



The Quaker Oats Company, P.O. Box 049001, Chicago, Illinois 60604-9001

July 22, 1991

To the Shareholders of The Quaker Oats Company:

In keeping with our previously announced plans to spin-off the Fisher-Price toy and juvenile products operations, the Company's Board of Directors has authorized the distribution of one (1) share of common stock of a newly formed corporation, Fisher-Price, Inc., ("Fisher-Price") for every five (5) shares of common stock of The Quaker Oats Company ("Quaker") held as of the close of business July 8, 1991, the record date. Shareholders who would otherwise receive fractional shares of Fisher-Price will receive cash in lieu of such fractional shares. Below is a discussion of the federal income tax consequences of the distribution.

Federal Income Tax Consequences of Distribution

The Internal Revenue Service has ruled that the distribution of Fisher-Price common stock to the holders of record of Quaker common stock is tax free to citizens of the United States. Although the distribution of stock is tax free, United States tax laws require you to make an allocation of a portion of your tax basis in Quaker common stock to your new Fisher-Price shares, and thereafter to have a new and reduced tax basis in the Quaker shares which you owned as of July 8, 1991. The tax basis allocation will determine the amount of gain or loss which you will recognize on the sale or disposition of these shares. If you owned more than one lot or group of Quaker common stock having different tax bases, the tax basis allocation described below must be computed separately for each such lot or group.

Allocation of Tax Basis

Your new per share tax basis for your Quaker common stock is 92.571% of your previous per share tax basis for Quaker common stock.

Your per share tax basis for your new Fisher-Price common stock is 37.145% of your previous per share tax basis for Quaker common stock.

(Note: These percentages do not add up to 100% because the allocation reflects the 1-for-5 basis for the distribution. The computation of the tax basis percentages is provided in the end note on page 3.)

Treatment of Fractional Shares

You may also receive an amount of cash in lieu of fractional Fisher-Price shares. This cash distribution is taxable to you as if you had received fractional shares and sold them. The cash has been obtained from the net proceeds of the sale of stock by Harris Trust and Savings Bank, as Distribution Agent, on behalf of shareholders who would otherwise be entitled to receive fractional shares. In order to determine the amount of taxable gain (loss) which you should report with respect to this cash payment, you must first determine what your tax basis would have been had you received the fractional shares. You may calculate your tax basis in the fractional share payment by multiplying your previous per share tax basis in Quaker common stock by 37.145%, and then multiplying that amount by the fractional share interest which your payment represents (in most cases one-fifth (.2), two-fifths (.4), three-fifths (.6), or four-fifths (.8) share).

Example

The following example demonstrates how the tax basis may be allocated, and also how you may compute the gain or loss on the cash received in lieu of a fractional share:

- (1) On July 1, 1989, 53 shares of Quaker stock were purchased at \$60 per share for a total cost of \$3,180.
- (2) On December 1, 1990, 36 shares of Quaker stock were purchased at \$48 per share for a total cost of \$1,728.
- (3) As a result of the spin-off and stock distribution, 17 shares of Fisher-Price stock and cash in lieu of .8 shares of Fisher-Price stock are received $((53 + 36)/5 = 17.8)$. Of the shares received, 10 are with respect to the Quaker shares purchased on July 1, 1989, and 7 are with respect to the Quaker shares purchased on December 1, 1990. Of the cash received in lieu of .8 fractional shares, .6 is with respect to the shares purchased July 1, 1989, and .2 is with respect to the shares purchased December 1, 1990.
- (4) Allocation of Basis

The per share basis of the Quaker stock purchased on July 1, 1989, and December 1, 1990, is first multiplied by .92571 to obtain the new per share tax basis for your Quaker shares, then multiplied by .37145 to obtain the per share basis for your new Fisher-Price shares, as follows:

| <u>Stock Purchased</u> | | <u>New Tax Basis Per Share</u> |
|------------------------|--------------|--------------------------------|
| 7/1/89 | Quaker | \$55.54260 (.92571 X 60) |
| | Fisher-Price | 22.28700 (.37145 X 60) |
| 12/1/90 | Quaker | \$44.43408 (.92571 X 48) |
| | Fisher-Price | 17.82960 (.37145 X 48) |

The \$3,180 paid for the 53 shares of Quaker stock on July 1, 1989 is allocated \$2,943.76 (53 X \$55.54260) to the Quaker stock, \$222.87 (10 X \$22.28700) to the whole shares of Fisher-Price stock, and \$13.37 (.6 X \$22.28700) to the .6 fractional share for which cash has been received.

The \$1,728 paid for the 36 shares of Quaker stock purchases on December 1, 1989, is allocated \$1,599.63 (36 X \$44.43408) to the Quaker stock, \$124.81 (7 X \$17.82960) to the whole shares of Fisher-Price stock, and \$3.56 (.2 X \$17.82960) to the .2 fractional share for which cash was received.

A taxable gain or loss will be reported on the difference between the tax basis in the fractional share \$16.93 (\$13.37 + \$3.56) and the amount of cash received. Assuming the shares are held as capital assets, this will be reported as a capital gain or loss.

The holding period for your Fisher-Price shares includes the period which you held the Quaker shares on which this distribution is made.

Federal Income Tax Reporting

The above stock basis and income information should be retained for income tax purposes. In addition, you must provide information with your federal income tax return which describes the stock distribution. We have prepared and enclose a sample of the brief statement which contains the information required to be filed with your return. You may insert the number of shares in the blank in the statement and attach this statement to your return. The above adjustments to federal income tax basis apply to all shareholders who receive Fisher-Price stock, even if the Fisher-Price stock is sold before the actual mailing of Fisher-Price share certificates.

Consult Your Tax Advisor

We have described what we believe to be the appropriate method of allocating the U.S. income tax basis to and among your shares of Quaker and Fisher-Price common stock. However, you should consult your own tax advisor with respect to any state or foreign tax consequences regarding the receipt of Fisher-Price stock and any fractional shares, or if you have purchased your Quaker shares at different prices, or acquired them by gift or bequest.

Harris Trust and Savings Bank, Chicago, Illinois, will serve as the distribution agent for the Fisher-Price shares. Questions relating to the actual distribution should be directed to The Quaker Oats Company, Shareholder Services, 321 North Clark Street, Chicago, Illinois 60610 (telephone: 1-800-621-9525 or 1-800-572-7289 (if calling from Illinois)) or Harris Trust and Savings Bank, 111 West Monroe Street, Chicago, Illinois 60690 (telephone: 1-800-344-1198). Questions concerning Fisher-Price, Inc., should be directed to Fisher-Price Shareholder Services, 636 Girard Avenue, East Aurora, New York 14052 (telephone: 716-687-3737).

Computation of Tax Basis

For your information, the tax basis allocation was determined as follows:

| | July 1, 1991 Per Share Market Value (1) | Values Adjusted Per Previous Share of Quaker Common (2) | Adjusted Values as a Percent of Total (3) | Multiplier to Determine New Per Share Cost Basis (4) |
|--------------------------------------|--|---|--|--|
| The Quaker Oats Company Common Stock | \$58.25 | \$58.25 | .92571 | .92571 |
| Fisher-Price, Inc. Common Stock | 23.375 | 4.675 | .07429 | .37145 |
| Totals | | <u>\$62.925</u> | <u>1.00000</u> | |

- (1) Average of high and low trading prices for each stock on July 1, 1991, using prices obtained from official quotations of the New York Stock Exchange Composite Transactions on that date.
- (2) Since Fisher-Price shares are being distributed on a 1-for-5 basis, their per share market values must be adjusted by dividing by five.
- (3) These fractions represent the \$58.25 value of one share of Quaker stock and the \$4.675 value of one-fifth share of Fisher-Price stock received for one share of Quaker stock, in relation to the sum of such values, \$62.925.
- (4) This is stated as a percentage of your previous per share tax basis for Quaker common stock, and is determined by multiplying by five the percentage in the third column for Fisher-Price (to get a full-share basis).