



THE MARKET

The U.S. sports products industry is nearly \$70 billion in size (wholesale). According to SGMA International's Recreation Market Report, manufacturers' sales of sporting goods equipment, sports apparel, athletic footwear, and recreational transport items in the United States totaled \$68.6 billion in 2003 — a 0.5 percent increase over 2002.

Athletic footwear sales rose 4.2 percent in 2003. Total sales were \$9.73 billion, compared with \$9.34 billion in 2002. Three athletic footwear categories exceeded the billion-dollar mark: running/jogging (\$2.77 billion); basketball (\$2.07 billion); and cross-training/fitness (\$1.06 billion). The growth categories in athletic footwear were low performance (up 19.6 percent); tennis (up 16.9 percent); aerobic (up 11.1 percent); basketball (up 6.2 percent); and running (up 2.0 percent).

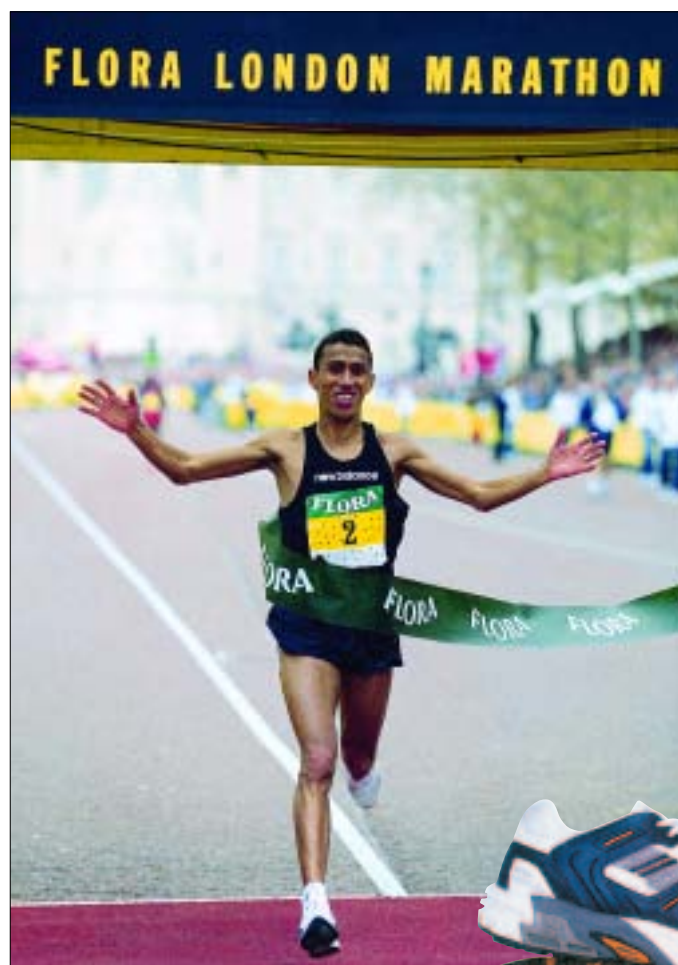
Sports apparel sales fell 2.5 percent in 2003. Despite the slight drop, it is still the largest segment of the sports and recreation industry, with sales of \$22.8 billion.*

ACHIEVEMENTS

Over the years, New Balance has received numerous awards and accolades as an industry leader for areas including product design and development, retail partner relationships, and community relations contributions.

In 1976, the 320 was named the number-one running shoe by *Runner's World*, effectively putting New Balance on the map with runners across the country. Since then, the company's footwear has continued to receive special kudos from key industry publications.

For the past five years, New Balance has been named number one in Customer Loyalty in the athletic shoe category by Brand Keys of New York. Most recently, New Balance UK received



the Queen's Award for Enterprise for their commitment to U.K. domestic manufacturing and six consecutive years of export growth.

New Balance's sales growth has also significantly outpaced that of the industry. Worldwide sales have grown from \$221 million in 1992 to \$1.3 billion in 2003.

HISTORY

The company's heritage dates back to 1906 when the company, then owned by William Riley and known as the New Balance Arch Company, manufactured orthopedic shoes and arch supports. Throughout the 1950s and 1960s, an increasing number of runners turned to New Balance for custom-made shoes, thanks to the company's unique expertise in handcrafting specialized footwear. In 1956, Paul Kidd bought the business and increased the shoe-making sector. The demand for New Balance athletic shoes grew, and soon the production of custom-made running shoes was the company's primary source of business.

On Boston Marathon Day in 1972, New Balance was purchased by its current owner,

James S. Davis. At that time, the company consisted of six people making thirty pairs of Trackster running shoes each day. The Trackster was the first athletic shoe made in a wide range of sizes and widths.

Since then, New Balance has established a unique reputation for technological innovation and width sizing, reigning today as the industry's "fit expert" and the premiere manufacturer of performance-oriented athletic footwear and apparel for men, women, and children. The company's objective is straightforward: equip the serious athlete with innovative footwear and apparel that provides the best performance, fit, quality, and comfort.

Today, New Balance produces more than 35 million pairs of footwear a year globally in a range of product categories including running, cross-training, walking, basketball, tennis, adventure, and kids. Work and hiking boots, sandals, boat shoes, and rugged casual styles are available through the company's Dunham outdoor performance brand, which joined the New Balance family in fall 1998. In spring

2003, active casual footwear for men and women was introduced under the PF Flyers brand. The company introduced Aravon in spring 2004, a new comfort performance footwear brand, and acquired Warrior Lacrosse, the premier

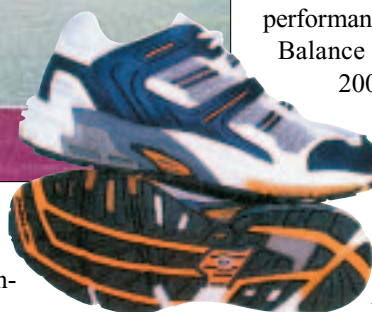
manufacturer of lacrosse equipment, to further pursue the team sports market.

THE PRODUCT

The company maintains a steadfast commitment to the founding product ideals of performance, fit, technical superiority, and superior manufacturing. New Balance is the brand of choice for millions of people around the globe who are serious about their sport — from weekend warriors to elite athletes.

Because feet don't come in one or two widths, and because shoes that fit better perform better, New Balance shoes are offered in up to six different widths, from a narrow 2A to an expansive 6E. Sizes range from 5 to 20 for adults, 10.5 to 3 for preschool children, 3.5 to 6.5 for grade school, 2 to 10 for infant, and 0 to 3 in crib.

New Balance takes pride in addressing the needs of individual athletes. New Balance's Suspension System™ — a collection of innovative technologies and unique materials developed to meet the diverse



needs of athletes engaged in a variety of athletic activities — is integrated throughout the footwear product line.

In athletic apparel, New Balance has made significant strides, taking a more progressive approach with innovative fabrics, features, and designs; like its footwear, the company's apparel line offers the New Balance hallmark of fit, performance, and comfort.

An increasing segment of the New Balance business, New Balance apparel features a collection of lightweight technical fabrics in the most functional designs. Engineered to be versatile and durable, the apparel collection incorporates advanced moisture management liners, breathable microfibers, and water-resistant coatings to provide consumers the ultimate in comfort and weather protection.

RECENT DEVELOPMENTS

New Balance announced several licensee partnerships during 2003-4 as part of an effort to launch innovative athletic industry products under the New Balance brand name. All of the New Balance licensee partners have core values of product quality, integrity, and customer service that are a solid fit with New Balance's long-standing corporate philosophies.

Eyewear Designs Ltd. designs and develops performance sunwear and eyewear. Fitness Quest Inc. creates and markets innovative cardio home exercise equipment. The Franco Apparel Group presents a full line of New Balance performance and lifestyle children's apparel in newborn through youth. Grangers International Ltd. is a manufacturer of technically superior shoe and apparel care products that are environmentally friendly. Moretz Sports manufactures performance socks, and New Era Cap Company, Inc. is a global sports headwear designer, developer, and manufacturer of performance-oriented caps. Packworks designs and supplies performance and athletic lifestyle bags and accessories.

In spring 2003, New Balance announced it would sponsor Major League Lacrosse, the premiere professional outdoor lacrosse league, then in its third season. New Balance became the league's newest anchor-level corporate sponsor and the "Official Footwear and Sideline Apparel of Major League Lacrosse." The New Balance logo graces the uniform of the Boston Cannons team.

Lacrosse is both America's oldest game and its fastest-growing team sport; New Balance will utilize its MLL sponsorship to reach younger performance athletes with the company's brand message. The *Warrior Burn* lacrosse shoe by New Balance debuted in 2004. Designed and tested by members of the Warrior Lacrosse Players Club Team, the Burn is the world's first lacrosse shoe developed by the world's best players.

PROMOTION

New Balance also takes a unique approach to marketing and endorsements, focusing on developing



superior performance-driven shoes, and taking pride in the shoe itself versus an athlete wearing them. As a proud supporter of Team New Balance, world-class athletes certainly play an important role in the company's continued success. However, unlike most athletic footwear companies, New Balance's marketing approach and its relationship with its athletes centers around the design, development, and testing of superior performance-driven product; New Balance athletes do not appear in advertisements, and they are not used as promotional vehicles.

In support of grassroots athletics, New Balance sponsors many races, tournaments, teams, youth sports initiatives, track and field events, and track facilities around the globe, including the LaSalle Bank Chicago Marathon, the Miami Tropical Marathon, the Lilac Bloomsday Run, and the New Balance Games. New Balance is a proud supporter of Girls on the Run, which helps adolescent girls increase their self-confidence and self-esteem through a 5K race-training program, as well as The American Volkssport Association (AVA), the nation's largest walking club. Most recently, the company further strengthened its commitment to grassroots athletics by becoming the naming sponsor of the New Balance Track and Field Center at the Armory in New York City.

New Balance also proudly sponsors numerous charitable organizations and events worldwide, including The Susan G. Komen Breast Cancer Foundation Race for the Cure® series of 5K runs and walks that raise awareness of and funds for breast cancer research.

BRAND VALUES

As a privately held company, New Balance has remained committed to a core set of philosophies and strengths — including technical superiority, width-sizing, U.S. manufacturing, grassroots promotions, and strong partnerships with its retailers and suppliers.

Teamwork, total customer satisfaction, and integrity are the core values upon which New Balance operates, and the company's tremendous

success is a credit to its unyielding commitment to these values.

New Balance owns and operates five factories in New England — three in Maine and two in Massachusetts. Additionally, the company has state-of-the-art distribution facilities on both coasts, including one in Lawrence, Massachusetts, which recently underwent a 100,000-square-foot expansion.

New Balance faces unique challenges in domestic manufacturing yet remains undaunted. With a high-quality labor

force and the confidence to dare to be different, New Balance is able to survive and thrive, and is not afraid to take a leadership position in an industry that has sent most of its production overseas.

In a global economy where quality components come from all over the world, New

Balance continues to manufacture a percentage of its shoes in the United States, which is made possible by reinvesting in the latest technologies and manufacturing techniques available. Unique modular teams are continually challenged to offer creative alternatives to foreign competition. By remaining committed to maintaining a domestic manufacturing base, New Balance has proven that high-quality, width-sized athletic footwear can be made by American workers for discriminating consumers.

* The SGMA's Recreation Market Report is based on data from industry trade associations, a panel consisting of sporting goods companies' marketing experts, and SGMA market research studies. It is the only report of its kind with such extensive coverage of the industry's products and represents the most accurate picture of the sporting goods industry size and sales trends. It should be noted that all figures are based on manufacturers' shipments (including imports) in the U.S. market and are expressed in wholesale, not retail, dollar values.

THINGS YOU DIDN'T KNOW ABOUT NEW BALANCE

- When New Balance founder William J. Riley was watching chickens in his yard, he noted the chicken foot has three claws that create balance, and he transferred that thinking to the design and development of his arch supports — hence the name New Balance. Legend holds that Riley kept a chicken claw in a display case for inspiration.
- New Balance employs nearly 2,600 people around the globe, and the company's products are sold in 120 countries on six continents. New Balance has wholly owned subsidiaries in the United Kingdom, France, Germany, Sweden, Hong Kong, Singapore, Australia, New Zealand, Mexico, Canada, Japan, Taiwan, South Africa, and Brazil.
- New Balance is the only athletic shoe manufacturer still producing footwear in the United States.

