and certain finished products from manufacturers in the Far East. The Company's reliance on external sources of manufacturing can be shifted, over a period of time, to alternative sources of supply for products it sells, should such changes be necessary. However, if Hasbro were prevented from obtaining products from a substantial number of its current Far East suppliers due to political, labor or other factors beyond its control, the Company's operations would be disrupted while alternative sources of product were secured. The imposition of trade sanctions by the United States or the European Union against a class of products imported by Hasbro from, or the loss of "most favored nation" trading status by, the Peoples Republic of China could significantly increase the cost of the Company's products imported into the United States or Europe from China.

**(17) Quarterly Financial Data (Unaudited)**

|                              | Quarter                             |                                  |                                |                                 | Full Year                        |
|------------------------------|-------------------------------------|----------------------------------|--------------------------------|---------------------------------|----------------------------------|
|                              | First                               | Second                           | Third                          | Fourth                          |                                  |
| <b>1998</b>                  |                                     |                                  |                                |                                 |                                  |
| Net revenues                 | \$482,820                           | 572,057                          | 945,498                        | 1,304,079                       | 3,304,454                        |
| Gross profit                 | \$278,508                           | 324,962                          | 543,129                        | 791,794                         | 1,938,393                        |
| Earnings before income taxes | \$ 11,808                           | 8,262                            | 89,601(a)                      | 193,807                         | 303,478                          |
| Net earnings                 | \$ <u>7,793</u>                     | <u>5,453</u>                     | <u>61,330</u>                  | <u>131,789</u>                  | <u>206,365</u>                   |
| Per common share             |                                     |                                  |                                |                                 |                                  |
| Earnings                     |                                     |                                  |                                |                                 |                                  |
| Basic                        | \$ .04                              | .03                              | .31                            | .67                             | 1.04                             |
| Diluted                      | \$ .04                              | .03                              | .30                            | .65                             | 1.00                             |
| Market price                 |                                     |                                  |                                |                                 |                                  |
| High                         | \$ 25 <sup>3</sup> / <sub>4</sub>   | 27 <sup>1</sup> / <sub>16</sub>  | 27 <sup>1</sup> / <sub>4</sub> | 25 <sup>7</sup> / <sub>16</sub> | 27 <sup>1</sup> / <sub>4</sub>   |
| Low                          | \$ 19 <sup>7</sup> / <sub>8</sub>   | 23 <sup>1</sup> / <sub>8</sub>   | 19 <sup>5</sup> / <sub>8</sub> | 18 <sup>5</sup> / <sub>8</sub>  | 18 <sup>5</sup> / <sub>8</sub>   |
| Cash dividends declared      | \$ <u>.05</u>                       | <u>.05</u>                       | <u>.05</u>                     | <u>.05</u>                      | <u>.21</u>                       |
| <b>1997</b>                  |                                     |                                  |                                |                                 |                                  |
| Net revenues                 | \$555,784                           | 583,886                          | 915,533                        | 1,133,356                       | 3,188,559                        |
| Gross profit                 | \$320,413                           | 330,969                          | 512,506                        | 665,613                         | 1,829,501                        |
| Earnings before income taxes | \$ 40,147                           | 20,283                           | 115,441                        | 28,654(a)                       | 204,525                          |
| Net earnings                 | \$ <u>25,694</u>                    | <u>12,981</u>                    | <u>77,400</u>                  | <u>18,911</u>                   | <u>134,986</u>                   |
| Per common share             |                                     |                                  |                                |                                 |                                  |
| Earnings                     |                                     |                                  |                                |                                 |                                  |
| Basic                        | \$ .13                              | .07                              | .41                            | .10                             | .70                              |
| Diluted                      | \$ .13                              | .07                              | .38                            | .09                             | .68                              |
| Market price                 |                                     |                                  |                                |                                 |                                  |
| High                         | \$ 19 <sup>3</sup> / <sub>4</sub>   | 19 <sup>5</sup> / <sub>8</sub>   | 20 <sup>3</sup> / <sub>4</sub> | 24 <sup>5</sup> / <sub>16</sub> | 24 <sup>5</sup> / <sub>16</sub>  |
| Low                          | \$ 16 <sup>1</sup> / <sub>16</sub>  | 15 <sup>1</sup> / <sub>4</sub>   | 17 <sup>5</sup> / <sub>8</sub> | 17 <sup>1</sup> / <sub>8</sub>  | 15 <sup>1</sup> / <sub>4</sub>   |
| Cash dividends declared      | \$ <u>.05</u>                       | <u>.05</u>                       | <u>.05</u>                     | <u>.05</u>                      | <u>.21</u>                       |
| <b>1996</b>                  |                                     |                                  |                                |                                 |                                  |
| Net revenues                 | \$538,685                           | 511,609                          | 845,148                        | 1,106,928                       | 3,002,370                        |
| Gross profit                 | \$300,914                           | 277,425                          | 472,875                        | 622,259                         | 1,673,473                        |
| Earnings before income taxes | \$ 39,109                           | 9,143                            | 104,934                        | 153,707                         | 306,893                          |
| Net earnings                 | \$ <u>24,365</u>                    | <u>5,986</u>                     | <u>70,469</u>                  | <u>99,092</u>                   | <u>199,912</u>                   |
| Per common share             |                                     |                                  |                                |                                 |                                  |
| Earnings                     |                                     |                                  |                                |                                 |                                  |
| Basic                        | \$ .12                              | .03                              | .36                            | .51                             | 1.02                             |
| Diluted                      | \$ .12                              | .03                              | .35                            | .48                             | .98                              |
| Market price                 |                                     |                                  |                                |                                 |                                  |
| High                         | \$ 20 <sup>7</sup> / <sub>8</sub>   | 17 <sup>3</sup> / <sub>16</sub>  | 17                             | 19 <sup>9</sup> / <sub>16</sub> | 20 <sup>7</sup> / <sub>8</sub>   |
| Low                          | \$ 12 <sup>13</sup> / <sub>16</sub> | 15 <sup>11</sup> / <sub>16</sub> | 14 <sup>1</sup> / <sub>8</sub> | 16 <sup>7</sup> / <sub>16</sub> | 12 <sup>13</sup> / <sub>16</sub> |
| Cash dividends declared      | \$ <u>.04</u>                       | <u>.04</u>                       | <u>.04</u>                     | <u>.04</u>                      | <u>.18</u>                       |

(a) In 1998, includes the expense impact of \$20,000 relating to acquired in-process research and development and, in 1997, \$125,000 relating to restructuring of operations.

## I N D E P E N D E N T   A U D I T O R S '   R E P O R T

*The Board of Directors and Shareholders  
Hasbro, Inc.:*

We have audited the accompanying consolidated balance sheets of Hasbro, Inc. and subsidiaries as of December 27, 1998 and December 28, 1997 and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the fiscal years in the three-year period ended December 27, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hasbro, Inc. and subsidiaries as of December 27, 1998 and December 28, 1997 and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended December 27, 1998 in conformity with generally accepted accounting principles.

**KPMG LLP**

*Providence, Rhode Island  
February 3, 1999*

## FIVE-YEAR SUMMARY SELECTED FINANCIAL INFORMATION

| (Thousands of Dollars Except Share Data)   | 1998                              | 1997                           | 1996      | 1995                           | 1994                             |
|--|-----------------------------------|--------------------------------|-----------|--------------------------------|----------------------------------|
| <b>Operating information</b>   |                                   |                                |           |                                |                                  |
| Net revenues   | \$3,304,454                       | 3,188,559                      | 3,002,370 | 2,858,210                      | 2,670,262                        |
| Cost of sales  | \$1,366,061                       | 1,359,058                      | 1,328,897 | 1,237,197                      | 1,161,479                        |
| Amortization   | \$ 72,208                         | 53,767                         | 40,064    | 38,471                         | 36,903                           |
| Royalties, research and development  | \$ 424,673                        | 386,912                        | 319,494   | 304,704                        | 273,039                          |
| Advertising  | \$ 440,692                        | 411,574                        | 418,003   | 417,886                        | 397,094                          |
| Selling, distribution and administration   | \$ 655,938                        | 617,140                        | 563,645   | 555,280                        | 493,570                          |
| Acquired in-process research and development, restructuring and discontinued development project charges | \$ 20,000                         | 125,000                        | —         | 31,100                         | 12,500                           |
| Nonoperating expense   | \$ 21,404                         | 30,583                         | 25,374    | 21,022                         | 4,108                            |
| Earnings before income taxes   | \$ 303,478                        | 204,525                        | 306,893   | 252,550                        | 291,569                          |
| Net earnings   | \$ 206,365                        | 134,986                        | 199,912   | 155,571                        | 175,033                          |
| <b>Common share data (1)</b>   |                                   |                                |           |                                |                                  |
| Price at year end  | \$ 22 <sup>1</sup> / <sub>4</sub> | 20 <sup>3</sup> / <sub>8</sub> | 17        | 13 <sup>3</sup> / <sub>4</sub> | 12 <sup>13</sup> / <sub>16</sub> |
| Earnings per share   |                                   |                                |           |                                |                                  |
| Basic  | \$ 1.04                           | .70                            | 1.02      | .79                            | .89                              |
| Diluted  | \$ 1.00                           | .68                            | .98       | .77                            | .85                              |
| Book value per share   | \$ 9.91                           | 9.18                           | 8.55      | 7.76                           | 7.09                             |
| Price/earnings ratio   | 22.25                             | 29.96                          | 17.35     | 17.86                          | 15.07                            |
| Price/book value ratio   | 2.25                              | 2.22                           | 1.99      | 1.77                           | 1.81                             |
| <b>Statistics and ratios</b>   |                                   |                                |           |                                |                                  |
| Gross profit margin  | 58.7%                             | 57.4%                          | 55.7%     | 56.7%                          | 56.5%                            |
| Operating profit margin  | 9.8%                              | 7.4%                           | 11.1%     | 9.6%                           | 11.1%                            |
| Net profit margin  | 6.3%                              | 4.2%                           | 6.7%      | 5.4%                           | 6.6%                             |
| Effective tax rate   | 32.0%                             | 34.0%                          | 34.9%     | 38.4%                          | 38.5%                            |
| Long-term debt to capitalization   | 17.3%                             | —                              | 8.3%      | 9.0%                           | 9.7%                             |
| Return on average assets   | 6.5%                              | 4.9%                           | 7.4%      | 6.0%                           | 7.4%                             |
| Ratio of earnings to fixed charges (2)   | 6.70                              | 5.66                           | 7.51      | 5.82                           | 7.58                             |
| <b>Supplementary data</b>  |                                   |                                |           |                                |                                  |
| Capital expenditures   | \$ 141,950                        | 99,356                         | 101,946   | 100,639                        | 110,944                          |
| Depreciation and all amortization  | \$ 169,199                        | 166,584                        | 138,265   | 129,908                        | 122,271                          |
| Property, plant and equipment, net   | \$ 330,355                        | 280,603                        | 313,545   | 313,240                        | 308,879                          |
| Cash dividends declared  | \$ 42,061                         | 41,783                         | 34,559    | 28,050                         | 24,573                           |
| Number of employees  | 10,000                            | 12,000                         | 13,000    | 13,000                         | 12,500                           |

(1) Adjusted to reflect the three-for-two stock split declared on February 19, 1999 and paid on March 15, 1999.

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



## DIRECTORS

**Alan G. Hassenfeld**

*Chairman of the Board and  
Chief Executive Officer*

**Alan R. Batkin**

*Vice Chairman  
Kissinger Associates*

**Herbert M. Baum**

*President and Chief Operating Officer*

**Harold P. Gordon**

*Vice Chairman*

**Alex Grass**

*Chairman of the Executive Committee  
Rite Aid Corporation*

**Sylvia Hassenfeld**

*Former Chairman of the Board  
American Jewish Joint Distribution  
Committee, Inc.*

**Marie-Josée Kravis**

*Senior Fellow  
The Hudson Institute Inc.*

**Claudine B. Malone**

*President  
Financial and Management Consulting, Inc.*

**Morris W. Offit**

*Chairman of the Board and  
Chief Executive Officer  
Offitbank*

**Norma T. Pace**

*President  
Paper Analytics Associates*

**E. John Rosenwald, Jr.**

*Vice Chairman  
The Bear Stearns Companies, Inc.*

**Carl Spielvogel**

*Chairman and Chief Executive Officer  
Carl Spielvogel Associates, Inc.*

**Preston Robert Tisch**

*Co-Chairman of the Board  
Loews Corporation*

**Alfred J. Verrecchia**

*Executive Vice President  
Global Operations and Development*

**Paul Wolfowitz**

*Dean, Paul H. Nitze School of Advanced  
International Studies  
The Johns Hopkins University*

## EXECUTIVE OFFICERS

**Alan G. Hassenfeld**

*Chairman of the Board and  
Chief Executive Officer*

**Herbert M. Baum**

*President and  
Chief Operating Officer*

**Harold P. Gordon**

*Vice Chairman*

**John T. O'Neill**

*Executive Vice President and  
Chief Financial Officer*

**Alfred J. Verrecchia**

*Executive Vice President  
Global Operations and Development*

**Virginia H. Kent**

*Senior Vice President and  
Sector Head, Toys*

**George B. Volanakis**

*Senior Vice President and  
Sector Head, International Businesses*

**E. David Wilson**

*Senior Vice President and  
Sector Head, Games*

**Richard B. Holt**

*Senior Vice President and Controller*

**Cynthia S. Reed**

*Senior Vice President and General Counsel*

**Martin R. Trueb**

*Senior Vice President and Treasurer*

**Douglas J. Schwinn**

*Senior Vice President and  
Chief Information Officer*

**Phillip H. Waldoks**

*Senior Vice President  
Corporate Legal Affairs and Secretary*

## SHAREHOLDER INFORMATION

### Stock Exchange Information

The Common Stock of Hasbro, Inc. is listed on the American Stock Exchange and the London Stock Exchange under the symbol HAS.

### Annual Meeting

The annual meeting of shareholders will be held at 10:00 A.M. on Wednesday, May 12, 1999 at:

The 200 Fifth Avenue Club  
200 Fifth Avenue  
New York, New York 10010

### Dividend Reinvestment and

#### Cash Stock Purchase Program

Under this plan, Hasbro shareholders may reinvest their dividends or make optional cash payments towards the purchase of additional shares of common stock. Shareholders wishing information about this plan should contact the Transfer Agent and Registrar.

### Transfer Agent and Registrar

Shareholders who wish to change the name or address on their record of stock ownership, report lost certificates, consolidate accounts or make other inquiries relating to stock certificates or the Dividend Reinvestment and Cash Stock Purchase Program should contact:

BankBoston, N.A.  
c/o EquiServe Limited Partnership  
Boston EquiServe Division  
Shareholder Services  
P.O. Box 8040  
Boston, Massachusetts 02266-8040  
(781) 575-3400 or (800) 733-5001

### Shareholders

As of February 26, 1999, there were approximately 5,000 shareholders of record of Hasbro's Common Stock.

### Investor Information

Securities analysts, investors and others who wish information about Hasbro are invited to contact:

Investor Relations  
1027 Newport Avenue  
P.O. Box 1059  
Pawtucket, Rhode Island 02862-1059  
(401) 431-8697  
Internet address: <http://www.hasbro.com>

### Form 10-K

Hasbro's annual report on Form 10-K to the Securities and Exchange Commission provides certain additional information. Shareholders may obtain a copy without charge by contacting:

Cynthia S. Reed  
Senior Vice President and General Counsel  
1027 Newport Avenue  
P.O. Box 1059  
Pawtucket, Rhode Island 02862-1059

|   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |
|---|---|---|----|----|----|----|----|----|----|----|----|----|----|----|
| 1 |   | 6 | 10 | 12 |    | 17 |    | 21 | 23 | 25 |    |    | 32 |    |
|   | 3 | 7 |    |    |    | 15 | 18 |    |    |    |    | 28 |    |    |
|   |   | 5 | 8  | 11 | 13 | 16 |    | 20 |    | 26 |    | 29 |    |    |
| 2 | 4 |   | 9  |    | 14 |    | 19 |    | 22 | 24 | 27 |    | 30 | 31 |

**KEY: Pages 4 and 5**

- |   |   |   |
|---|---|---|
| 1. Bop It   | 13. Mr. Potato Head   | 25. Pokémon Pikachu   |
| 2. Nerf   | 14. Koosh Ball  | 26. A special, limited collector's edition celebrates the 10th Anniversary of the Super Soaker.   |
| 3. Cap Candy's M&M's Minis Rigs   | 15. Mark McGwire will promote the new Vortex Power Bat and Power Baseball.  | 27. Play-Doh brand's Snoopy & Friends Baseball Stampers   |
| 4. Marvin the Martian Spin Pop  | 16. National Football League  | 28. Falcon 4.0  |
| 5. Transformers Beast Wars  | 17. National Hockey League  | 29. Pooh Candy Land   |
| 6. Barney Song Magic Banjo  | 18. Furby   | 30. Wheel of Fortune  |
| 7. Star Wars  | 19. John Elway and the Vortex T <sup>3</sup>  | 31. Monopoly is the world's most popular board game...and much, much more. Award-winning Monopoly slot machines; the "Sack of Money" is Monopoly's newest token; Monopoly Electronic Hand-Held Game; 1999 marks the fifth consecutive year Monopoly and McDonald's have been promotional partners; Manchester United Monopoly; USAopoly City and Affinity Editions. |
| 8. Action Man Mountain Bike Extreme   | 20. A Scrabble "Spell-A-Bration" at Madison Square Garden helped celebrate the 50th Anniversary of the world's most famous word game in 1998. | 32. Batman Beyond animated series   |
| 9. General Colin Powell poses with a G.I. Joe Classic Collection figure in his likeness.            | 21. Tonka Joe   |   |
| 10. The Tonight Show's Jay Leno and Easy Bake Baker of the Year contest winner Lindsey Thompson.    | 22. Hasbro Interactive's email games  |   |
| 11. Disney's Toy Story II – featuring Mr. and Mrs. Potato Head – comes to theaters later this year. | 23. Jane Leeves, from the hit show "Frasier" champions Hasbro's "Get Together Games" campaign.  |   |
| 12. Major League Baseball   | 24. Jeopardy CD-ROM   |   |

© 1999 Hasbro, Inc. All Rights Reserved. Hasbro, Inc. is an Equal Opportunity/Affirmative Action Employer. The trademarks and logos displayed herein are trademarks of Hasbro, its subsidiaries and others and are used with permission.

STAR WARS: © Lucasfilm Ltd. Used under authorization.

TELETUBBIES™ characters and logo: TM & © 1999 Ragdoll Productions (UK) Ltd. and are used with permission. All Rights Reserved. Licensed by The itsy bitsy Entertainment Company.

POKÉMON: © 1995, 1996, 1998, 1999 Nintendo/Creatures, Inc. Game Freak, Inc.

ANIMORPHS: © 1999 Scholastic Inc. ANIMORPHS and associated logos and designs are trademarks of Scholastic Inc. Based on the ANIMORPHS book series by Katherine Applegate. All Rights Reserved.

NASCAR® is a registered trademark of The National Association for Stock Car Auto Racing, Inc. Drivers and owner's name and likeness, other trademarks are used either under license or with permission.

WHEEL OF FORTUNE is a registered trademark of Califon Productions, Inc. © 1999 Califon Productions, Inc. All Rights Reserved.

JEOPARDY! is based on the television series produced by Columbia Tri-Star Television, a Sony Pictures Entertainment Company. Jeopardy! is a registered trademark of Jeopardy Productions, Inc. © 1999, Jeopardy Productions, Inc. All rights reserved.

FROGGER: "KONAMI" and "FROGGER" are the trademarks of KONAMI CO., LTD. © 1981 KONAMI. All Rights Reserved.

TRANSFORMERS: Manufactured under license from Takara Co., Ltd.

MAJOR LEAGUE BASEBALL trademarks and copyrights are used with permission of Major League Baseball Properties, Inc.

NATIONAL FOOTBALL LEAGUE trademarks and copyrights are used with permission of the National Football League.

NATIONAL HOCKEY LEAGUE: All NHL logos and marks and team logos and marks depicted herein are the property of the NHL and the respective teams and may not be reproduced without the prior written consent of NHL Enterprises, L.P. © 1999 NHL. All Rights Reserved.

BATMAN and all related characters, names and indicia are trademarks of DC Comics © 1999.

BARNEY: © 1999 Lyons Partnership, L.P. All rights reserved. The Barney, Baby Bop and BJ names and characters, and the overlapping dino spots and Barney and Star logos are trademarks of Lyons Partnership, L.P. Barney, BJ and the Barney and Star logos are Reg. U.S. Pat. & Tm. Off.

MCDONALD'S: © 1999 McDonald's Corporation. McDonald's, the Golden Arches logo, Happy Meal, Happy Meal box design and logo, McDonaldland, Ronald McDonald and the McDonald's Characters names and designs are trademarks of McDonald's Corporation and its affiliates.

SNOOPY: © United Feature Syndicate, Inc.

BALDERDASH is a registered trademark and BEYOND BALDERDASH is a trademark of Gameworks Creations, Inc. Cards © 1995 Gameworks Creations, Inc. Used under license by Hasbro, Inc.

CATCH PHRASE® is a trademark of Paul Lamond Games Limited.

OUTBURST® is a trademark of Hersch and Company. © 1996, 1988, 1986 Hersch and Company. All Rights Reserved.

TRIVIAL PURSUIT and GENUS® are registered trademarks of Horn Abbot Ltd, used in connection with games distributed and sold in the U.S. under exclusive license to Hasbro, Inc. © 1999 Horn Abbot Ltd. All Rights Reserved.

M&M's: © Mars, Incorporated TM/® M&M's, M&M's Minis, M, M&M's Minis Characters are trademarks of Mars, Incorporated and its affiliates and is used under license.

MARVIN THE MARTIAN: Looney Tunes, characters, names and all related indicia are trademarks of Warner Bros. © 1999.

TOY STORY II © Disney.

© 1999 Muhammad Ali.

JEFF GORDON: © 1999 J.G. Motorsports, Inc. The name and likeness of Jeff Gordon and the likeness of the #24 DuPont Automotive Finishes Chevrolet are used under license granted by J.G. Motorsports, Inc.

DALE EARNHARDT: © 1999 DEI, Inc. The likeness of Dale Earnhardt and the #3 race car displaying the Richard Childress Racing, Inc. trademark driven by Dale Earnhardt, and the Dale Earnhardt registered trademarks are used under the administration of Dale Earnhardt, Inc.

DALE JARRETT: © 1999 Action Performance Companies. Dale Jarrett trademark is used by permission of Action Performance Companies.

MADISON SQUARE GARDEN: Photo courtesy of Madison Square Garden.

POOH and TIGGER: © Disney. Based on the "Winnie the Pooh" works. © A.A. Milne and E.H. Shepard.

JAY LENO: NBC Photo courtesy of "The Tonight Show With Jay Leno." © 1998 NBC Studios, Inc.

**Hasbro, Inc.**

1027 Newport Avenue Pawtucket Rhode Island 02862-1059