

HASBRO INC  
Form DEF 14A  
April 16, 2007

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**SCHEDULE 14A INFORMATION**

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES  
EXCHANGE ACT OF 1934 (AMENDMENT NO. )**

Filed By The Registrant

Filed By A Party Other Than The Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to sec.240.14a-12

**HASBRO, INC.**

(Name of Registrant as Specified In Its Charter)

Payment Of Filing Fee (Check The Appropriate Box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
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**HASBRO, INC.**

**NOTICE OF 2007 ANNUAL MEETING OF SHAREHOLDERS**

***Time:***

11:00 a.m. local time

***Date:***

Thursday, May 24, 2007

***Place:***

Hasbro, Inc. Corporate Offices  
1027 Newport Avenue  
Pawtucket, Rhode Island 02862

***Purpose:***

Elect twelve directors.

Approve Amendments to the 2003 Stock Incentive Performance Plan.

Ratify the selection of KPMG LLP as the Company's independent registered public accounting firm for the 2007 fiscal year.

Consider and vote upon a shareholder proposal entitled Sustainability Report-Hasbro, Inc.

Transact such other business as may properly come before the meeting and any adjournment or postponement of the meeting.

***Other Important Information:***

Hasbro's Board of Directors recommends that you vote your shares **FOR** each of the nominees for director, **FOR** the Amendments to the 2003 Stock Incentive Performance Plan and **FOR** the ratification of KPMG LLP as the Company's independent registered public accounting firm for fiscal 2007.

Hasbro's Board of Directors recommends that you vote your shares **AGAINST** the Sustainability Report-Hasbro, Inc. shareholder proposal.

Shareholders of record of Hasbro common stock at the close of business on April 6, 2007 may vote at the meeting.

You are cordially invited to attend the meeting to vote your shares in person. If you are not able to do so, you may vote by Internet, by telephone or by mail. See the enclosed proxy card and proxy statement for specific instructions. **Please vote your shares.**

By Order of the Board of Directors

Barry Nagler  
*Secretary*

Dated: April 16, 2007

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**HASBRO, INC.  
1027 Newport Avenue  
Pawtucket, Rhode Island 02862**

**PROXY STATEMENT  
2007 ANNUAL MEETING OF SHAREHOLDERS  
To be held on May 24, 2007**

**QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS AND THE ANNUAL MEETING**

**Q: Why am I receiving these materials?**

**A:** The Board of Directors (the *Board*) of Hasbro, Inc. (the *Company* or *Hasbro*) is sending these proxy materials to you on or about April 16, 2007 in connection with Hasbro's 2007 Annual Meeting of Shareholders (the *Meeting*), and the Board's solicitation of proxies in connection with the Meeting. The Meeting will take place at 11:00 a.m. local time on Thursday, May 24, 2007 at Hasbro's corporate offices, 1027 Newport Avenue, Pawtucket, Rhode Island 02862. The information included in this proxy statement relates to the proposals to be voted on at the Meeting, the voting process, the compensation of Hasbro's most highly paid executive officers and directors, and certain other required information. Hasbro's 2006 Annual Report to Shareholders is also enclosed with this mailing.

**Q: What proposals will be voted on at the Meeting?**

**A:** There are four proposals scheduled to be voted on at the Meeting:

Election of twelve directors.

Approval of Amendments to the 2003 Stock Incentive Performance Plan.

Ratification of KPMG LLP as the Company's independent registered public accounting firm for fiscal 2007.

A shareholder proposal entitled *Sustainability Report-Hasbro, Inc.*

**Q: What shares owned by me can be voted?**

**A:** All shares of the Company's common stock, par value \$.50 per share (*Common Stock*) owned by you as of April 6, 2007, the *record date*, may be voted by you. These shares include those (1) held directly in your name as the *shareholder of record*, including shares purchased through Hasbro's Dividend Reinvestment and Cash Stock Purchase Program and (2) held for you as the *beneficial owner* through a broker, bank or other nominee.

**Q: What is the difference between holding shares as a shareholder of record and as a beneficial owner?**

**A:** Most Hasbro shareholders hold their shares through a broker, bank or other nominee rather than directly in their own name as the shareholder of record. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

***Shareholder of Record***

If your shares are registered directly in your name with Hasbro's Transfer Agent, Computershare Trust Company, N.A. ( Computershare ), you are considered, with respect to those shares, the *shareholder of record*, and these proxy materials are being sent directly to you by Computershare on behalf of Hasbro. As the *shareholder of record*, you have the right to grant your voting proxy directly to Hasbro or to vote in person at the Meeting. Hasbro has enclosed a proxy card for you to use.

***Beneficial Owner***

If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held *in street name* and the proxy materials are being sent to you by your broker or nominee who is considered, with respect to those shares, the *shareholder of record*. As the beneficial owner, you



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have the right to direct your broker or nominee on how to vote and are also invited to attend the Meeting. However, since you are not the *shareholder of record*, you may not vote these shares in person at the Meeting unless you receive a proxy from your broker or nominee. Your broker or nominee has enclosed a voting instruction card for you to use. If you wish to attend the Meeting and vote in person, please mark the box on the voting instruction card received from your broker or nominee and return it to them so that you can receive a legal proxy to present at the Meeting.

**Q: How can I attend the Meeting?**

**A:** You may attend the Meeting if you are listed as a shareholder of record as of April 6, 2007 and bring proof of your identification. If you hold your shares through a broker or other nominee, you will need to provide proof of your share ownership by bringing either a copy of a brokerage statement showing your share ownership as of April 6, 2007, or a legal proxy if you wish to vote your shares in person at the Meeting. In addition to the items mentioned above, you should bring proof of your identification.

**Q: How can I vote my shares in person at the Meeting?**

**A:** Shares held directly in your name as the *shareholder of record* may be voted in person at the Meeting. If you choose to do so, please bring the enclosed proxy card and proof of identification. Shares beneficially owned may be voted by you if you receive and present at the Meeting a proxy from your broker or nominee, together with proof of identification. Even if you plan to attend the Meeting, we recommend that you also submit your proxy or voting instructions as described below so that your vote will be counted if you later decide not to attend the Meeting or are otherwise unable to attend.

**Q: How can I vote my shares without attending the Meeting?**

**A:** Whether you hold shares directly as the shareholder of record or beneficially in street name, you may direct your vote without attending the Meeting. You may vote by granting a proxy or, for shares held in street name, by submitting voting instructions to your broker or nominee. In most instances, you will be able to do this over the Internet, by telephone or by mail. Please refer to the summary instructions below and those included on your proxy card or, for shares held in street name, the voting instruction card included by your broker or nominee.

**By Internet** If you have Internet access, you may submit your proxy from any location in the world by following the **Vote by Internet** instructions on the proxy card.

**By Telephone** You may submit your proxy by following the **Vote by Telephone** instructions on the proxy card.

**By Mail** You may do this by marking, dating and signing your proxy card or, for shares held in street name, the voting instruction card provided by your broker or nominee, and mailing it in the enclosed, self-addressed, postage prepaid envelope. No postage is required if mailed in the United States.

**Q: How are votes counted?**

**A:** Each share of Common Stock entitles its holder to one vote on all matters to come before the Meeting, including the election of directors. In the election of directors, for each of the nominees you may vote **FOR** such nominee or your vote may be **WITHHELD** with respect to such nominee. For the other proposals, you may vote **FOR** , **AGAINST** or **ABSTAIN** . If you **ABSTAIN** , it has the same effect as a vote **AGAINST** the proposal.

If you sign and submit your proxy card or voting instruction card with no instructions, your shares will be voted in accordance with the recommendations of the Board. Please note that, as is described below, this does not apply

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to any units of the Hasbro Stock Fund which you hold in Hasbro's 401(k) Retirement Savings Plan.

If you are a shareholder of record and do not return your signed proxy card, your shares will not be voted.

If you are a beneficial shareholder and do not return your voting instruction card, your shares may be voted in situations where brokers have discretionary voting authority over the shares. With respect to the approval of the Amendments to the 2003 Stock Incentive Performance Plan and the Sustainability Report-Hasbro, Inc.

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shareholder proposal, discretionary voting authority is not permitted. For these proposals shares held by beneficial shareholders for which voting instructions are not submitted will not be voted.

**Q: Can I change my vote or revoke my proxy?**

**A:** You may change your proxy instructions at any time prior to the vote at the Meeting. For shares held directly in your name, you may accomplish this by granting another proxy that is properly signed and bears a later date, by sending a properly signed written notice to the Secretary of the Company or by attending the Meeting and voting in person. To revoke a proxy previously submitted by telephone or through the Internet, you may simply vote again at a later date, using the same procedures, in which case your later submitted vote will be recorded and your earlier vote revoked. Attendance at the Meeting will not cause your previously granted proxy to be revoked unless you specifically so request. For shares held beneficially by you, you may change your vote by submitting new voting instructions to your broker or nominee.

**Q: What does it mean if I receive more than one proxy or voting instruction card?**

**A:** It means your shares are registered differently or are held in more than one account. Please provide voting instructions for all proxy and voting instruction cards you receive.

**Q: Where can I find the voting results of the Meeting?**

**A:** We will announce preliminary voting results at the Meeting. We will publish final voting results in a Current Report on Form 8-K within a few days following the Meeting and in our quarterly report on Form 10-Q for the second quarter of fiscal 2007.

**Q: What is the quorum for the Meeting?**

**A:** Holders of record (the Shareholders ) of the Common Stock on April 6, 2007 are entitled to vote at the Meeting or any adjournments thereof. As of that date there were 160,096,316 shares of Common Stock outstanding and entitled to vote and a majority of the outstanding shares will constitute a quorum for the transaction of business at the Meeting. Abstentions and broker non-votes are counted as present at the Meeting for purposes of determining whether there is a quorum at the Meeting. A broker non-vote occurs when a broker holding shares for a customer does not vote on a particular proposal because the broker has not received voting instructions on the matter from its customer and is barred by stock exchange rules from exercising discretionary authority to vote on the matter.

**Q: How do participants in the Hasbro 401(k) Retirement Savings Plan vote their shares?**

**A:** If your account in the Hasbro 401(k) Retirement Savings Plan has units of the Hasbro Stock Fund, the accompanying proxy card indicates the number of shares of Common Stock beneficially owned by you under the Retirement Savings Plan. When a participant proxy card is returned properly signed and completed, Fidelity Management Trust Company (the Trustee ) will vote the participant's shares in the manner directed by the participant. If the participant makes no directions, the Trustee will not vote the shares.

**Q: What happens if I have consented to electronic delivery of the proxy statement and other annual meeting materials?**

**A:** If you have consented to electronic delivery of the annual meeting materials you will receive an email notice with instructions on how to access the proxy statement, notice of meeting and annual report on the Company's website, and in the case of the proxy card, on Computershare's website. The notice will also inform you how to vote your

proxy over the Internet. You will receive this email notice at approximately the same time paper copies of the annual meeting materials are mailed to shareholders who have not consented to receive materials electronically. Your consent to receive the annual meeting materials electronically will remain in effect until you specify otherwise.

**Q: If I am a shareholder of record how do I consent to receive my annual meeting materials electronically?**

**A:** Shareholders of record that choose to vote their shares via the Internet will be asked to choose a delivery preference prior to voting their shares. After entering the access information requested by the electronic voting site, click `Login` and then respond as to whether you would like to receive proxy material via

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*electronic* delivery. If you would like to receive future proxy materials electronically click the **Yes** button, enter and verify your current email address and then click **Continue**. If you do not wish to choose the electronic delivery option, click the **No Thanks** button, indicating you do not wish to receive your annual meeting materials electronically, and then click the **Continue** button to begin the voting process. During the year, shareholders of record may sign up to receive their annual meeting materials electronically over the Internet. To sign up registered shareholders can go to the website [www.computershare.com/us/ecomms](http://www.computershare.com/us/ecomms). Shareholders of record with multiple Hasbro accounts will need to consent to electronic delivery for each account separately.

**ELECTION OF DIRECTORS****(Proposal No. 1)**

Twelve directors are to be elected at the Meeting. All of the directors elected at the Meeting will serve until the 2008 Annual Meeting of Shareholders (the **2008 Meeting**), and until their successors are duly elected and qualified, or until their earlier death, resignation or removal.

The Board has recommended as nominees for election as directors to serve until the 2008 Meeting the persons named in the table below. All of the nominees are currently directors of the Company. Proxies cannot be voted for more than twelve directors at the Meeting.

Unless otherwise specified in the accompanying proxy card, the shares voted pursuant thereto will be cast for the persons named below as nominees for election as directors. If, for any reason, any of the nominees named below should be unable to serve as a director, it is intended that such proxy will be voted for the election, in his or her place, of a substituted nominee who would be recommended by management. Management, however, has no reason to believe that any nominee named below will be unable to serve as a director.

The following tables set forth as to each nominee for election at the Meeting: (i) his or her age; (ii) all positions and offices with the Company; (iii) principal occupation or employment during the past five years; (iv) other directorships of publicly-held companies or investment companies; and (v) period of service as a director of the Company. Except as otherwise indicated, each person has had the same principal occupation or employment during the past five years.

<b>Name</b>	<b>Age</b>	<b>Positions with Company, Principal Occupation and Other Directorships</b>	<b>Has Been A Director Since</b>
<i>Nominees for Terms Expiring in 2008</i>			
Basil L. Anderson	62	Vice Chairman, Staples, Inc. (office supply company) from 2001 until March 2006. Prior thereto, Executive Vice President Finance and Chief Financial Officer of Campbell Soup Company (consumer products company) since 1996. Director of Becton, Dickinson and Company, CRA International, Inc., Moody's Investors Service, Inc. and Staples, Inc.	2002
Alan R. Batkin	62	Vice Chairman, Eton Park Capital Management, L.P. (global, multi-disciplinary investment firm) since 2007. Prior thereto, Vice Chairman, Kissinger Associates, Inc. (strategic consulting	1992

Frank J. Biondi, Jr.	62	firm) from 1990 until 2007. Director of Diamond Offshore Drilling, Inc., Overseas Shipholding Group, Inc. and Cantel Medical Corp. Senior Managing Director, WaterView Advisors LLC (private equity fund specializing in media) since 1999. Director of Amgen, Inc., Harrah's Entertainment, Inc., The Bank of New York and Seagate Technology.	2002
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<b>Name</b>	<b>Age</b>	<b>Positions with Company, Principal Occupation and Other Directorships</b>	<b>Has Been A Director Since</b>
John M. Connors, Jr.	64	Chairman Emeritus of Hill, Holliday, Connors, Cosmopulos, Inc. (full-service advertising agency) since 2006. Chairman of Hill, Holliday, Connors, Cosmopulos, Inc. from 1995 until 2006, during which time Mr. Connors also served as President and Chief Executive Officer until 2003.	2004
Michael W.O. Garrett	64	Served in a number of positions with Nestlé S.A. (international food and beverage company), most recently as Executive Vice President of Nestlé S.A. responsible for Asia, Africa, the Middle East and Oceania until 2005. Board member of the Nestlé company in India and non-executive director on the boards of Prudential PLC, UK and the Bobst Group in Switzerland.	2005
E. Gordon Gee	63	Chancellor, Vanderbilt University since 2000. Director of Dollar General Corporation, Gaylord Entertainment Company, The Limited, Inc. and Massey Energy Company.	1999
Jack M. Greenberg	64	Chairman of The Western Union Company (funds transfer company) since 2006. Chief Executive Officer of McDonald's Corporation (restaurant franchiser) from August 1998 to December 2002. Chairman of the Board of McDonald's Corporation from May 1999 until December 2002. Director of Abbott Laboratories, The Allstate Corporation, InnerWorkings, Inc., Manpower, Inc. and The Western Union Company.	2003
Alan G. Hassenfeld	58	Chairman of the Board since 1989. Prior to May 2003, Chairman of the Board and Chief Executive Officer since 1999. Prior thereto, Chairman of the Board, President and Chief Executive Officer since 1989. Director of salesforce.com, inc.	1978
Claudine B. Malone	70	President and Chief Executive Officer, Financial and Management Consulting, Inc. (consulting firm) since 1984. Director of Novell Inc. Ms. Malone previously served as a Director of Hasbro from 1992 to 1999.	2001
Edward M. Philip	41	Managing General Partner, Highland Consumer Fund (consumer oriented private equity fund) since 2006. Prior thereto, President and Chief Executive Officer of Decision Matrix Group, Inc. (research and consulting firm) from May 2004 to November 2005. Prior thereto Senior Vice President of Terra Networks, S.A. (global internet	2002

Paula Stern	62	company) from October 2000 to January 2004. Chairwoman, The Stern Group, Inc. (international advisory firm in the areas of business and government strategy) since 1988. Director of Avaya, Inc.	2002
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<b>Name</b>	<b>Age</b>	<b>Positions with Company, Principal Occupation and Other Directorships</b>	<b>Has Been A Director Since</b>
Alfred J. Verrecchia	64	President and Chief Executive Officer since May 2003. Prior thereto, President and Chief Operating Officer from 2001 to May 2003. Prior thereto, President, Chief Operating Officer and Chief Financial Officer from 2000 to 2001. Director of FM Global.	1992

Mr. Verrecchia also serves as an officer and director of a number of the Company's subsidiaries at the request and convenience of the Company.

*Vote Required.* The affirmative vote of a majority of those shares of Common Stock present (in person or by proxy) and entitled to vote at the Meeting on the election of directors is required to elect directors. As such, a withhold vote is effectively a vote against a director.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR THE ELECTION OF THE TWELVE NOMINEES NAMED ABOVE.**

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**GOVERNANCE OF THE COMPANY**

***Code of Conduct***

Hasbro has a Code of Conduct which is applicable to all of the Company's employees, officers and directors, including the Company's Chief Executive Officer, Chief Financial Officer and Controller. The Code of Conduct addresses such issues as conflicts of interest, protection of confidential Company information, financial integrity, compliance with laws, rules and regulations, insider trading and proper public disclosure. Compliance with the Code of Conduct is mandatory for all Company employees, officers and directors. Any violation of the Code of Conduct can subject the person at issue to a range of sanctions, including dismissal.

The Code of Conduct is available on Hasbro's website at [www.hasbro.com](http://www.hasbro.com), under Corporate Information Investors Corporate Governance. Although the Company generally does not intend to provide waivers of, or amendments to, the Code of Conduct for its Chief Executive Officer, Chief Financial Officer, Controller, or any other officers, directors or employees, information concerning any waiver of, or amendment to, the Code of Conduct for the Chief Executive Officer, Chief Financial Officer, Controller, or any other executive officer or director of the Company, will be promptly disclosed on the Company's website in the location where the Code of Conduct is posted.

***Corporate Governance Principles***

Hasbro has adopted a set of Corporate Governance Principles which address qualifications for members of the Board of Directors, director responsibilities, director access to management and independent advisors, director compensation and many other matters related to the governance of the Company. The Corporate Governance Principles are available on Hasbro's website at [www.hasbro.com](http://www.hasbro.com), under Corporate Information Investors Corporate Governance.

***Director Independence***

Hasbro's Board has adopted Standards for Director Independence (the Independence Standards) in accordance with the New York Stock Exchange's corporate governance listing standards. The Independence Standards specify criteria used by the Board in making determinations with respect to the independence of its members and include strict guidelines for directors and their immediate family members with respect to past employment or affiliation with the Company or its independent auditor.

The Independence Standards restrict commercial relationships between directors and the Company and include the consideration of other relationships with the Company, including charitable relationships, in making independence determinations. Using the Independence Standards, the Board has determined that each of the following directors are independent and have no relationships which impact an independence determination under the Company's Independence Standards: Basil L. Anderson, Alan R. Batkin, Frank J. Biondi, Jr., John M. Connors, Jr., Michael W.O. Garrett, E. Gordon Gee, Jack M. Greenberg, Claudine B. Malone, Edward M. Philip and Paula Stern.

Of the Company's directors who were determined to be independent, there were only two directors who had relationships which needed to be considered by the Board. Mr. Greenberg was Chairman and Chief Executive Officer of McDonald's Corporation through December 31, 2002. To date Mr. Greenberg remains an employee of McDonald's. The Company and McDonald's are party to certain arrangements pursuant to which (i) the Company licenses its intellectual property to McDonald's for use in promotions, (ii) the Company sells certain products to McDonald's and (iii) McDonald's licenses its brand to the Company for the use in certain Company products. The payments from the Company to McDonald's and from McDonald's to the Company pursuant to these arrangements do not arise to the levels which would raise an issue under the Company's independence standards. The other relationship which was

considered is the Company's use of applicant tracking and recruitment software and services provided by Vurv Technologies, Inc. ( Vurv ). Jim Philip, a member of the board of directors and a shareholder of Vurv, is the brother of Edward M. Philip. The payments from the Company pursuant to this arrangement also do not meet the thresholds set in the Company's independence standards. The arrangement with Vurv is described in more detail on pages 12 and 13 of this proxy statement.

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The only two members of the Company's Board who were determined not to be independent were Alan G. Hassenfeld (formerly an executive officer of the Company) and Alfred J. Verrecchia (current President and Chief Executive Officer of the Company). The Independence Standards are available on Hasbro's website at [www.hasbro.com](http://www.hasbro.com), under Corporate Information Investors Corporate Governance and a copy is also attached as Appendix A to this proxy statement.

### ***Board Meetings and Director Attendance at the Annual Meeting***

During 2006, the Board held six meetings. All directors attended at least 75% of the aggregate of (i) the Board meetings held during their tenure as directors during 2006 and (ii) the meetings of any committees held during their tenure as members of such committees during 2006. Although the Company does not have a formal policy requiring attendance of directors at the annual meeting of shareholders, the expectation of the Company and the Board is that all directors will attend the annual meeting of shareholders unless conflicts prevent them from attending. All twelve members of the Board attended the 2006 Annual Meeting of Shareholders.

### ***Presiding Non-Management Director and Communicating with the Board***

Executive sessions of the independent members of the Company's Board are presided over by the presiding director (the Presiding Director). Basil L. Anderson currently serves as the Presiding Director, a position which is typically rotated among the chairs of the Audit, Compensation, Finance and Nominating, Governance and Social Responsibility Committees. Effective on May 24, 2007, Jack M. Greenberg is scheduled to become the Presiding Director. Interested parties may contact the Presiding Director confidentially by sending correspondence to c/o Presiding Director, Hasbro, Inc., P.O. Box 495, Pawtucket, Rhode Island 02860. Persons may also contact the Board as a whole through the Presiding Director in the manner set forth in the preceding sentence.

### ***Board Committees***

***Audit Committee.*** The Audit Committee of the Board, which currently consists of Basil L. Anderson (Chair), Michael W.O. Garrett, Claudine B. Malone and Edward M. Philip, held eleven meetings in 2006. The Audit Committee is responsible for the appointment, compensation and oversight of the Company's independent auditor and assists the Board in fulfilling its responsibility to oversee management's conduct of the Company's financial reporting process, the financial reports provided by the Company, the Company's systems of internal accounting and financial controls, and the quarterly review and annual independent audit of the Company's financial statements. The current Audit Committee Charter adopted by the Board is available on the Company's website at [www.hasbro.com](http://www.hasbro.com), under Corporate Information Investors Corporate Governance.

The Board has determined that each member of the Audit Committee meets both the Company's Independence Standards and the requirements for independence under the New York Stock Exchange's corporate governance listing standards. The Board has determined that three of the four current Audit Committee members (Basil L. Anderson, Claudine B. Malone and Edward M. Philip) qualify as Audit Committee Financial Experts, as such term is defined in the rules and regulations promulgated by the United States Securities and Exchange Commission.

The Board does not have a policy setting rigid limits on the number of audit committees on which a member of the Company's Audit Committee can serve. Instead, in cases where an Audit Committee member serves on more than three public company audit committees, the Board evaluates whether such simultaneous service would impair the service of such member on the Company's Audit Committee. One member of the Company's Audit Committee, namely Mr. Anderson, serves on more than three public company audit committees. The Board has made a determination that such simultaneous service does not impair Mr. Anderson's service on the Company's Audit Committee.

**Compensation Committee.** The Compensation Committee of the Board, which currently consists of John M. Connors, Jr. (Chair), Frank J. Biondi, Jr. and E. Gordon Gee, held six meetings in 2006. The Compensation Committee is responsible for establishing and overseeing the compensation and benefits for the Company's senior management, including all of the Company's executive officers, is authorized to make grants and awards under the Company's employee stock equity plans and shares responsibility for evaluation of the Company's Chief Executive Officer with the Nominating, Governance and Social Responsibility Committee.

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The current Compensation Committee Charter adopted by the Board is available on the Company's website at [www.hasbro.com](http://www.hasbro.com), under Corporate Information Investors Corporate Governance. The Board has determined that each member of the Compensation Committee meets both the Company's Independence Standards and the requirements for independence under the New York Stock Exchange's corporate governance listing standards. For a further description of the Compensation Committee and its composition please see the Compensation Committee Report on page 13 of this proxy statement.

***Executive Committee.*** The Executive Committee of the Board, which currently consists of Alan G. Hassenfeld (Chair), Basil L. Anderson, John M. Connors, Jr., Jack M. Greenberg, Edward M. Philip and Alfred J. Verrecchia, did not meet in 2006. The Executive Committee acts on such matters as are specifically assigned to it from time to time by the Board and is vested with all of the powers that are held by the Board, except that by law the Executive Committee may not exercise any power of the Board relating to the adoption of amendments to the Company's Articles of Incorporation or By-laws, adoption of a plan of merger or consolidation, the sale, lease or exchange of all or substantially all of the property or assets of the Company or the voluntary dissolution of the Company. The current Executive Committee Charter adopted by the Board is available on the Company's website at [www.hasbro.com](http://www.hasbro.com), under Corporate Information Investors Corporate Governance.

***Finance Committee.*** The Finance Committee of the Board, which currently consists of Edward M. Philip (Chair), Jack M. Greenberg and Claudine B. Malone, met three times during 2006. The Finance Committee assists the Board in overseeing the Company's annual and long-term financial plans, capital structure, use of funds, investments, financial and risk management and proposed significant transactions. The current Finance Committee Charter adopted by the Board is available on the Company's website at [www.hasbro.com](http://www.hasbro.com), under Corporate Information Investors Corporate Governance. The Board has determined that each member of the Finance Committee meets both the Company's Independence Standards and the requirements for independence under the New York Stock Exchange's corporate governance listing standards.

***Nominating, Governance and Social Responsibility Committee.*** The Nominating, Governance and Social Responsibility Committee of the Board (the Nominating Committee), which currently consists of Jack M. Greenberg (Chair), Alan R. Batkin, John M. Connors, Jr. and Paula Stern, met three times in 2006. The Nominating Committee identifies and evaluates individuals qualified to become Board members and makes recommendations to the full Board for possible additions to the Board and on the director nominees for election at the Company's annual meeting. The Nominating Committee also oversees and makes recommendations regarding the governance of the Board and the committees thereof, including the Company's governance principles and Board and Board committee evaluations, and shares with the Compensation Committee responsibility for evaluation of the Chief Executive Officer.

In addition, the Nominating Committee periodically reviews, and makes recommendations to the full Board with respect to, the compensation paid to non-employee directors for their service on the Company's Board, including the structure and elements of non-employee director compensation. In structuring the Company's director compensation, the Nominating Committee seeks to attract and retain talented directors who will contribute significantly to the Company, fairly compensate directors for their work on behalf of the Company and align the interests of directors with those of shareholders. As part of its review of director compensation, the Nominating Committee reviews external director compensation benchmarking studies to assure that director compensation is set at reasonable levels which are commensurate with those prevailing at other similar companies and that the structure of the Company's non-employee director compensation programs is effective in attracting and retaining top directors. Beginning in 2006 the Company eliminated stock options as part of its non-employee director compensation program and is instead granting its non-employee directors annual stock awards with a value of \$90,000 on the date of grant. The Nominating Committee recommended, and the full Board approved, this change to the Company's non-employee director compensation program because they believed stock awards would be more effective in aligning the interests of the

non-employee directors with those of stockholders. Also in 2006, the Company adopted director stock ownership guidelines which require that a director may not sell any shares of the Company's common stock, including shares acquired as part of the yearly equity grant, until the director holds shares of common stock with a value equal to at least five times the current non-employee directors' annual retainer (currently requiring holdings with a value of \$275,000).

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Further, the Nominating Committee oversees the Company's codes of business conduct and ethics, and analyzes issues of social responsibility and related corporate conduct, including sustainability, philanthropy and transparency. The current Nominating, Governance and Social Responsibility Committee Charter adopted by the Board is available on the Company's website at [www.hasbro.com](http://www.hasbro.com), under Corporate Information Investors Corporate Governance. The Board has determined that each member of the Nominating Committee meets both the Company's Independence Standards and the requirements for independence under the New York Stock Exchange's corporate governance listing standards.

In making its nominations for election to the Board the Nominating Committee seeks candidates who meet the current challenges and needs of the Board. As part of this process the committee considers a number of factors, including, among others, a candidate's employment and other professional experience, past expertise and involvement in areas which are relevant to the Company's business, business ethics and professional reputation, independence, other board experience, and the Company's desire to have a Board that represents a diverse mix of backgrounds, perspectives and expertise. The Nominating Committee will consider nominees recommended by shareholders for election to the Board if such nominations are made in accordance with the process set forth in the following pages under Shareholder Proposals and Director Nominations .

The Nominating Committee uses multiple sources for identifying and evaluating nominees for director, including referrals from current directors, recommendations by shareholders and input from third-party executive search firms. Third-party executive search firms assist the Board by identifying candidates with expertise and experience relevant to the Company's business who are interested in serving on the Company's Board. The Nominating Committee will consider and evaluate candidates recommended by shareholders on the same basis as candidates recommended by other sources.

As of December 19, 2006 (the date that is 120 calendar days before the first anniversary of the release date of the proxy statement for the Company's last Annual Meeting of Shareholders) the Nominating Committee had not received a recommended nominee for election to the Board in 2007 from an individual shareholder, or group of shareholders, who beneficially owned more than 5% of the Company's Common Stock.

***Additional Availability of Corporate Governance Materials***

In addition to being accessible on the Company's website, copies of the Company's Code of Conduct, Corporate Governance Principles and the charters of the five Committees of the Board of Directors are all available free of charge to any shareholder upon request to the Company's Senior Vice President, General Counsel and Secretary, c/o Hasbro, Inc., 1011 Newport Avenue, P.O. Box 1059, Pawtucket, Rhode Island 02862.

***Shareholder Proposals and Director Nominations***

***General Shareholder Proposals***

Any proposal which a shareholder of the Company wishes to have considered for inclusion in the proxy statement and proxy relating to the Company's 2008 annual meeting must be received by the Secretary of the Company at the Company's executive offices no later than December 18, 2007 (the date that is 120 calendar days before the anniversary of the release date of the proxy statement relating to the 2007 Annual Meeting of Shareholders). The address of the Company's executive offices is 1011 Newport Avenue, Pawtucket, Rhode Island 02862. Such proposals must also comply with the other requirements of the rules of the United States Securities and Exchange Commission relating to shareholder proposals.



With the exception of the submission of director nominations for consideration by the Nominating Committee, which must be submitted to the Company in the manner described below, any new business proposed by any shareholder to be taken up at the 2008 annual meeting, but not included in the proxy statement or proxy relating to that meeting, must be stated in writing and filed with the Secretary of the Company no later than 150 days prior to the date of the 2008 annual meeting. Except for shareholder proposals made pursuant to the preceding paragraph, the Company will retain discretion to vote proxies at the 2008 annual meeting with respect to proposals received prior to the date that is 150 days before the date of such meeting, provided (i) the Company includes in its 2008 annual meeting proxy statement advice on the nature of the proposal and how it intends to exercise its voting discretion and (ii) the proponent does not issue a proxy statement.

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***Director Nominations***

The Company's By-laws provide that shareholders may themselves nominate directors for consideration at an annual meeting provided they give notice to the Secretary of the Company not less than 60 days nor more than 90 days prior to the one-year anniversary date of the immediately preceding annual meeting and provide specified information regarding the proposed nominee and each shareholder proposing such nomination. Nominations made by shareholders in this manner are eligible to be presented by the shareholder to the meeting, but such nominees will not have been considered by the Nominating Committee as a nominee to be potentially supported by the Company.

To be considered by the Nominating Committee, director nominations must be submitted to the Senior Vice President, General Counsel and Secretary of the Company at the Company's executive offices, 1011 Newport Avenue, Pawtucket, Rhode Island 02862 at least 120 days prior to the one-year anniversary of the release to the Company's shareholders of the proxy statement for the preceding year's annual meeting. As such, director nominations to be considered for the Company's 2008 Annual Meeting of Shareholders must be submitted no later than December 18, 2007. The Nominating Committee is only required to consider recommendations made by shareholders, or groups of shareholders, that have beneficially owned at least 1% of the Company's Common Stock for at least one year prior to the date the shareholder(s) submit such candidate to the Nominating Committee and who undertake to continue to hold at least 1% of the Company's Common Stock through the date of the next annual meeting. In addition, a nominating shareholder(s) may only submit one candidate to the Nominating Committee for consideration.

Submissions to the Nominating Committee should include (a) as to each person whom the shareholder proposes to nominate for election or re-election as a director (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class or series and number of shares of capital stock of the Company that are owned beneficially or of record by the person, (iv) any other information relating to the person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Securities Exchange Act of 1934, as amended (the Exchange Act), and the rules and regulations promulgated thereunder, and (v) confirmation that the candidate is independent under the Company's Independence Standards and the rules of the New York Stock Exchange, or if the candidate is not independent under all such criteria, a description of the reasons why the candidate is not independent; and (b) as to the shareholder(s) giving the notice (i) the name and record address of such shareholder(s) and each participant in any group of which such shareholder is a member, (ii) the class or series and number of shares of capital stock of the Company that are owned beneficially or of record by such shareholder(s) and each participant in any group of which such shareholder is a member, (iii) if the nominating shareholder is not a record holder of the shares of capital stock of the Company, evidence of ownership as provided in Rule 14a-8(b)(2) under the Exchange Act, (iv) a description of all arrangements or understandings between such shareholder(s) and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such shareholder(s), and (v) any other information relating to such shareholder(s) that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder.

The Nominating Committee may require that any proposed nominee for election to the Board furnish such other information as may reasonably be required by the Nominating Committee to determine the eligibility of such proposed nominee to serve as director of the Company. The written notice from the nominating shareholder specifying a candidate to be considered as a nominee for election as a director must be accompanied by a written consent of each proposed nominee for director. In this written consent the nominee must consent to (i) being named as a nominee for director, (ii) serve as a director and represent all shareholders of the Company in accordance with applicable laws and the Company's Articles of Incorporation, By-laws and other policies if such nominee is elected, (iii) comply with all

rules, policies or requirements generally applicable to non-employee directors of the Company, and (iv) complete and sign customary information requests upon the request of the Company.

**Table of Contents****CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

The Company has a policy that any transaction which would require disclosure under Item 404(a) of Regulation S-K of the rules and regulations of the United States Securities and Exchange Commission, with respect to a director or nominee for election as a director, must be reviewed and approved or ratified by the Company's full Board, excluding any director interested in such transaction. All other related party transactions which would require disclosure under Item 404(a), including, without limitation, those involving executive officers of the Company, must be reviewed and approved or ratified by either the Company's full Board or a committee of the Board which has been delegated with such duty. Any such related party transactions will only be approved or ratified if the Board, or the applicable committee of the Board, determines that such transaction will not impair the involved person's service to, and exercise of judgment on behalf of, the Company, or otherwise create a conflict of interest which would be detrimental to the Company. This policy is contained in Section 20, entitled "Code of Conduct; Conflicts of Interest" of the Company's Corporate Governance Principles. Although the Company adopted this policy in 2007, all of the transactions disclosed below, even those entered into before this policy was adopted, have been reviewed and approved or ratified by the Company's Board.

The Company's wholly-owned subsidiary, Hasbro Canada Corporation ( "Hasbro Canada" ), leases an office and warehouse facility from Central Toy Manufacturing Inc. ( "CTM" ), a real estate corporation which is 25% owned by the estate of Merrill Hassenfeld, a former Chief Executive Officer and director of the Company. Sylvia K. Hassenfeld, a former director of the Company and mother of the Company's Chairman, Alan G. Hassenfeld, is executrix and a beneficiary of the estate of Merrill Hassenfeld. During 2000, the CTM lease was renewed for a three-year term ending on January 31, 2004 at rentals of approximately \$579,000, \$589,000 and \$599,000 Canadian for the three years, respectively. During 2003 a new lease was signed for a six-year term ending on January 31, 2010, with one three-year renewal option that Hasbro Canada can exercise at the end of the term. The new lease also provided Hasbro Canada with a right to terminate the lease on January 31, 2007, or at any time thereafter, upon six months' written notice. The rent provided for in this six-year lease is \$525,000 Canadian per year (approximately \$450,250 U.S. at exchange rates in effect at the end of 2006). In accordance with this new lease, total rent paid by Hasbro Canada to CTM for the lease of the office and warehouse facility in 2006 was approximately \$450,250 U.S. at exchange rates in effect at the end of 2006. In management's opinion, this lease is on terms at least as favorable as would otherwise presently be obtainable from unrelated parties.

Lucas Licensing Ltd. ( "Licensing" ) and Lucasfilm Ltd. ( "Film" and together with Licensing, Lucas ) own in the aggregate exercisable warrants to purchase 15,750,000 shares of Common Stock which were obtained in arms-length negotiations with the Company in connection with the Company's obtaining certain rights related to the STAR WARS properties. The Common Stock subject to such warrants would, if all warrants were fully exercised, constitute approximately 8.9% of the Company's outstanding shares as of March 1, 2007. Accordingly, under SEC Rule 13d-3, George W. Lucas, Jr., as owner, director and an officer of Film and Licensing, may be deemed to own approximately 8.9% of the Company's outstanding shares. See "Voting Securities and Principal Holders Thereof." In fiscal 2006, the Company paid an aggregate of approximately \$2.4 million in royalties to Licensing pursuant to license agreements entered into at arms length in the ordinary course of business.

In January 2003, the Company amended its license with Licensing for the manufacture and distribution of STAR WARS toys and games. Under the amended agreement the term was extended by ten years and is expected to run through 2018. In addition, the minimum guaranteed royalties due to Licensing were reduced by \$85 million. In a separate agreement, the warrants previously granted to Lucas were also amended. Under this warrant amendment, the terms of each of the warrants issued to Lucas were extended by ten years. The warrant amendment agreement provides the Company with an option through October 2016 to purchase all of these warrants from Lucas for a price to be paid at the Company's election of either \$200 million in cash or \$220 million in Common Stock, such stock

being valued at the time of the exercise of the option. Also, the warrant amendment agreement provides Lucas with an option through January 2008 to sell all of these warrants to the Company for a price to be paid at the Company's election of either \$100 million in cash or \$110 million in Common Stock, such stock being valued at the time of the exercise of the option.

In December 2005 the Company entered into a three-year arrangement with Vurv Technologies, Inc. (formerly Recruitmax Software, Inc.) ( Vurv ) pursuant to which Vurv supplies the Company with applicant tracking and

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recruitment software and services. Under this agreement the Company expects to pay Vurv approximately \$292,000 over the course of the three-year term. In fiscal 2006 the Company paid Vurv \$5,742 of the total estimated fee of \$292,000 (the Company had previously paid \$137,600 in fiscal 2005). Jim Philip, who is a member of the board of directors and a shareholder of Vurv, is the brother of Edward M. Philip, one of the Company's directors.

Alfred J. Verrecchia, the Company's President and Chief Executive Officer, is Chairman of Lifespan, a hospital holding company. Two of Lifespan's member hospitals are the Hasbro Children's Hospital and the Miriam Hospital. In fiscal 2006, the Company provided approximately \$700,000 in aggregate of money and in-kind donations to the Hasbro Children's Hospital and the Miriam Hospital.

Michael Verrecchia, son of Alfred J. Verrecchia, is employed by the Company as a Director of Marketing. For fiscal 2006, Michael Verrecchia was paid an aggregate salary and bonus of \$160,541.

**COMPENSATION COMMITTEE REPORT**

The Compensation Committee (the Committee) of the Company's Board is responsible for reviewing, approving and overseeing the compensation and benefits for the Company's senior management, including all of the Company's executive officers, and is authorized to make grants and awards under the Company's employee stock equity plans. The Committee operates under a written charter which has been established by the Company's Board. The current Compensation Committee charter is available on the Company's website at [www.hasbro.com](http://www.hasbro.com), under Corporate Information Investors Corporate Governance.

The Committee is composed solely of persons who are both Non-Employee Directors, as defined in Rule 16b-3 of the rules and regulations of the United States Securities and Exchange Commission, and outside directors, as defined in Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code). The Board has determined that each member of the Committee is independent under the Company's Independence Standards and the requirements of the New York Stock Exchange's corporate governance listing standards.

The following section of this proxy statement, entitled Compensation Discussion and Analysis, contains detailed descriptions of the processes and policies followed by the Compensation Committee in reviewing and approving the compensation and benefits of the Company's executive officers.

The Committee has reviewed and discussed with management the Compensation Discussion and Analysis which follows this report.

Based on its review and discussions with management, the Committee recommended to the Company's full Board and the Board has approved the inclusion of the Compensation Discussion and Analysis in this proxy statement for the Meeting and, by incorporation by reference, in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

Report issued by Jack M. Connors, Jr. (Chair), Frank J. Biondi, Jr. and E. Gordon Gee as the members of the Compensation Committee of the Board as of the 2006 fiscal year end.

**COMPENSATION DISCUSSION AND ANALYSIS**

**2006 Compensation Policies With Respect to Named Executive Officers**

The Company is a worldwide leader in children's and family leisure time and entertainment products and services, including the design, manufacture and marketing of games, toys and children's consumer electronic products. As a

family entertainment company, the Company looks at a broad range of consumer products, entertainment and general industry companies as competitors in hiring and retaining employees and executives. In the family entertainment and consumer products markets where the Company competes for talent, base compensation, variable incentive cash compensation, equity compensation and employee benefits are all significant components of a competitive overall executive compensation package.

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**Executive Compensation Philosophy and Objectives**

In structuring the compensation of the Company's executive officers, including the five named executive officers who appear in the compensation tables following this Compensation Discussion and Analysis, the Company's fundamental objectives are to:

Attract and retain talented executives who can contribute significantly to the achievement of the Company's goals,

Align the interests of the Company's executives with the medium and long-term goals of the Company and the Company's shareholders, employees and other stakeholders,

Focus executives on achievement of the Company's goals in a manner that fosters team performance and a team focus,

Reward superior performance by the Company and its business units as a whole, and to a lesser extent superior individual performance, and

Accomplish these objectives effectively while managing the total cost of the Company's executive compensation program.

To accomplish these objectives the Company employs two overarching principles in structuring its executive compensation.

First, the Company believes that a significant portion of an executive's overall compensation opportunity should be at risk and based upon the performance of the Company. As a result, if the Company fails to achieve its financial goals, and/or if the Company's share price does not rise, significant portions of the total executive compensation package are not realized. The Company implements this principle by using variable elements, such as management incentive plan awards and equity awards, as a major portion of the total executive compensation package.

Second, in structuring the performance-based elements of its compensation program, the Company seeks predominately to reward overall performance by the Company or its major business units, and only to a lesser extent, to reward individual executive performance. The Company believes this is appropriate to foster an environment of team work and to maximize the performance of the Company as a whole, as opposed to individuals within the Company. As a result, the two most significant variable components of executive compensation, namely management incentive plan awards and equity awards, are most heavily weighted to Company goals and Company performance. The incentive plan awards reward achievement of stated Company and business unit financial metrics, with individual performance playing a smaller role. Equity awards also reward achievement of Company goals and Company stock price appreciation.

**Designing the Executive Compensation Program at Hasbro**

Hasbro's executive compensation program is structured with input, analysis, review and/or oversight from a number of sources. Those sources include the:

Compensation Committee of the Company's Board (the Committee),

Benchmarking studies and other comparative compensation information,



Outside compensation consultants,

Company's Chief Executive Officer, and

Company's Human Resources Department.

In designing the fiscal 2006 compensation program, the Company reviewed benchmarking information to establish reference points for base salaries, management incentive plan awards and equity awards being offered by comparable general industry and consumer products companies. In particular, the Company conducted a detailed review of three benchmarking studies. For purposes of establishing reference points for base salaries and incentive plan awards the Company reviewed Hewitt Executive Total Compensation Measurement Survey, prepared by

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Hewitt Associates, LLP, and Towers Perrin's Executive Compensation Databank. For purposes of establishing reference points for equity compensation the Company reviewed the Mercer Wall Street Journal 350 as well as Towers Perrin's Executive Compensation Databank. Within these surveys the Company focuses on the following types of companies: (i) companies in the general industry category with total annual revenues between \$3 and \$6 billion, and for purposes of benchmarking compensation for Mr. Gardner, who was in charge of the Company's European business unit, with relevant group revenues between \$800 million and \$2 billion, within Towers Perrin's Executive Compensation Databank, (ii) approximately 46 consumer products and consumer facing companies, with median annual revenues across all of those companies of \$6.6 billion, within the Hewitt Executive Total Compensation Measurement Survey, and (iii) companies in the general industry category with median total annual revenues of \$7 billion under the Mercer Wall Street Journal 350.

In reviewing the proposed 2006 compensation program, the Committee also worked with Mercer Human Resource Consulting ( Mercer ) who served as an outside compensation consultant for the Committee. Although in the past Mercer has performed work for both the Company and the Committee, in the case of providing this assistance to the Committee, Mercer was retained by, and reported directly to, the members of the Committee. Mercer advised the Committee with respect to the Committee's review of the Company's 2006 executive compensation programs and provided additional information as to whether the Company's anticipated 2006 executive compensation programs were competitive, and were effective in promoting the performance of the Company's executives and achievement of the Company's financial goals. Starting with the design of the 2007 compensation program, Mercer is expected to primarily perform executive compensation work directly for the Committee and will not perform any other compensation consulting or other work for the Company without the prior approval of the Chair of the Compensation Committee. Another compensation consultant selected by the Company is expected to perform specified other services for the Company in the future.

The Company's Chief Executive Officer, Senior Vice President of Human Resources, and Senior Vice President and General Counsel each attend portions of the meetings of the Committee. However, the Committee also regularly considers and discusses issues without the presence of any officers of the Company.

For named executive officers other than the Chief Executive Officer, as well as for the Company's other executive officers, the Company's Chief Executive Officer makes recommendations for each individual's compensation package to the Compensation Committee. In making these recommendations the Chief Executive Officer considers the individual's performance, benchmarking information and input from the Company's Human Resources Department. The Committee then discusses these recommendations with the Chief Executive Officer, both with and without the presence of the Company's Senior Vice President of Human Resources and outside compensation consultants. The Committee further reviews and discusses these recommendations in executive session without any members of management present. For the Chief Executive Officer, the Committee directly determines the compensation package, receiving input as it deems appropriate from the Company's Human Resources Department, benchmarking information and the Committee's outside compensation consultant. The Committee does not receive a recommendation as to the Chief Executive Officer's compensation from any member of the Company's management. In addition to being reviewed and approved by the Committee, the compensation package for the Company's Chief Executive Officer is reviewed and approved by the full Board. The Committee does not delegate, to management or any other parties, its duties to review the Company's executive compensation programs.

Although the Company considers the requirements of Code Section 162(m), and the accounting treatment of various forms of compensation, in determining the elements of its executive compensation program and, to the extent it is consistent with meeting the objectives of the Company's executive compensation program, structures such compensation to maximize the ability of the Company to receive a tax deduction for such compensation, the Company feels strongly that maximizing the performance of the Company and its executives is more important than assuring that every element of compensation complies with the requirements for tax deductibility under Section 162(m). The

Company's performance objectives under its variable compensation programs are objective within the meaning of the Code, such as achieving certain net revenues, operating margin, free cash flow or earnings per share goals, and as such they generally comply with the requirements of Section 162(m). However, in certain situations the Company may feel a particular goal is very important to the Company, even though it is not objective within the meaning of the Code. The Company reserves the right to compensate executives for achievement of such

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objectives, or to reflect other individual performance measures in an executive's compensation, even if they do not comply with the requirements of Section 162(m).

The Company does not have a formal policy requiring executives to forfeit compensation, either cash or non-cash, to the Company in the event that there is a financial restatement or some other negative occurrence after such compensation is paid. However, there are legal provisions under the Sarbanes-Oxley Act of 2002 which require forfeiture of some elements of compensation in certain situations. The full Board, the Committee and the Company's senior management are committed to an environment in which all of the Company's officers and employees act in accordance with the highest ethical standards and in accordance with all legal and accounting requirements. Any failure to do so will be dealt with on a case by case basis by management, the Committee and the Board, in the manner they deem appropriate.

***Primary Elements of 2006 Executive Compensation***

Executive compensation for fiscal year 2006 was composed of four primary elements:

- base salary,
- management incentive awards,
- equity awards, and
- employee benefits.

The Company uses these four elements in the combination it believes appropriately divides the compensation of its executives among fixed and variable components. Some variable compensation is tied to achievement of yearly financial objectives. Other compensation, such as option grants vesting over multiple years and performance share awards with multi-year performance periods, are tied to the achievement of longer-term financial goals and the creation of longer-term shareholder value. In general the Company seeks to have a total compensation package for its executive officers that is between the 50<sup>th</sup> and 75<sup>th</sup> percentiles of compensation at comparable benchmarked companies, while at the same time having this overall compensation package significantly comprised of variable performance-based elements. The Company believes this fosters a performance-driven mentality and best serves the interests of the Company and its stakeholders since the compensation of the Company's executives is significantly dependent upon achievement of the Company's financial goals and the creation of shareholder value. Each of these compensation elements is described in detail below.

***Base Salary***

Base salaries for new executive officers are initially set at a level the Company determines represents a competitive fixed reward to the executive. This is done by evaluating the responsibilities of the position being filled, the experience of the individual being hired and the competitive marketplace for comparable executive talent. Subsequent yearly adjustments in base salaries are made in the event of changes in duties and responsibilities for the executive, superior performance or lack of competitiveness of the base salary with market compensation offered to executives with similar responsibilities, expertise and experience in other general industry and consumer products companies the Company considers to be comparable with the Company, and/or competitive with the Company in recruiting executives. The base salary provides a minimum compensation which executives will earn if they continue to perform well and remain employed with the Company.

In addition to evaluating base salaries with respect to the expertise, responsibility and performance of the individual executives, the Committee generally sets executive base salaries to be between the 50<sup>th</sup> and 75<sup>th</sup> percentiles for comparable general industry and consumer products companies as surveyed in Hewitt Executive Total Compensation Measurement, prepared by Hewitt Associates, LLP, and Towers Perrin's Executive Compensation Databank. The Committee believes that this positions the Company's base salaries at a level that, when viewed in combination with the other elements of its executive compensation package, allows the Company to hire, retain and motivate talented executives. This approach also enables the Company to keep the cost of the Company's executive compensation at a reasonable level as compared to other similar and/or competitive companies, while providing a

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compensation package that is highly performance-oriented by placing a significant portion of total executive compensation in variable elements.

The salaries for all five of the Company's named executive officers in fiscal 2006 are included in the Summary Compensation Table that follows this report. Consistent with the Company's general philosophy of only increasing executive base salaries in the event of changes in responsibility, particular achievements or lack of competitiveness with benchmarked companies, Mr. Verrecchia, Mr. Nagler and Mr. Gardner did not receive increases in base salary during 2006. On January 20, 2006, Mr. Goldner was promoted to Chief Operating Officer of the Company, assuming significantly greater responsibilities than he had previously held as President of the U.S. Toys Segment. In connection with this promotion, Mr. Goldner's annualized base salary was increased from \$700,000 to \$800,000. In April of 2006, Mr. Hargreaves' base salary was increased from \$475,000 to \$500,000. This increase was attributable to Mr. Hargreaves' increased responsibility, associated with the Company's compliance with increased regulatory requirements, and from the Company's review of relevant benchmarking information which indicated that Mr. Hargreaves' base salary was at the lower end of the range between the 50<sup>th</sup> and 75<sup>th</sup> percentiles.

Subsequent to the end of 2006 the Company took two actions with respect to the base salaries of named executive officers. Both of these actions were taken in February 2007, but were made effective as of January 1, 2007. First, in light of its review of compensation for Chief Executive Officers at companies deemed comparable to, or competitive with, the Company, the Committee recommended, and the Board approved, an increase in the base salary for Mr. Verrecchia from \$1 million to \$1.2 million. Second, Mr. Hargreaves was promoted from Senior Vice President and Chief Financial Officer to Executive Vice President, Finance and Global Operations and Chief Financial Officer. In connection with this promotion and the increase in Mr. Hargreaves' responsibilities, the base salary for Mr. Hargreaves was increased from \$500,000 to \$600,000.

***Management Incentive Awards***

Approximately 20% of the Company's employees, including all of the Company's executive officers, received management incentive awards with respect to fiscal 2006. The management incentive award is performance based, with payout of these awards tied to the achievement of specific performance objectives by the Company. Management incentive awards are tied to the achievement of yearly performance targets and as such provide short-term performance-based incentive compensation. This is in contrast to equity awards, which although also performance based, are designed to reward achievement of specific performance objectives and/or stock price appreciation over periods longer than one year. Management incentive bonus awards for the Company's executive officers were determined under two programs for fiscal 2006.

The management incentive award opportunities of Mr. Verrecchia and Mr. Goldner were determined pursuant to the Company's 2004 Senior Management Annual Performance Plan (the "Annual Performance Plan"). The Annual Performance Plan has been approved by the Company's shareholders and is intended to allow for the deduction by the Company of the bonuses paid to Mr. Verrecchia and Mr. Goldner. The Committee established maximum awards which could be payable to Mr. Verrecchia and Mr. Goldner under the Annual Performance Plan in the first quarter of the year and funding of the actual incentive payouts, following the end of the year, under the Annual Performance Plan, was based solely on the achievement of the objective financial metrics established by the Committee as part of these awards. The Committee is not able to increase the award payouts under the Annual Performance Plan to reflect discretionary factors or individual performance. The Committee may only exercise negative discretion to reduce awards, to as low as 0%, that would otherwise be payable to Mr. Verrecchia or Mr. Goldner under the terms of the Annual Performance Plan. To the extent that the Committee determined it was appropriate to reward Mr. Verrecchia or Mr. Goldner for achievement of subjective goals or individual performance, the Committee would need to award discretionary bonuses outside of the Annual Performance Plan. Neither Mr. Verrecchia nor Mr. Goldner received a discretionary bonus award for fiscal 2006. By using only objective financial metrics to measure performance, not

allowing for discretion to increase awards, and obtaining shareholder approval of the plan, incentive award opportunities under the Annual Performance Plan can constitute compensation for which the Company can take a tax deduction, even if such compensation exceeds the limits set forth in Section 162(m) of the Internal Revenue Code.

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With respect to executive officers other than Mr. Verrecchia and Mr. Goldner, management incentive award opportunities in fiscal 2006 were determined pursuant to the Company's 2006 Management Incentive Plan (MIP), which is not a shareholder approved plan. However, the same corporate performance criteria and targets that were used under the Annual Performance Plan were used under the MIP for fiscal 2006. The primary difference is that the Company is able to adjust actual award payouts, either up or down, to executives under the MIP based upon individual performance. Bonuses earned under the MIP are subject to adjustment downward to as low as 0% and upward by a factor of up to an additional 50%, based on individual performance against specified individual management objectives under the MIP.

In all cases, the bonuses for performance under the Annual Performance Plan and the MIP for executive officers were reviewed and approved by the Committee. The bonus for the Company's Chief Executive Officer was also reviewed and approved by the full Board.

The Committee established fiscal 2006 corporate and business unit performance goals for the Company under both the Annual Performance Plan and the MIP during the first quarter of fiscal 2006. These performance goals were based on the 2006 operating plan and budget approved by the Company's Board.

The setting of performance goals involved both selecting the performance metrics that would be used to evaluate bonus eligibility and establishing the performance targets for each of those metrics. The Committee used three performance metrics to measure corporate performance in 2006. The three corporate performance criteria, and their respective weights, were as follows: (i) total net revenues (40%), (ii) operating margin (40%) and (iii) free cash flow (20%). The Committee selected these three performance metrics to capture the most important aspects of the top and bottom line performance of the Company, in the form of sales, profitability and cash generation. Business unit performance objectives were based on the first two of these criteria, namely total net revenues (50%) and operating margin (50%). Free cash flow is not used as a business unit performance objective because its computation can only occur for the Company at the corporate level.

For Mr. Verrecchia, Mr. Goldner, Mr. Hargreaves and Mr. Nagler, management incentive award opportunities for 2006 were weighted 100% for corporate performance against the three corporate performance targets listed above. For Mr. Gardner, who had business unit responsibility, the management incentive award opportunity was weighted 40% for corporate performance against the three corporate targets, and 60% for business unit performance against the two business unit targets.

In addition to establishing the performance criteria and target performance objectives for each such criteria, in the first quarter of 2006 the Committee also established (i) maximum awards for the executives participating in the Annual Performance Plan and (ii) target bonus awards and threshold and maximum awards for each executive officer participant in the MIP corresponding with various levels of performance against the designated corporate and, to the extent applicable, business unit objectives. Management incentive bonus targets and/or maximums were set at levels the Committee believed appropriately rewarded the executive in question for their responsibility and the contribution which would be required from such executive for the Company to achieve its stated objectives. The maximum awards for each of the named executive officers for 2006, as well as the threshold and target awards for participants under the MIP Plan, are included in the Grants of Plan-Based Awards table that follows this discussion.

For Mr. Hargreaves, Mr. Nagler and Mr. Gardner, in fiscal 2006 their management incentive award opportunities corresponding to target performance were raised from 55% to 60% of base salary. The increase to 60% applied to all of the Company's executives who were grouped within the same internal management level as Mr. Hargreaves, Mr. Nagler and Mr. Gardner. The increase in the target management incentive opportunity for these officers resulted primarily from review of the benchmarking information which demonstrated the Company's management incentive



opportunities had fallen below the low end of the reference range of the 50<sup>th</sup> to the 75<sup>th</sup> percentile of incentive awards reflected in Hewitt Executive Total Compensation Measurement and Towers Perrin's Executive Compensation Databank. Mr. Verrecchia's and Mr. Goldner's management incentive award opportunities are set only in terms of a maximum award, which award can be reduced at the sole discretion of the Compensation Committee.

The ultimate management incentive award paid with respect to 2006 was a function of the percentage of the performance goals achieved, with the Committee reserving the right in its sole discretion to lower the bonus paid to

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as little as 0% in the case of Mr. Verrecchia or Mr. Goldner, and lower to as little as 0% or raise by up to an additional 50% the award paid for other executive officers based on their individual performances. The actual management incentive awards paid to the five named executive officers are included in the Non-Equity Incentive Plan Compensation column of the Summary Compensation table which follows this discussion. The Committee also reserves the right to grant discretionary bonuses to executives in select cases where the executive has performed at an exceptionally high level and/or has accomplished specific extraordinary corporate or individual objectives outside the parameters of the formal bonus plans. No such discretionary bonuses were paid to any of the Company's executive officers for fiscal 2006.

In order to achieve payouts under the Annual Performance Plan and the MIP, the Company must meet performance targets for total net revenues, operating margin and free cash flow which have been set by the Committee at levels which it determines require solid performance from the Company. Superior performance is required to achieve a higher than target payout under the MIP, or in the case of the Annual Performance Plan, to achieve payouts toward the upper end of the spectrum of permissible payouts. Threshold performance for each given financial metric under the MIP is set at 80% of target performance for purposes of the achievement of that goal contributing to payout of the management incentive award. An 80% achievement of a performance goal under the MIP equates to a 60% payout against that goal. As was previously discussed, the individual performance metrics and their levels under the Annual Performance Plan and the MIP are taken directly from the Company's operating plan as it has been approved by the Board.

For fiscal 2006, Mr. Verrecchia, Mr. Goldner, Mr. Hargreaves, Mr. Nagler and Mr. Gardner were paid management incentive bonuses in the amount of \$3,000,000, \$2,000,000, \$700,000, \$500,000 and \$581,530, respectively. The Company considers the actual total net revenues, operating margin and free cash flow performance targets under the Annual Performance Plan and the MIP to be confidential financial information which would harm the Company if they were publicly disclosed. However, the Company can disclose that in 2006 it significantly exceeded its performance goals under the MIP, and that the 2006 incentive plan payouts to the named executive officers receiving bonuses under the MIP correlated with approximately 167% achievement of the Company's corporate performance goals for 2006. Mr. Gardner's incentive plan payout correlated with (i) a 140% weighted achievement of all target corporate objectives and objectives of the Company's European business overseen by Mr. Gardner and (ii) significant additional work Mr. Gardner performed during 2006 as interim Chief Marketing Officer for the Company. Over the five years ending with and including fiscal 2006, the payout under the MIP has corresponded with corporate performance against target ranging from a low of approximately 80% of target for 2004, to a high of approximately 167% of target for 2006. For Messrs. Verrecchia and Goldner, whose bonuses were determined under the Annual Performance Plan, 167% achievement of the Company's corporate performance goals was more than sufficient to authorize payment of maximum bonuses under that plan. The payouts actually approved by the Committee reflected the Committee's assessment of the relative contributions of Mr. Verrecchia and Mr. Goldner in achieving the plan performance goals.

Subsequent to the end of 2006, as part of his promotion to Executive Vice President, Finance and Global Operations and Chief Financial Officer, Mr. Hargreaves' bonus target for 2007 was raised from 60% to 75% of his base salary.

***Long-Term Equity Awards***

Prior to fiscal 2006, the Company had granted almost all of the equity awards to the Company's employees in the form of non-qualified stock options, generally vesting in annual installments over three years. These options were designed to motivate and retain those individuals, over a period of multiple years, who are most important to the Company's future success. Stock options are also designed to align the interests of employees with those of shareholders by providing employees with a benefit from price appreciation in the Common Stock after the date of grant and to hold employees accountable for delivering stock price appreciation to the shareholders of the Company.

In structuring the 2006 equity compensation program the Committee believed it was important to retain stock options as a significant element of the program to continue to achieve the motivational benefits of rewarding key employees for appreciation in the Company's stock price over the course of multiple years. However, in light of the many market factors that can impact an individual company's stock performance, other than the performance of the

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company itself, and the consequent imperfect connection between a company's stock price performance and the performance of the underlying business, as well as the accounting changes effective in fiscal 2006 which eliminated favorable accounting treatment for stock options and enhanced the attractiveness of other stock compensation vehicles, the Committee felt it was important beginning in 2006 to have a significant portion of the value of the Company's equity compensation program tied to achievement of specific internal financial goals for the Company, rather than just stock price appreciation.

For fiscal 2006 the Committee approved target total equity award values for each of the Company's eligible employees. These targets were expressed as a percentage of each individual's base salary. In approving target equity grant values for the Company's various employees, the Committee reviewed market data with respect to equity compensation levels, and the award vehicles being used, at comparable and competitive companies. After reviewing this market data the Company determined that it was appropriate to set its equity award targets for both its executive officers, and its other employees who are eligible to receive equity awards, at approximately the 60<sup>th</sup> percentile of award values at comparable companies, as set forth in the Mercer Wall Street Journal 350 and Tower Perrin's Executive Compensation Databank. This target value of total equity awards was intended to make the total executive compensation package more performance based, and to reflect that, beginning in fiscal 2006, the Company required its most senior executive officers to execute non-compete agreements in order to be eligible to receive equity awards. Among the named executive officers, this resulted in Mr. Hargreaves and Mr. Nagler signing non-compete agreements. Mr. Verrecchia and Mr. Goldner were already subject to non-competition obligations pursuant to their pre-existing employment agreements.

In all cases the final target equity award values were set at levels the Committee believed would compensate the individual for future achievement of the Company's long-term financial goals and stock price appreciation in a manner commensurate with their duties and contributions to the performance of the Company and its stock. As is the case with management incentive plan awards, the performance metrics are designed to reward Company performance, as opposed to individual performance.

The target equity award value for each eligible employee was then divided evenly between two award types, non-qualified stock options and performance share awards, such that 50% of the total equity award value would be represented by each type of award. This even division of the award value reflected the Committee's belief that over the performance period the realization of equity award values should be equally divided between achievement of the Company's longer-term internal financial targets and the Company's stock price appreciation.

For the 50% of the equity award value in 2006 which was made in the form of stock performance awards, these awards provide the recipient with the potential to earn shares of the Company's common stock based on the Company's achievement of stated cumulative diluted earnings per share (EPS) and cumulative net revenue (Revenue) targets over a ten quarter period beginning July 3, 2006 and ending December 28, 2008 (the Performance Period). The cumulative net revenue and diluted earnings per share targets were taken from the Company's long-term strategic plan and, as is the case with the performance levels under the Annual Performance Plan and the MIP, were set at levels which the Committee determined would require solid performance from the Company, and in turn its executives, in order to achieve a threshold payout, and superior performance to achieve a higher than target payout.

The Company's considers the specific target EPS and Revenues levels to be confidential information which would harm the Company if it were disclosed. However, the targets are based on the same Board approved operating plan which is used in setting performance targets under the Annual Performance Plan and MIP. As such, to get a sense of the Company's performance against targets in the recent past, over the five years ending with and including fiscal 2006, the payout under the MIP has corresponded with corporate performance against target ranging from a low of approximately 80% of target for 2004, to a high of approximately 167% of target for 2006. 90% achievement of each target under the contingent stock performance awards was established as a threshold to that metric contributing to the

ultimate award payout. Each stock performance award has a target number of shares of common stock, a portion of which may be earned by the recipient if the Company achieves at least 90% of the stated EPS and/or Revenue targets over the Performance Period. 90% achievement of both of the performance metrics corresponds with a planned payout of 85% of the target number of shares. The actual number of shares to be received at the end of the Performance Period can be below or above the target number based on the actual levels of

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the target performance achieved against the two metrics. In all cases the Committee retains the right to reduce the number of actual shares received pursuant to any award to any level, including 0%, to the extent it believes the actual payout should be below the number called for by the award agreements.

In determining the 2006 equity award targets the Committee did not feel that past equity awards should have a significant impact. However, in conjunction with the Company's stock ownership guidelines, which are described below, the Committee has begun reviewing each officer's progress in achieving their targeted stock ownership level as a criterion in establishing future target equity grant levels. To the extent that an officer is not making sufficient progress toward achieving and maintaining the targeted stock ownership level, equity grants to that officer in the future may be reduced.

The stock option and performance share award grants to the Company's named executive officers in 2006 are reflected in the Grants of Plan-Based Awards table that follows this report. The grant date of the Company's yearly options and stock performance awards in fiscal 2006 to officers and other eligible employees was July 27, 2006.

The Company has only infrequently used restricted stock and deferred restricted stock units as a reward and retention mechanism. In fiscal 2006 the only restricted stock or deferred restricted stock unit grant made to the Company's executive officers was a grant of 20,000 shares of restricted stock made to Mr. Goldner in connection with his January 2006 promotion to Chief Operating Officer. This restricted stock grant is scheduled to vest on the third anniversary of the grant date and was designed to further align Mr. Goldner's interests with those of the Company's shareholders by providing him with a further level of share ownership.

The Company has share ownership guidelines which apply to all employees at or above the Senior Vice President level. The share ownership guidelines establish target share ownership levels which executives are expected to achieve over a five-year period and then maintain, absent extenuating circumstances which are approved by the Company's Human Resources Department, for as long as they remain with the Company. The target ownership levels are expressed as a percentage of the executives' base salary and range from 50% of yearly base salary for certain Senior Vice Presidents to 500% of base salary for the Company's Chief Executive Officer.

The Company does not have a set policy of always making its yearly equity awards at a particular time of the year. Over the last several years the Company has most frequently made its annual equity awards in the late spring or summer. However, the yearly awards have been made at different times in certain past years when other circumstances made such a choice desirable. For example, the Company made its 2003 annual equity grant in December of 2002 so as to utilize shares available under an equity plan which was expiring at the end of 2002. When the work of designing the equity compensation program for a particular year is completed and ready for final implementation, the Committee makes the relevant annual grants. The Company does not manage the timing of equity grants to attempt to give participants the benefit of material non-public information. Grants are made at times when the Company believes it is not in possession of material non-public information and when major subsequent announcements are not currently anticipated. Further, all option grants are made with an exercise price at or above the average of the high and low sales prices of the Company's common stock on the date of grant.

In making the yearly equity grants the Committee specifically approves the grants for every member of the Company's senior management team, which includes every executive officer. The Committee also approves the total equity grant pool for all other eligible employees of the Company, with the individual grants from that pool being made from a list prepared by the Company's senior management which is available for the Committee's review. Other than the annual equity grants, off-cycle equity grants are made during the year generally only in the case of new hires or in connection with significant promotions. All of these off-cycle grants are also reviewed and approved by the Committee.

***Executive Benefits***

In addition to receipt of salary, management incentive awards and equity compensation, the Company's U.S. based officers also participate in certain employee benefit programs provided by the Company. Executive officers participate in the Company's Pension Plan (the "Pension Plan"), which is described on pages 30 and 31 of this proxy statement, and can participate in the Company's 401(k) Retirement Savings Plan (the "401(k) Plan") and the Supplemental Benefit Retirement Plan (the "Supplemental Plan"). The Supplemental Plan provides pension

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benefits determined under the same formula as the Pension Plan to the extent individuals are impacted by compensation and benefits limits determined under the Code. To the extent that the Company's matching contribution exceeds certain limits applicable to the 401(k) Plan, which are also determined pursuant to the Code, the excess is allocated to the executive officer's account under the Supplemental Plan. The Supplemental Plan is intended to provide a competitive benefit for executive officers whose employer-provided pension benefits and retirement contributions would otherwise be limited. However, the Supplemental Plan is designed only to provide the benefit which the executive would have accrued under the Company's Pension Plan and 401(k) Plan if the Code limits had not applied. It does not further enhance those benefits.

Mr. Gardner, who is based in the U.K., is not eligible to participate in the Pension Plan, the 401(k) Plan and the Supplemental Plan for U.S. employees. However, Mr. Gardner, like the Company's other employees in the U.K., participates in the Hasbro Group Personal Pension Plan (the Hasbro Group Plan). The Hasbro Group Plan is described on page 30 of this proxy statement.

The amount of the Company's matching contribution to the named executive officers under both the 401(k) Plan and the Supplemental Plan (401(k)), for U.S. based officers, and the Hasbro Group Plan, for Mr. Gardner, is included in the All Other Compensation column of the Summary Compensation Table that follows this report.

The executive officers of the Company are eligible for life insurance benefits on the terms applicable to the Company's other employees. In addition, Mr. Verrecchia is provided with executive life insurance. The cost of the Company's premiums for executive life insurance programs for Mr. Verrecchia is included in the All Other Compensation column of the Summary Compensation Table.

The Company's executive officers participate in the same medical and dental benefit plans as are provided to the Company's other employees.

Executive officers are also eligible to participate in the Company's Non-qualified Deferred Compensation Plan, which is available to all of the Company's employees who are in band 40 (director level) or above. The Non-qualified Deferred Compensation Plan allows participants to defer compensation into various hypothetical investment vehicles, the performance of which determines the return on compensation deferred under the plan. Potential investment choices include the Company's Common Stock, as well as other equity indices. Earnings on compensation deferred by the executive officers do not exceed the market returns on the relevant investments and are the same as the returns earned by other non-executive officer employees deferring compensation into the applicable investment vehicles.

The Company reimburses designated executive officers for the cost of certain tax and financial planning services they obtain from third parties provided that such costs are within the limits established by the Company. The cost to the Company for this reimbursement to the named executive officers is included in the All Other Compensation column of the Summary Compensation Table.

The Company conducted a comprehensive review of its pension programs approximately four years ago. The Company currently expects to conduct another comprehensive review of these plans in fiscal 2007.

**Change of Control and Employment Agreements**

Certain of the Company's executive officers, including all five of the Company's named executive officers for fiscal 2006, are party to Change in Control Agreements with the Company. In addition, Mr. Verrecchia and Mr. Goldner are party to additional agreements with the Company governing their employment and providing certain post-termination benefits and payments. All of these agreements, and the payments which the executive can receive in certain situations, are described in detail under the caption Agreements and Arrangements Providing Post-Employment and



Change in Control Benefits that follows this report. The Committee authorizes the Company to enter into Change of Control or other employment related agreements with executives only in those situations where the Committee feels doing so is necessary to recruit and/or retain the most talented executives and to provide optimal incentive to the executive in question to work to maximize the performance of the Company and the creation of long-term value for the Company's shareholders. The change in control provisions in these agreements are generally double-trigger provisions in that the executive officer receives benefits under the agreements only if, following a change in control, the individual executive officer is either terminated by the

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Company without cause, or leaves on account of events which qualify under the definition of good reason in the agreement. The Company believes that double-trigger change in control agreements are generally most appropriate in that an executive would only be compensated in the event that the executive was no longer employed with the Company following the change in control.

However, the Company's equity compensation plans generally provide that equity awards (including performance share awards) for all participants, including the Company's named executive officers, fully vest in the event of a change in control of the Company. The participant is entitled to receive the value of such awards either in cash or shares of the Company's stock, determined in the Committee's discretion, following such change in control.

**EXECUTIVE COMPENSATION**

The following table summarizes compensation paid by the Company for services rendered during fiscal 2006 by the Company's Chief Executive Officer, Chief Financial Officer and the three other most highly compensated executive officers of the Company in fiscal 2006.

**Summary Compensation Table**

Principal Position	Year	Salary(a)	Bonus	Stock Awards(b)	Option Awards(b)	Non-Equity Incentive Plan Compensation	Change in Pension Value and NQDC Earnings(d)	All Other Compensation (e)	
						(a)(c)		(e)	
Mr. Sturges Chief Executive Officer	2006	\$ 1,000,000	\$ 0	\$ 366,693	\$ 2,492,153	\$ 3,000,000	\$ 1,385,406	\$ 162,036	\$
Mr. Gardner Chief Financial Officer	2006	794,616	0	280,832	962,281	2,000,000	134,671	101,590	
Mr. Hargreaves(f) Vice President, Global	2006	494,231	0	68,756	662,511	700,000	228,834	55,654	
Mr. Gardner Vice President, Counsel and	2006	475,000	0	65,316	652,556	500,000	94,710	46,500	
Mr. Gardner(g) Hasbro Europe	2006	521,289	0	0	582,493	581,530	0(d)	69,838	

(a) Includes amounts deferred pursuant to the Company's 401(k) Plan and Non-qualified Deferred Compensation Plan (the "Deferred Compensation Plan").

Mr. Gardner, who is located in the United Kingdom, was paid part of his salary and non-equity incentive plan compensation in British pounds and part of his salary and non-equity incentive plan compensation, for services

performed for the Company's Swiss subsidiary, Hasbro SA, in Swiss francs. For purposes of computing the salary and non-equity incentive plan compensation amounts in these tables the amounts paid to Mr. Gardner in British pounds and Swiss francs were converted into US dollars using the same exchange rates used by the Company in determining the expense of these payments for the Company's financial reporting purposes.

- (b) Reflects the net accounting expense recognized by the Company for stock and option awards to the named executive officers. Please see note 10 to the financial statements included in the Company's Annual Report on Form 10-K, for the year ended December 31, 2006, for a detailed discussion of the assumptions used in valuing options and stock awards.

In 2006 all five of these executives were granted non-qualified stock options and contingent stock performance awards. The grant date values of these awards are reflected in the Grants of Plan-Based Awards Table which follows this table. The effectiveness of these awards was conditioned upon the execution of certain agreements by the executives. Subsequent to the grant of these awards, Mr. Gardner did not execute these agreements and as a result, the equity awards made to Mr. Gardner in 2006 did not become effective. The value of these 2006

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awards was treated as a forfeiture in the Company's financial statements for 2006 and no value for these awards is reflected in the table above.

- (c) For Mr. Verrecchia and Mr. Goldner these amounts consist entirely of the management incentive awards earned by such executives under the Company's 2004 Senior Management Annual Performance Plan for their performance during fiscal 2006. For Mr. Hargreaves, Mr. Nagler and Mr. Gardner, these amounts consist entirely of the management incentive awards earned by such executives under the Company's 2006 Management Incentive Plan for their performance during fiscal 2006.
- (d) The amounts reflected in this table consist entirely of the change in pension value during fiscal 2006 for each executive.

Mr. Gardner, who is based in the U.K., is not eligible to participate in the Company's Pension Plan which is maintained for U.S. employees, nor is he eligible to participate in the 401(k) Plan or the Supplemental Plan. However, the Company does maintain the Hasbro Group Plan for its employees in the U.K. The Hasbro Group Plan is a defined contribution plan (as opposed to a defined benefit plan like the Pension Plan) pursuant to which both the Company and the employee make contributions. The Hasbro Group Plan has been in place since February 2006. Prior to February 2006 the Company had another defined contribution plan for its employees in the U.K., namely the Hasbro U.K. Pension Plan.

Does not include the following amounts which were earned by the executives on (i) compensation previously deferred by them under the Deferred Compensation Plan and (ii) amounts contributed by the Company to the executive's account under the Supplemental Plan (401(k)): Mr. Verrecchia, \$281,302; Mr. Goldner, \$74,680, Mr. Hargreaves, \$325,666, and Mr. Nagler, \$8,568. Earnings on compensation deferred by the executive officers and on the Company's contributions to the Supplemental Plan do not exceed the market returns on the relevant investments which are earned by other participants selecting the same investment options.

- (e) Includes the following amounts paid by the Company for each named executive officer in connection with a program whereby certain financial planning and tax preparation services provided to the individual are paid for by the Company: Mr. Verrecchia, \$9,500; Mr. Goldner, \$0, Mr. Hargreaves, \$5,000, Mr. Nagler, \$0 and Mr. Gardner, \$3,910.

Includes the Company's matching contribution to the savings account of each individual under the 401(k) Plan and the Supplemental Plan, such amounts as follows: Mr. Verrecchia, \$150,000; Mr. Goldner, \$101,590, Mr. Hargreaves, \$50,654, and Mr. Nagler, \$46,500. These amounts are in part contributed to the individual's account in the 401(k) Plan and, to the extent in excess of certain Code maximums, deemed allocated to the individual's account in the Supplemental Plan (401(k)).

Also includes \$2,536 in premiums paid by the Company for an individual life insurance policy for Mr. Verrecchia and \$24,942 paid to Mr. Gardner in lieu of providing a Company car and a fuel allowance.

Also includes the following amount which was contributed by the Company to the Hasbro U.K. Pension Plan (for January 2006) and the Hasbro Group Plan (for February through December of 2006) on behalf of Mr. Gardner: \$40,986.

- (f) Mr. Hargreaves, formerly Senior Vice President and Chief Financial Officer, was appointed Executive Vice President, Finance and Global Operations and Chief Financial Officer effective in January 2007.
- (g)

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Effective March 31, 2007, Mr. Gardner ceased to perform services for the Company and went on U.K. garden leave. Mr. Gardner will continue to be paid his salary and will continue to receive applicable employee benefits through November 30, 2007 (the Termination Date ), during which time Mr. Gardner will remain available to answer questions from the Company and to provide necessary assistance to the Company. Please see the description of Mr. Gardner s Transition Agreement which appears on page 43 of this proxy statement.

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The following table sets forth certain information regarding grants of plan-based awards for fiscal 2006 to the named executive officers.

**Grants of Plan-Based Awards**

	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock	All Other Option Awards: Number of Shares Underlying	Exercise Price of Option Awards	
	Threshold	Target	Maximum	Threshold	Target	Maximum	Awards: Number of Shares	Options		
6/06(a)			\$ 3,000,000							
7/06(b)				55,218	110,436	138,045				
7/06(c)								453,515	\$ 18.815	\$
0/06(d)							20,000			
6/06(a)			2,383,848							
7/06(b)				22,088	44,175	55,219				
7/06(c)								181,406	18.815	
6/06(a)	\$ 177,293	\$ 296,539	889,617							
7/06(b)				10,354	20,707	25,884				
7/06(c)								85,034	18.815	
6/06(a)	171,000	285,000	855,000							
7/06(b)				9,836	19,671	24,589				
7/06(c)								80,782	18.815	
6/06(a)	187,664	312,773	938,320							
7/06(b)(f)				10,446	20,891	26,114				
7/06(c)(f)								85,791	18.815	

(a) For Mr. Verrecchia and Mr. Goldner these management incentive awards were made pursuant to the Company's 2004 Senior Management Annual Performance Plan. For Mr. Hargreaves, Mr. Nagler and Mr. Gardner these management incentive plan awards were made pursuant to the Company's 2006 Management Incentive Plan.

(b) All of these contingent stock performance awards were granted pursuant to the Company's 2003 Stock Incentive Performance Plan (the "2003 Plan"). These awards provide the recipients with the ability to earn shares of the Company's Common Stock based on the Company's achievement of stated cumulative diluted earnings per share ("EPS") and cumulative net revenue ("Revenues") targets over a ten quarter period beginning July 3, 2006 and ending December 28, 2008 (the "Performance Period"). Each stock performance award has a target number of

shares of Common Stock associated with such award which may be earned by the recipient if the Company achieves the stated EPS and Revenues targets set for the Performance Period. Upon a Change of Control, as defined in the 2003 Plan, all stock performance awards will be canceled in exchange for payment in the amount of the product of the highest price paid for a share of Common Stock in the transaction or series of transactions pursuant to which the Change of Control shall have occurred or, if higher, the highest reported sales price of a share of Common Stock during the sixty-day period immediately preceding the date of the Change of Control, and the target number of shares applicable to the award. This payment will be made in cash or shares of Common Stock, or a combination thereof, in the discretion of the Compensation Committee.

- (c) All of these options were granted pursuant to the 2003 Plan. These options are non-qualified, were granted with an exercise price equal to the average of the high and low sales prices of the Company's common stock on the date of grant, and vest in equal annual installments over the first three anniversaries of the date of grant. All options become fully vested in the event of death, disability or retirement at the optionee's normal retirement date and are exercisable for a period of one year from the date of such disability or retirement, or in the case of death, from the appointment and qualification of the executor, administrator or trustee for the optionee's estate. An optionee taking early retirement may, under certain circumstances, exercise all or a portion of the options unvested at his or her early retirement date and may exercise such options for three months or such longer period as the Compensation Committee may approve. Unless otherwise approved by the Compensation Committee in its discretion, upon termination of employment for any other reason, only options vested at the date of the termination may be exercised, and are exercisable for a period of three months following termination.

Upon a Change of Control, as defined in the 2003 Plan, all options become immediately exercisable and will be canceled in exchange for payment in the amount of the difference between the highest price paid for a share of Common Stock in the transaction or series of transactions pursuant to which the Change of Control shall have

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occurred or, if higher, the highest reported sales price of a share of Common Stock during the sixty-day period immediately preceding the date of the Change of Control, and the exercise price of such options. This payment will be made in cash or shares of Common Stock, or a combination thereof, in the discretion of the Compensation Committee. Participants may exercise options and satisfy tax withholding liabilities by payments in cash or by delivery of Common Stock equal to the exercise price and the tax withholding liability. In addition, participants may instruct the Company to withhold shares issuable upon exercise in satisfaction of tax withholding liability.

- (d) These restricted shares were granted in connection with the promotion of Mr. Goldner to Chief Operating Officer, were granted pursuant to the 2003 Plan and vest in one installment on the third anniversary of the date of grant, subject to Mr. Goldner's continued employment with the Company. Upon a Change in Control the shares vest fully and will be canceled in exchange for payment in the amount of the product of the highest price paid for a share of Common Stock in the transaction or series of transactions pursuant to which the Change of Control shall have occurred or, if higher, the highest reported sales price of a share of Common Stock during the sixty-day period immediately preceding the date of the Change of Control, and the number of shares covered by the award. This payment will be made in cash or shares of Common Stock, or a combination thereof, in the discretion of the Compensation Committee.
- (e) The Grant Date Present Values for options were determined using the standard application of the Black-Scholes option pricing methodology using the following weighted average assumptions: volatility 23.4%, dividend yield 2.55% and a risk free interest rate of 4.98% based on the options being outstanding for approximately five and a half years. The Grant Date Present Values do not take into account risk factors such as non-transferability and limits on exercisability. In assessing the Grant Date Present Values indicated in the above table, it should be kept in mind that no matter what theoretical value is placed on an option on the date of grant, the ultimate value of the option is dependent on the market value of the Common Stock at a future date, and the extent if any, by which such market value exceeds the exercise price on the date of exercise. The grant date fair value for the shares of restricted stock granted to Mr. Goldner was based on the average of the high and low trading prices on the date of grant, which was \$21.355 per share, and the grant date fair values for the contingent stock performance awards were based on the average of the high and low trading prices on the date of grant of these awards, which was \$18.815 per share.

Please see note 10 to the financial statements included in the Company's Annual Report on Form 10-K, for the year ended December 31, 2006, for a detailed discussion of the assumptions used in valuing these options and stock awards.

- (f) In 2006 all five of these executives were granted non-qualified stock options and contingent stock performance awards. The grant date values of these awards are reflected in the Grants of Plan-Based Awards Table above. However, the effectiveness of these awards was conditioned upon the execution of certain agreements by the executives. Subsequent to the grant of these awards, Mr. Gardner did not execute these agreements and as a result, the equity awards made to Mr. Gardner in 2006 which are reflected in the table above did not become effective. The value of these awards was treated as a forfeiture in the Company's financial statements for 2006.

\* \* \*



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The following table sets forth information for equity awards held by the named individuals as of the end of the Company's last fiscal year.

**Outstanding Equity Awards at Fiscal Year-End**

Name	Option Awards				Stock Awards			Equity Incentive Plan Awards:
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Unearned Options (#)	Exercise Price (\$)	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(b)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(a)	Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)(b)
Alfred J. Berrecchia	56,250			\$ 18.7222	0	\$	110,436	\$ 3,009,381
	157,500			\$ 19.8229				
	42,000			\$ 24.8750				
	142,500			\$ 35.4063				
	75,000			\$ 32.1875				
	60,000			\$ 15.2188				
	100,000			\$ 11.5900				
	75,000			\$ 13.9100				
	175,000			\$ 16.3350				
	160,000	40,000(c)		\$ 17.9685				
	175,000			\$ 11.1600				
	250,000			\$ 15.8750				
	133,333	66,667(d)		\$ 18.5750				
	166,667	83,333(d)		\$ 20.4325				
	93,334	186,666(e)		\$ 20.5700				
		453,515(f)		\$ 18.8150				
Christian Goldner	50,000			\$ 15.9375	20,000(g)	\$ 545,000	44,175	\$ 1,203,769

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100,000		\$ 17.5313	3/19/2010
94,000		\$ 11.5900	4/24/2011
85,000		\$ 16.3350	4/24/2012
120,000	30,000(c)	\$ 17.9685	4/24/2012
75,000		\$ 11.1600	12/29/2012
50,000	25,000(d)	\$ 18.5750	5/19/2014
100,000	50,000(d)	\$ 20.4325	5/19/2011
30,000	60,000(e)	\$ 20.5700	5/18/2012
	181,406(f)	\$ 18.8150	7/26/2013

David D.R.  
Margreaves

0 \$ 20,707 \$ 564,260

10,500		\$ 24.8750	4/22/2008
35,000		\$ 32.1875	5/10/2009
50,000			