

## **RC2 Corporation**

### **Corporate Governance Guidelines**

The following Corporate Governance Guidelines have been adopted by the Board of Directors of RC2 Corporation (the "Company") to assist the Board in the exercise of its responsibilities. These Guidelines reflect the Board's commitment to monitor the effectiveness of policy and decision-making both at the Board and management level, with a view to enhancing stockholder value over the long term. These Guidelines are in addition to, and are not intended to change or interpret, any federal or state law or regulation, including the Delaware General Corporation Law, or the Certificate of Incorporation or By-Laws of the Company. These Guidelines are subject to modification from time to time by the Board based on recommendations from the Nominating and Corporate Governance Committee of the Board.

#### **A. Composition of the Board**

##### **1. Size of the Board**

Consistent with the Company's bylaws, the Board believes that the size of the Board generally should be within a range of 7 to 11. A somewhat larger size may be appropriate from time to time in order to accommodate the availability of one or more outstanding candidates.

##### **2. Board Membership Criteria**

The Nominating and Corporate Governance Committee is responsible for articulating and refining specific criteria for Board membership to supplement the more general criteria set forth in these Guidelines regarding such matters as integrity, independence, diligence and the like. Also, the Nominating and Corporate Governance Committee is responsible for evaluating on an ongoing basis all directors and director candidates based on such general and specific criteria and for seeking to assure that specific talents, skills and other characteristics that are needed to increase the Board's effectiveness are possessed by an appropriate combination of directors.

##### **3. Proportion and Determination of Independent Directors**

As required by the rules of the Nasdaq Stock Market, Independent Directors must comprise at least a majority of the Company's Board. This will not, however, prevent the Board from taking valid actions if, due to a temporary vacancy or vacancies on the Board, there are fewer than the intended proportion of Independent Directors. Any such vacancies should be filled as soon as reasonably practicable.

###### **(a) *Independence Generally***

The Company defines a "Independent Director" in accordance with the listing requirements of the Nasdaq Stock Market (Nasdaq Stock Market Rule

4200(a)(15)). In addition to setting specific criteria for independence, the Nasdaq rule requires the Board to affirmatively determine that each Independent Director has no relationship which would interfere with the exercise of independent judgement in carrying out the responsibilities of a director (see A.3.(c) below).

**(b) *Additional Independence Criteria for Audit Committee Members***

In addition to being an Independent Director, as defined above, each member of the Company's Audit Committee must not, except in his or her capacity as a member of the Audit Committee, the Board or any other Board committee of the Company: (1) accept, directly or indirectly any consulting, advisory or other compensatory fee from the Company; or (2) be an affiliated person of the Company or any subsidiary thereof. For this purpose, the term "affiliated person" means one who, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, the Company or any of its subsidiaries. A person will not be deemed in control of the Company or any subsidiary, however, if the person is not: (A) the beneficial owner, directly or indirectly, of more than 10% of any class of equity securities of the Company or such subsidiary; or (B) an executive officer or director of the Company or such subsidiary.

As an amplification of the foregoing:

- (i) Director's fees (including fees for service on committees) must be the sole compensation that an Audit Committee member receives from the Company.
- (ii) Permissible director fees may include equity-based awards and may also include fees that are structured to provide additional compensation for additional duties (such as extra fees for serving on and/or chairing Board committees).
- (iii) A former employee of the Company who later qualifies as an Independent Director will not be barred from chairing or serving as a voting member of the Audit Committee merely because he or she receives a pension or other form of deferred compensation from the Company for his or her prior service (provided such compensation is not contingent in any way on continued service as a director).
- (iv) Neither an Audit Committee member nor his or her firm may receive any fees from the Company, directly or indirectly, for services as a consultant or a legal or financial adviser. This applies without regard to whether the Audit Committee member is directly involved in rendering any such services to the Company.

**(c) *Independence Determination Based on Facts and Circumstances***

In assessing the effect of any existing or proposed director's relationship with the Company on that director's independence, the Board will consider all relevant facts and circumstances. Relevant relationships can include, but are not limited to, commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships. The Board should evaluate independence not only from the perspective of the director, but also from that of persons and organizations with which the director has a relationship. The Board may adopt categorical standards to assist it in making determinations of independence.

**4. Selection of Directors**

The Board and the Nominating and Corporate Governance Committee should be responsible, in actual practice and not merely as a procedural formality, for selecting members of the Board and in recommending them for election by the shareholders. The Board has delegated the selection and initial evaluation of potential directors to the Nominating and Corporate Governance Committee with direct input from the Chairman of the Board and the Chief Executive Officer.

The Board shall be responsible for determining the qualification of one or more individuals to serve on the Audit Committee as designated "audit committee financial experts," as required by applicable rules of the SEC under Section 407 of the Sarbanes-Oxley Act. In light of this responsibility of the Board, the Nominating and Corporate Governance Committee shall coordinate closely with the Board in screening any new candidate and in evaluating whether to re-nominate any existing director who may serve in this capacity.

The invitation to join the Board should be extended by the Board itself through its Chairman of the Board if he or she is an Independent Director and/or the Chairman of the Nominating and Corporate Governance Committee.

**5. Directors Who Change Their Corporate Affiliations; Other Board Service**

Any director who changes his or her employer or otherwise has a significant change in position or job responsibilities, or who accepts or intends to accept a potentially conflicting relationship or a directorship with another for-profit company that he or she did not hold when such director was most recently elected to the Board, shall give written notice to the Board, specifying the details, as soon as feasible, and shall submit to the Board a letter of resignation from the Board.

The Board, through the Nominating and Corporate Governance Committee, will review the continued appropriateness of such director's membership on the Board taking into account all relevant factors and information and the Board will determine whether or not to accept the resignation. No director may serve on more than three additional public company boards.

## **6. No Pre-Determined Term Limits**

In lieu of pre-determined term limits for directors, the Nominating and Corporate Governance Committee will evaluate each director's continued services on the Board in connection with each annual decision regarding whether such director should be re-nominated to the Board and at such other times as may be appropriate in particular circumstances. In connection with each annual decision regarding re-nominations, each director should be given an opportunity to confirm his or her desire to continue as a member of the Board.

## **7. Retirement Age**

A retirement age of 70 is generally considered appropriate for the Company's directors, but the Board may decide to defer retirement in appropriate circumstances after a director reaches age 70.

## **B. Board Leadership**

### **1. Selection of Chairman and Chief Executive Officer**

The Board should have flexibility to decide whether it is best for the Company at a given point in time for the roles of the Chief Executive Officer and Chairman of the Board to be separate or combined and, if separate, whether the Chairman should be selected from the Independent Directors or be an employee.

### **2. Presiding Independent Director**

The Independent Directors may: (a) select from among themselves a continuing Presiding Independent Director who will preside at one or more separate meetings of the Independent Directors held pursuant to Section G.3 of the Guidelines or (b) adopt a procedure for selecting from among themselves a specific Presiding Independent Director to preside at each such separate meeting. Such Presiding Independent Director also may be responsible for representing the Independent Directors with respect to certain matters as to which the views of the Independent Directors are sought pursuant to specific provisions of the Guidelines or otherwise in a manner consistent with the Guidelines and with such other responsibilities that the Independent Directors as a whole might designate from time to time. Unless another selection is made by the Independent Directors, the Chairman of the Nominating and Corporate Governance Committee shall be the Presiding Independent Director if such Chairman is an Independent Director.

## **C. Board Compensation and Performance**

### **1. Board Compensation Review**

Changes in Board compensation, if any, should come at the suggestion of the Compensation Committee, but with full discussion and concurrence by the Board.

### **2. Assessing the Performance of the Board as a Whole**

The Nominating and Corporate Governance Committee is responsible to report annually to the Board regarding the Board members self assessment of the performance of the Board as a whole. This report will be discussed with the full Board. This assessment should specifically review areas in which the Board and/or management believes a better contribution could be made. The purpose of this assessment is to increase the effectiveness of the Board as a whole, not to focus on individual Board members.

## **D. Board of Directors' Responsibilities**

The Company's Board of Directors represents the shareholders' interest in perpetuating a successful business and optimizing long-term financial returns in a manner consistent with applicable legal requirements and ethical considerations. The Board is responsible for identifying and taking reasonable actions to help assure that the Company is managed in a way designed to achieve this result. Consistent with the importance of the Board's responsibilities, each director is expected to be familiar with the Company's business and public disclosures, to review in advance of Board meetings all related materials distributed to the Board and to attend and participate in meetings of the Board and meetings of any committee of which such director is a member.

### **1. Selection, Evaluation and Retention of Chief Executive Officer and Oversight of Selection and Performance of Other Executive Officers**

The Board, with assistance from the Nominating and Corporate Governance Committee and the Compensation Committee, has the responsibility to select, evaluate the performance of and make decisions about the retention of the Chief Executive Officer, to oversee the selection and evaluation of the performance of other executive officers, to plan for management succession, and to monitor on a regular basis the effectiveness and execution of management strategies and decisions in optimizing the Company's long-term financial returns in a manner consistent with applicable legal requirements and ethical considerations.

### **2. Understanding, Reviewing and Monitoring Implementation of Strategic Plans and Annual Operating Plans and Budgets**

The Board is responsible for overseeing and understanding the Company's strategic plans from inception through development and execution and should regularly monitor implementation of such plans to determine whether they are being implemented

effectively and whether any changes are needed. The Board also is responsible for overseeing and understanding the Company's annual operating plans and annual budgets and for monitoring whether these plans are being implemented effectively and within budgetary limits.

### **3. Selection and Oversight of Independent Auditors; Oversight of Financial Statements**

The Audit Committee of the Board has sole responsibility to appoint, compensate and replace the Company's independent accounting firm that audits the Company's financial statements and to pre-approve the engagement terms and the provision of any audit and non-audit services performed by such accounting firm for the Company. The Audit Committee will have direct responsibility, for monitoring the performance of such accounting firm and guarding against any compromise of its independence, as well as overseeing the financial statements prepared by management, with the goal of assuring that they fairly present the Company's financial condition, results of operations, cash flows and related risks in a clear and understandable way.

### **4. Advising Management on Significant Issues**

The Board is responsible for utilizing the broad range of experiences and perspectives of directors to advise and counsel management, both in meetings and in informal consultations, on significant issues facing the Company.

### **5. Review and Approval of Significant Company Actions and Certain Other Matters**

The Board is responsible under state corporate law to review and approve significant actions by the Company, including election of executive officers and major transactions. In addition, the Board is responsible for approving certain actions by the Company as set forth in these Guidelines and any other Company policies that may be adopted from time to time by the Board, or as otherwise required by any applicable national securities exchange or national securities association on which the Company's securities are traded.

### **6. Nominating Directors and Committee Members and Overseeing Effective Corporate Governance**

The Board and the Nominating and Corporate Governance Committee are responsible for

- (a) evaluating and nominating directors and members of Board committees,
- (b) overseeing the structure and practices of the Board and the committees and
- (c) overseeing other corporate governance matters, as more fully set forth in these Guidelines and the charter of the Nominating and Corporate Governance Committee.

## **7. Consideration of Other Constituencies**

In addition to fulfilling its obligation to increase shareholder value, the Board should consider the impact of various actions and decisions on the Company's customers, employees, suppliers and the communities where it operates - all of whom are essential to a successful business.

### **E. Management's Responsibilities**

Management is responsible for operating the Company in an effective, ethical and legal manner designed to produce value for the Company's shareholders consistent with the Company's policies and standards, including these Guidelines. Management also is responsible for enforcing and complying with mandatory provisions of the Company's policies and standards. Senior management is responsible for understanding the Company's income-producing activities and the material risks being incurred by the Company and also is responsible for avoiding conflicts of interest with the Company and its shareholders.

#### **1. Financial Statements and Disclosures**

Management is responsible for producing, under the oversight of the Board and the Audit Committee, financial statements that fairly present the Company's financial condition, results of operations, cash flows and related risks in a clear and understandable way, for making timely and complete disclosures to investors, and for keeping the Board and the appropriate committees of the Board well-informed on a timely basis as to all matters of significance to the Company.

#### **2. Strategic Planning**

The Chief Executive Officer and senior management are responsible for developing and presenting to the Board the Company's strategic plans and for implementing those plans as approved by the Board.

#### **3. Annual Operating Plans and Budgets**

The Chief Executive Officer and senior management are responsible for developing and presenting to the Board the Company's annual operating plans and annual budgets and for implementing those plans and budgets as approved by the Board.

#### **4. Effective Management and Organizational Structure**

The Chief Executive Officer and senior management are responsible for selecting qualified members of management and for implementing and working within an effective organizational structure appropriate for the Company's particular circumstances.

## **5. Setting a Strong Ethical "Tone at the Top"**

Senior management, and especially the Chief Executive Officer, are responsible for setting a "tone at the top" of integrity, ethics and compliance on the part of all persons associated with the Company, with applicable legal requirements and with the Company's policies and standards.

## **6. Internal Control Over Financial Reporting**

Senior management is responsible for developing, implementing and monitoring an effective system of internal control over financial reporting to provide reasonable assurance that: the Company's transactions are properly authorized; the Company's assets are safeguarded against unauthorized or improper use; and the Company's transactions are properly recorded and reported. Such internal control over financial reporting also shall be designed to permit preparation of financial statements for the Company in conformity with generally accepted accounting principles or any other criteria applicable to such statements.

## **7. Disclosure Controls and Procedures**

Senior management is also responsible for establishing, maintaining and evaluating the Company's "disclosure controls and procedures." The term "disclosure controls and procedures" means controls and other procedures of the Company that are designed to ensure that information required to be disclosed by the Company in the reports filed by it under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. "Disclosure controls and procedures" include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports it files under the Securities Exchange Act of 1934 is accumulated and communicated to the Company's management, including its principal executive and financial officers, to allow timely decisions regarding required disclosure.

## **F. Board Relationship to Senior Management**

### **1. Board Access to Senior Management**

The Board (meeting as a whole, as well as the Independent Directors meeting separately and each director individually) and each Board committee will have complete access to the Company's management.

The Board encourages the executive officers to bring non-executive managers to Board meetings, from time to time, who: (a) can provide additional insight into the items being discussed because of personal involvement in these areas, or (b) represent non-executive managers with future potential that the senior management believes should be given exposure to the Board.

## **2. Board's Interaction with Institutional Investors, Press and Customers**

The Board believes that the Company's management has the authority and responsibility to provide the public spokesperson for the Company. Individual members of the Board may, from time to time at the request of the management, meet or otherwise communicate with various constituencies that are involved with the Company. If comments from the Board are appropriate, they should, in most circumstances, come from the Chairman of the Board or any Independent Director who is then serving as a Presiding Independent Director.

### **G. Meeting Procedures**

#### **1. Selection of Agenda Items for Board Meetings**

The Chairman of the Board and the Chief Executive Officer (if the Chairman is not the Chief Executive Officer) will establish the agenda for each Board meeting and will include in each such agenda any item submitted by any separate Presiding Independent Director.

Each Board member is free to suggest the inclusion of item(s) on the agenda.

#### **2. Board Materials Distributed in Advance**

Management shall be responsible for assuring that, as a general rule, information and data that are important to the Board's understanding of the Company's business and to all matters expected to be considered and acted upon by the Board be distributed in writing to the Board sufficiently in advance of each Board meeting and each action to be taken by written consent to provide the directors a reasonable time to review and evaluate such information and data. Management will make every attempt to see that this material is as concise as feasible, while still providing sufficient information to permit the Board to be appropriately informed of material matters to be considered at each Board meeting or other Board action.

It is recognized that circumstances will arise when it is not feasible to provide information relating to certain agenda items in advance (or at least not very much in advance) of a Board meeting or an action to be taken by written consent. In such event, reasonable steps shall be taken (which may include extending the length of the Board meeting to allow more discussion, adjourning the meeting for a brief period to allow directors time to review such information, deferring a vote until a follow-up telephonic meeting, or other measures as appropriate) to permit the directors to become reasonably informed as to the matter before voting on it.

As a general rule, presentations on specific subjects also should be sent to the Board members in advance so that Board meeting time may be conserved and discussion time focused on questions that the Board has about the material. On those occasions in which

the subject matter is too sensitive to distribute in written form, there will be an opportunity for full discussion of the presentation at the meeting.

### **3. Separate "Executive Session" Meetings of Independent Directors**

The Independent Directors (as defined in Section A.3 of these Guidelines) shall meet separately from the other directors in regularly scheduled executive sessions, without the presence of management directors or executive officers of the Company (except to the extent the Independent Directors request the attendance of any executive officers). Such regularly scheduled separate meetings shall be held at such times as may be determined by the Chairman of the Board (if he or she is an Independent Director) or by any Independent Director then serving as a Presiding Independent Director.

## **H. Committee Matters**

### **1. Number, Structure and Independence of Committees**

The Board shall have an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee, which shall have the respective responsibilities described in the attached exhibits and shall consist solely of Independent Directors. In addition, the Board may, from time to time appoint one or more additional Committees, such as an Executive Committee. To the extent the Executive Committee is taking action solely on a matter expressly delegated to it by the Board, consistent with the provisions of these Guidelines and applicable law, such as fixing the price and other terms within parameters set by the Board for securities to be sold in a public offering by the Company, the Executive Committee need not include any Independent Directors. Except as provided in the preceding sentence, any additional committee shall have at least enough Independent Directors to satisfy the same proportion of Independent Directors to non-Independent Directors that applies to the entire Board pursuant to Section A.3, subject to the same flexibility contained in such section to take effective actions when such proportion is not satisfied due to temporary vacancies. If and when the Board appoints any such additional committee, the Board shall, by resolution or otherwise, clearly define in writing the responsibilities of such committee.

### **2. Assignment of Committee Members**

The Nominating and Corporate Governance Committee is responsible, after consultation with the Chief Executive Officer and with consideration of the desires of individual Board members, for the assignment of Board members to various committees.

### **3. Frequency and Length of Committee Meetings**

Subject to any requirements in the applicable committee charter regarding the frequency of committee meetings, each committee chairman, in consultation with committee members, will determine the frequency and length of the meetings of the committee.

#### **4. Committee Agenda, Background Materials and Reports**

The Chairman of each Board committee, in consultation with the appropriate members of management and staff, will develop the committee's agenda. Management will be responsible for assuring that, as a general rule, information and data that are important to the committee's understanding of the matters within the committee's authority and the matters to be considered and acted upon by a committee are distributed to each member of such committee sufficiently in advance of each such meeting or action taken by written consent to provide a reasonable time for review and evaluation of such information and data. The other provisions applicable under Section G.2 of these Guidelines regarding distribution of Board materials in advance shall apply equally to distribution of committee materials in advance. The agenda for each committee meeting shall be distributed to other members of the Board at the same time that it is distributed to committee members.

At each Board meeting, the chairman of each committee or his or her delegate shall report the matters considered and acted upon by such committee at each meeting or by written consent since the preceding Board meeting, except to the extent covered in a previous written report to the full Board, and shall be available to answer any questions the other directors may have regarding the matters considered and actions taken by such committee.

#### **I. Miscellaneous**

##### **1. Resources.**

The Board (and Board committees to the extent so provided in the applicable committee charters or otherwise authorized by the Board) may use reasonable amounts of time of the Company's internal and independent accountants, internal and outside lawyers and other internal staff and also shall have the authority to hire independent accounting experts, lawyers and other consultants to assist and advise the Board (and any of its committees that are authorized to seek such advice and assistance) in connection with its responsibilities. The Board (and any such committees) shall keep the Company's Finance Department advised as to the general range of anticipated expenses for outside consultants hired by the Board (or such committees).

##### **2. Reliance**

Each director is entitled to rely in good faith on (1) corporate records, corporate officers, corporate employees or board committees or (2) any other person selected with reasonable care as to matters reasonably believed to be within the person's professional or expert competence. The Board shall assess the qualifications of all such persons on whom it relies, shall inquire as to the processes used by such persons to reach their decisions, prepare their reports and make their recommendations and also shall inquire as to the substance of such matters, and shall hold such persons accountable for any follow-up reasonably needed to satisfy the Board.

### **3. Director Orientation and Continuing Education**

Each new director shall be given a thorough orientation with respect to his or her duties as a director, including: (a) copies of these Guidelines; (b) meetings with the Nominating and Corporate Governance Committee; and (c), except to the extent unnecessary for any director who is an executive officer of the Company, background material with respect to the Company, its business and issues of particular significance to the Company, meetings with the senior management and visits to Company facilities. Each new director and each new member of any Board committee also shall cooperate in fulfilling any additional orientation guidelines that may be recommended generally or on an ad hoc basis by the Nominating and Corporate Governance Committee to help assure that such director has the necessary skills to perform his or her responsibilities as a director and/or new member of any Board committee.

Each director also shall cooperate in fulfilling all applicable continuing education guidelines established and periodically updated by the Nominating and Corporate Governance Committee.

### **4. Disclosure of these Guidelines**

These Guidelines as well as committee charters and code of business ethics, will be posted on the Company's website. Such availability on the Company's website will be noted in the proxy statement for the annual meeting of stockholders

### **5. Code of Business Ethics**

The Company will maintain, and the Audit Committee will oversee compliance with, a code of business ethics. Such code may be modified and replaced from time to time by the Audit Committee.

Last Modified: February 25, 2009