

RIPEC ANNUAL MEETING

Al Verrecchia

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Ron, thank you

Good evening ladies and gentlemen. Let me first recognize Governor Carcieri, Speaker Murphy, Madame President Paiva-Weed, members of the General Assembly and all the public officials who give so much of their time and energy to our State.

When John asked me to speak this evening I was very hesitant. I wasn't sure what I could say that would be different. Then, I began to think about the transformation that's taken place at Hasbro over the last eight years and the transformation that needs to take place in Rhode Island. What were the lessons learned from our experience at Hasbro? And, what, if any, would be applicable to the transformation of Rhode Island.

I use the term 'transformation' because that's what's needed. We in Rhode Island need to stop being hesitant. We need to stop being satisfied with incremental change. And, we need to stop thinking that just being competitive with the neighboring states of Massachusetts and Connecticut is good enough. We're competing in a global economy—and technology will only exacerbate the level of competition in the years ahead.

Let me take a moment to set the stage.

In August of 2000 I became President of Hasbro. It would be a year in which net revenues would decline by 11% and Hasbro would incur the largest loss in the company's history--\$145 million. Our stock price would decline to \$8.00 per share and in an effort to conserve cash we would eliminate the dividend.

At the end of 2000 the company had \$1.2 billion of debt of which \$550 million was due in early 2003. And the outlook for 2001 was bleak as the company was facing an additional 25% decline in revenue. Needless to say, employee morale was low—and they were questioning whether or not senior management knew what they were doing.

Believe me I know—my wife—being a shareholder—asked me on more than one occasion that very question.

Today Rhode Island has an unemployment rate of 12.8%. I've always marveled at the use of an unemployment rate—to me either you have a job or you don't and today we have approximately 70,000 people in Rhode Island who don't have a job.

Our tax burden is among the highest in the country and has been for a number of years—especially the property tax burden. We're viewed as having one of the poorest business climates in the nation—if not the poorest. Our primary and secondary schools are underperforming.

Our workforce doesn't have the skills necessary to compete in the new economy. Our support for higher education continues to decline to the point where it's getting harder and harder to justify the notion that RIC, CCRI & URI are state supported institutions.

The regulatory and permitting process is burdensome, inefficient and in some cases obstructionist. We are spending far more than we can afford and most importantly, we have a negative attitude about our State.

Much of this we already know but it is no different than what we faced at Hasbro.

Well we and I underscore the word we transformed Hasbro. Since that loss year in 2000, we have recorded 8 consecutive years of earnings growth, achieving record earnings in each of the last several years. Our stock price hit \$40.00+ per share just before the collapse of the stock market. Today, we're trading a little over \$28.50 per share. We generate significant cash flow, our balance sheet is among the strongest in our industry, and our dividend is now \$.80 per share, the highest in the company's history.

How did we transform Hasbro and how do we transform Rhode Island?

What we accomplished at Hasbro is not unique. It's been done by a number of companies—including some of the companies represented in this room. Hasbro and other companies have an advantage in that they

operate in a very competitive marketplace. It forces you to make decisions to stay competitive. If you don't—you don't stay around very long.

Rhode Island on the other hand is protected by the Constitution. Rhode Island isn't going away.

First and foremost, you have to be committed to the task - whether you're transforming your company or your State. It takes leadership—collective leadership.

Let me talk about collective leadership. This isn't just about the Governor, the legislature, organized labor or the business community. Hasbro wouldn't have been successful if Al Verrecchia had been the only one committed to fixing the company. The entire leadership team had to make the commitment, just as the entire leadership team in Rhode Island has to make the commitment.

The very first thing we—and by we, I mean senior management—had to decide was whether or not we wanted to fix the company or sell the company. Clearly, everyone wanted to fix the company. Whether or not everyone would be willing to do what was necessary to fix the company was another matter.

There's an old saying—everyone wants to go to heaven but no one wants to die.

As it turned out, there were some senior people at Hasbro who weren't committed—and they had to move on.

In Rhode Island I don't believe everyone is committed to the task. I know if you speak with the Governor you come away with the feeling he's committed. I know if you speak to the members of legislature, they're committed. If you speak with organized labor, they're committed. But, I'm not convinced that the collective leadership of our State is willing to make the tough decisions. They've not been willing to look to the greater good—too often it's all about me.

Several times during the transformation of Hasbro I had to remind people that the name on the check is Hasbro—not Hasbro UK or Hasbro Far East or Hasbro de Mexico, not marketing, not finance, not research & development - but Hasbro. If Hasbro doesn't do well, you won't do well. Those same phenomena exist here in Rhode Island.

Next, you won't win if you don't believe you can win. When the Patriots take the field each week, they believe they're going to win the game. At Hasbro, we had to substantially improve the morale of our employees. We had to convince them that we were a great company with great brands and there was no reason we couldn't be successful. We did that by communicating with them, by being brutally honest about what they had to do to fix the company.

We had to fix the things we weren't doing well and capitalize on the things we were doing well.

The same goes for Rhode Island. In Rhode Island there is too much negativity. It's like we're living under a black cloud unable to fix the things that need fixing.

We need to start to promote a positive attitude and start branding our State. When we look outside of Rhode Island we need to realize that Rhode Island is a brand and if we continue to allow the negative aspects of our State to be talked about without responding with the positive aspects of our State we are going to find it very difficult, if not impossible, to attract new business to Rhode Island or to keep existing business here.

Sometimes facts don't matter—perception matters and the perception of Rhode Island is not good. We need to fix that and starting fixing it now.

We have tremendous assets in this State. We have superb economic pillars across a broad spectrum of sectors—healthcare, higher education, medical research and defense, just to name a few. We have outstanding port and marine related resources. We have a modern and competitive multi-modal transportation system.

We have an exceptional quality of life with abundant community, recreational, arts and cultural amenities.

We're home to a number of highly regarded institutions of higher learning - these institutions graduate thousands of well educated, enthusiastic students, many of whom would stay in this State if they had job opportunities.

We have some of the finest hospitals in the country here in Rhode Island including the Lifespan and Care New England Healthcare Systems. Because of the link between higher education and healthcare and the quality of those institutions, we've been able to attract significant research grants from the NIH—well more than might be otherwise expected.

Let me take a moment and say that while I absolutely respect and support the oversight of healthcare here in Rhode Island, we need to make the process more efficient for both the regulators and the hospitals and shift the focus of the debate. The focus of the debate should be on how we're going to deliver healthcare in the future given the competitive and reimbursement pressure being felt by all the hospitals here in Rhode Island.

One of the problems with economic development in Rhode Island is that we don't have a plan. Rhode Island does not have a vision or a sense of what it wants to be when it grows up. Rhode Island needs an economic development strategy that's embedded in public policy.

People need to come to work everyday and know what's expected of them and what role they play in the overall plan. Some of you have heard the term, "basket of frogs". Well, that phrase actually came from Hasbro. We had an enormous amount of energy being expended but it wasn't focused. The same can be said of our State; there's a lack of focus. We need to focus our energy and leverage our scarce resources effectively.

In Rhode Island there is too much ad hoc/episodic economic development activity. We get excited about specific projects and bring all the forces together to make that project happen—then we go away. We don't have a sustained effort focused on clear goals and objectives.

At Hasbro, our customers include some of the largest retailers in the world. They have one thing in common—providing a value proposition to their customer. If we as the supplier don't provide them with products that allow them to provide that value proposition they will not do business with us.

That's exactly what happened at Hasbro. We were inefficient, had way too much overhead, our prices were too high and customers didn't want to buy our products even though we had the best brands in the toy and game industry. Yes, our customers were willing to stop buying Monopoly, Clue, Risk & Scrabble, GI Joe and Transformers. Why? Because our prices were too high and customers weren't able to provide the consumer with that value proposition and still make a reasonable profit.

The same can be said for the State of Rhode Island. We have got to become more efficient and provide that value proposition for our customer. Who's our customer? It's the citizens of Rhode Island, it's the students in our school system, it's our hospitals and universities and it's the business community.

If we don't provide a value proposition, new business won't relocate to Rhode Island, existing businesses will move out of Rhode Island or at the very least expand elsewhere and our workforce won't have the skills and education necessary to be competitive—not to mention what will happen to our quality of life.

I said earlier I didn't think Rhode Island was committed to transforming itself. Why do I feel that way? Let's start with the tax burden. We all know that the tax burden in Rhode Island is among the highest in the country driven in large part by the property tax. More importantly, we know business needs a stable tax environment.

We can't begin to talk about reducing taxes and providing that stable tax environment unless we deal with the structural budget deficit and we significantly reduce the cost of government and that won't happen unless we consider consolidation. But we've been unwilling to even look at consolidation.

We're not going to reduce the property tax burden unless we improve the operating efficiency of our cities and towns. We weren't going to be competitive at Hasbro unless we improved our operating efficiency. When I talk about improving the operating efficiency I'm not talking about going into a department of 10 people and asking the manager to layoff 3 people and continue doing the same work. Unless we change the way we do work we will not achieve long-term sustainable cost reduction nor will we eliminate the structural budget deficit and be able to provide a more competitive and stable tax environment.

At Hasbro we had to reduce overhead by \$200 million and it had to be done quickly. We looked at everything we were doing and decided which of those activities were no longer creating value for our customer. If it wasn't creating value for the customer it became a prime candidate for elimination. We have to do the same thing in Rhode Island.

We are a small state with 39 cities and towns; we can't afford to have 39 fire, police and public works departments; we can't afford to have 36 school districts. We need to consolidate the back room activity of government at both the State and municipal level.

The time is right.

Newport, Middletown and Portsmouth are looking at it, the mayors of several of our major cities including Providence, Pawtucket, Warwick and

Cranston are looking at it...the collective leadership of Rhode Island needs to step up and not only support these efforts but lead them.

We need to address primary and secondary education in Rhode Island. Our school system is underperforming by almost any measure and has been for some time. We have a moral and legal obligation to provide the young people of Rhode Island with a quality education and that's not negotiable. We need a high performing school system and we need it now.

It's so refreshing to be in the company of and listen to Deborah Gist our new Commissioner of Primary & Secondary Education talk about her vision. What's frustrating is to hear the response when she talks about raising standards. We don't hear cheers...we hear go slow, we can't do that, not enough students will meet the new qualifications—keeping in mind our current standards are among the lowest in the country.

Rhode Island has become accustomed to mediocrity and if we don't change and demand a better product—economic development will be a pipe dream and not a reality.

Often times I hear opponents of consolidation challenge the notion that consolidation will reap significant cost savings.

My response—Hasbro and many other companies do just that. Two Hasbro examples—our data center is housed in Rhode Island and runs 24 hours a

day, 7 days a week, supporting our entire worldwide operation. In Europe, we're moving to a single shared service center which will provide all the backroom support necessary to manage all of our international operations. That shared service center will run off of the computer based in Rhode Island. Technology allows us to do that and we save millions and millions of dollars in operating expenses.

Please don't tell me we can't consolidate the business side of municipal government and our school system and save a lot of money. We are spending more than enough money to have a much better product than we're getting. It's all about performance.

The collective leadership in Rhode Island needs the will. Deborah Gist has the will and we need to do everything we can to support her efforts.

With 70,000 people out of work and looking for jobs we should be doing everything we can to help existing business, encourage new business start ups and recruit new business to come to our State. Unfortunately, we have a permitting and regulatory process that is both burdensome and inefficient. In some cases, it is almost obstructionist. 95% of the businesses in our State are small businesses which is both an advantage and a disadvantage. On the one hand, it demonstrates that entrepreneurial spirit is alive and well.

On the other hand, it's very vulnerable and needs a lot of support. Instead, we often times stifle small business with a permitting and

regulatory process that is both burdensome and inefficient. I don't reject government's need to provide oversight—but it needs to do so in an efficient manner. Help people navigate the regulatory process - don't let the regulatory process stifle economic activity.

Economic development is a process—it's hard work. There are no quick fixes but you will be surprised at what can be accomplished when people work for the greater good.

Remember a moment ago I said Hasbro was facing a further 25% decline in revenue in 2001—well revenues did decline another 25% but you know something—we made money in 2001—not a lot but we made money and people began to realize just how great our company could be if we put our collective efforts to work and focused.

We can fix our school system, we can improve the efficiency of the permitting and regulatory process, we can deal with the tax burden if we are willing to make tough decisions about improving the operating efficiency of our State. It's not rocket science, we know what to do. What's been lacking is the collective will to do so. It won't be easy. In some instances, it will be painful. But, if we don't, the market will force the changes and that will be far more painful as we're beginning to see with the 2009 and 2010 budget.

Think about how successful Rhode Island can be if we fix what's broken and begin building a healthier and more sustainable economy just by

capitalizing on the assets we have—assets that are the envy of many other states.

All it takes is the will and the commitment. There's no other State in the union where the collective leadership is as accessible as it is in Rhode Island. I leave you with the following. Are you, as part of the collective leadership willing to make the commitment? Are you willing to support those who are trying to bring about change so that we can transform Rhode Island and make it all that we know it can be? I certainly hope so.

Thank you.