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September 6, 2007

The Honorable Bobby L. Rush  
The Honorable Cliff Stearns  
Committee on Energy and Commerce  
United States House of Representatives  
Washington, D. C. 20515-6115

Dear Representatives Rush and Stearns:

On behalf of everyone at RC2, we are writing to you today not only to answer the questions posed in your letter of August 22, 2007, but also assure you and your fellow committee members that RC2 is in the business of making safe, high quality toys for children. We share your concerns and assure you that nothing is more important to us than keeping children safe.

#### **Perspective on the June Recall**

From the first discovery of potentially unsafe levels of lead in one product until the recall of 26 toys in June, RC2 conducted an internal investigation that identified the source of the apparent unsafe lead level in the product and determined which other products were likely to have been affected. When RC2 verified that potentially unsafe toys were in children's hands, we moved quickly in concert with the Consumer Product Safety Commission to identify, recall and recover any potentially unsafe products.

Our internal investigation linked apparent unsafe levels of lead in certain paint colors used on some Thomas wooden toys to a single contract manufacturing facility which purchased paint from an independent paint supplier. RC2 has terminated the production of all toys at the affected facility and mandated that our contract manufacturers not make purchases from the affected paint supplier.

Because RC2 is deeply committed to child safety, we chose to take a conservative course of action and conduct a wide-ranging recall to recover potentially unsafe wooden toys. Wooden toy production began at the affected contract manufacturer in January 2005. Rather than try to narrow the focus of the recall to only the product codes for the specific individual items that failed tests, we recalled all Thomas wooden toys that may have been painted with the potentially unsafe colors, since wooden toy production began at this facility.

RC2 continues to work aggressively to recover as many of the toys recalled in June as possible. By August 31<sup>st</sup> we had recovered more than 60 percent of the recalled toys. From day one, we directed parents and consumers to our special recall Web site and our toll-free Consumer Care Center. We know the message is getting through to parents, because more than 98 percent of the returned toys match the recalled items list.

## Questions & Answers

- 1. In addition to the approximately 1.5 million Thomas & Friends Wooden Railway Toys recalled by the CPSC in June, please provide detailed information on any toys or other products imported by your company with lead paint or lead content that exceeds lawful safety standards.**

During our recall in June, we knew it was important to move quickly to recover potentially unsafe toys. At the same time, we also recognized the need to make sure that other past production was safe. Since then we have undertaken a comprehensive internal review, including continued precautionary testing and reviews of past test results, on hundreds of the Thomas toy styles to ensure their safety. That review continues today, and we are fully committed to keeping the CPSC apprised of any findings that indicate a potential problem. RC2 adheres to all required and voluntary U.S. and international toy safety standards, and in many cases, well exceeds those safety requirements. Among the many additional safeguards RC2 has put in place since June are vendor compliance seminars. RC2 recently conducted compliance seminars in China with our contract manufacturers to make certain that our toy safety specifications are clearly understood and met by all of our vendors.

- 2. Please provide information detailing the level of lead in the recalled toys and children's products, if available.**

We can assure the Committee that the appropriate and full test data has been provided to the U.S. Consumer Product Safety Commission. While we appreciate the Committee's interest in the test results, we hope the committee appreciates that they also represent confidential and proprietary business information, which has not been made public.

- 3. Please provide the name and location of the company and facility in China that manufactured the Thomas & Friends Wooden Railway Toys.**

The internal investigation that led to the June recall linked apparent excess levels of lead with certain paint colors used on some Thomas wooden toys to a single contract manufacturing facility which purchased paint from an independent paint supplier. RC2 has terminated all production at the affected facility, Hansheng Wood Products Inc., and mandated that our contract manufacturers not make purchases from the affected paint supplier.

Address:       Hansheng Wood Products  
                  No. 6 Road of Wu Sha, Chang An  
                  Doungguan, China.

- 4. Are there provisions in your agreements with the Chinese or other manufacturers banning the use of lead and lead paint or limiting its use to lawful safety standards in the manufacture of the products your company imports?**

RC2 adheres to both required and voluntary U.S. and international standards. As part of our quality assurance procedures, contract manufacturers are required to complete lead testing at independent certified laboratories and obtain from their paint suppliers certifications that all paints meet ASTM and international standards for lead levels. RC2's product safety

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specifications clearly define lead safety requirements and, in this instance, those requirements apparently were not met.

After our internal investigation linked apparent excess levels of lead in certain paint colors used on some Thomas wooden toys to a single contract manufacturing facility which purchased paint from an independent paint supplier, RC2 terminated production of all toys at the affected facility – Hansheng Wood Products – and mandated that our contract manufacturers not make purchases from the affected paint supplier.

In all of its production agreements, RC2 has well-defined quality assurance procedures that we require all of our contract manufacturers to follow. Our own quality control teams audit contract manufacturers' compliance with our quality specifications and procedures. As part of our quality assurance procedures, contract manufacturers are required to complete lead testing at independent certified laboratories and obtain from their paint suppliers certifications that all paints meet ASTM and international standards for lead levels.

Since June, RC2 has instituted its Multi-Check Toy Safety System, which includes several significant additional safeguards to protect our toy quality, such as:

- A new, tougher certification program for paint suppliers and manufacturers
- A new 10-step paint safety control procedure for our contract manufacturers
- Increased scope and frequency of testing of both incoming materials and finished products
- Test reporting on every batch of paint used in the manufacture of our products
- Increased random inspections and audits of contract manufacturers and vendors
- Vendor compliance seminars to assure clear understanding of our specifications and requirements and zero-tolerance for variations from these requirements

And, we're not finished. As a company, we are fully committed to the continued search for new ways to further improve toy safety.

- 5. What steps does your company take to test and inspect imported toys or other children's products before they are sent to retail outlets in the United States to ensure compliance with lead level safety standards?**

RC2 has consistently followed industry standards in testing products before they are distributed in the United States. All lead level safety testing is completed by independent certified laboratories that test to ASTM and international toy standards. As part of RC2's new Multi-Check Toy Safety System, we have increased the scope and frequency of testing of both incoming materials and finished products and are holding our contract manufacturers and their suppliers to more rigorous requirements.

- 6. How and when did your company discover the lead paint on the imported Thomas & Friends Wooden Railway Toys that led to the recall announcement by the CPSC on June 13, 2007? When did you first contact the CPSC about the Thomas & Friends Wooden Railway Toys?**

Potential unsafe levels of lead were discovered in one product during pre-distribution testing. This discovery prompted RC2 to immediately begin an internal investigation which took place in April and May of 2007. The purpose of this investigation was to attempt to identify the source of the unsafe lead level in the product and determine whether any other products were affected. We

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alerted the Consumer Product Safety Commission about the possibility of potentially unsafe products and continued to work with the agency throughout our investigation and voluntary recall. Our internal investigation linked apparent unsafe levels of lead in certain paint colors used on some Thomas wooden toys to a single contract manufacturing facility that purchased paint from an independent paint supplier. As part of its corrective action plan, RC2 terminated production of all toys at the affected facility and mandated that our contract manufacturers not make purchases from the affected paint supplier.

- 7. Please provide details of the recall action undertaken by your company, including steps to inform retailers and consumers of the recall because of the lead hazard posed by the Thomas & Friends Wooden Railway Toys. Did you provide information in a language other than English? Did you take any specific steps to provide information to your retail partners located in underserved communities?"**

Working closely with the Consumer Product Safety Commission, on June 13 we publicly announced the voluntary recall of 26 toys from the Thomas & Friends Wooden Railway product line (23 SKUs). In concert with the CPSC press release, RC2 distributed nationally its own press release, which was widely covered by print, broadcast and online media.

To support the recall at the consumer level, we launched a toll-free Consumer Care recall center and a fully-detailed recall website with comprehensive product identification information and full-color pictures of every recalled Thomas wooden toy. The detailed information provided by Consumer Care Center operators and the website, included step-by-step return instructions, information on reimbursement for shipping costs and the promise of replacement toys. To further encourage consumer product returns, each individual returning a recalled product is about to receive or has received a free train car as a thank you for participating in the recall. We're confident that recall information is being received and clearly understood by consumers, because more than 98% of the returned toys from consumers match the recalled products list. As of August 31<sup>st</sup> more than 60 percent of the recalled toys had been recovered.

Shortly before the public recall announcement, RC2 launched an aggressive retailer notification program that was designed to do two things:

1. Recall and recover products from store shelves and inventories
2. Help retailers reach out to consumers who may have purchased potentially unsafe toys.

Materials distributed to retailers included not only the formal notification of the recall, but also a three-page full-color fully illustrated recall poster to be displayed prominently in stores where consumers may have purchased recalled items. Within hours of the initial distribution of recall materials, RC2 sales and customer service teams began contacting all retailers to:

- o Make certain the materials had been received.
- o Make sure that retailers had pulled potentially unsafe toys from store shelves and inventory for return to RC2.
- o Urge retailers to display the recall posters quickly and prominently.
- o Encourage retailers to have consumers contact either the RC2 Consumer Care Center and/or RC2's website for further details about the recalled toys and returning them for replacement.

Subsequently in early July, RC2 distributed by fax and email a second letter to retailers reminding them of their compliance obligations to:

- o Make certain that no recalled product remained on store shelves or in inventory.

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- o Prominently display the three-page recall posters in the stores.
- o Promptly return all in-store recalled products to RC2.

Like earlier communication, the July letter was also followed up by individual telephone calls to retailers by our sales and customer service teams, which reinforced the key points of the letter.

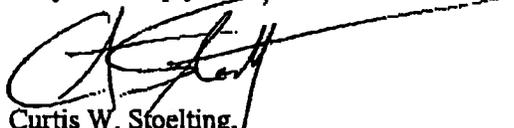
8. **Please provide details on the consumer response to the recall since the recall announcement, including how many Thomas & Friends Wooden Railway Toys have been returned for a replacement.**

As of August 31, 2007, RC2 had recovered more than 60 percent of the toys included in the June recall. A testament to the effectiveness of our recall efforts and materials was evident in the fact that nearly 98% of the returns matched the items on the recall list.

On behalf of everyone at RC2, let me add that we deeply regret and apologize for the worry and burden that recalling toys creates for parents. At the same time, we take our toy safety responsibilities very seriously, because nothing is more important than keeping children safe. This recall occurred because our specifications to our contract manufacturers were not met. We've learned from that experience and established several significant additional safeguards to protect our toy quality, and we will continue to search for ways to make toys safer.

Going forward, the truest measure of our success is and always will be the trust parents place in our toys. We are working very hard to preserve and strengthen that trust. We're confident that RC2 is doing the right things, including the recall, to ensure the safety of our toys. And, we hope that parents recognize that our toys have been subjected to intense internal scrutiny and testing and are the safer for it.

Very sincerely yours,



Curtis W. Stoelting,  
Chief Executive Officer