



THE MARKET

Since 1898, GUND has been making the world's most huggable soft toys.

Throughout its history, GUND has been the best-known and most-respected soft toy company in the industry. GUND prides itself in providing its customers with superior designs, incomparable quality, and the softest plush available. Each style has a distinct personality, apparent in its facial expression and body language; everybody always knows a GUND when they see one. The endearing personalities of GUND characters create friends for a lifetime that make people smile. While the marketplace has constantly changed since 1898, something that hasn't changed for GUND is the consumer demand for its products.

In 1910, GUND presented its first full line of stuffed animals, and the public response was so overwhelming that the company decided to focus all of its manufacturing on soft toys. As a result, GUND embarked on a journey with a mission to create endearing toys that develop special bonds with their owners. It seems this plan has worked quite well, as today GUND stuffed animals continue to delight children of all ages. GUND has remained the beacon of quality and integrity, and, most of all, for the world's most huggable toys since 1898.

GUND today is a worldwide operation headquartered in Edison, New Jersey, with a subsidiary



in Preston, England, and offices in Hong Kong, China; Qingdao, China; and Seoul, Korea. International distribution channels supply GUND products to Canada, Australia, Germany, Spain, Japan, and France.

ACHIEVEMENTS

GUND accomplishments span more than 100 years of innovations in design, process, and safety that have continually set the standard for the plush industry.

Adolf Gund's earliest innovations firmly established GUND as a creator of unique, quality products. He is credited with the invention, design, and production of mechanical parts that brought stuffed toys to life. The earliest patent was received in 1912 for a mechanical ride-on duck. Similar mechanisms are still found in contemporary toy designs.

While many people may think of character licensing as a modern phenomenon, GUND actually pioneered this business strategy as early as 1921. Creating plush toys from Disney's famous

animated films and television programs began in 1947. These licensing associations brought America's favorite characters — including Felix the Cat, Mickey Mouse, and Donald Duck — into the hearts and homes of millions.

Inherent in every GUND product is an unwavering commitment to product safety. The most noted GUND accomplishment and important industry standard is the method for securely attaching eyes to plush animals, preventing them from being pulled out by small children.

With countless GUND innovations over the course of a century, perhaps the most widely recognized is Rita Raiffe's understuffing technique. Her insistence on huggable designs led the company to reduce stuffing and use softer textiles and gentler pattern making to truly put the "soft" in plush toys. This remarkable process is

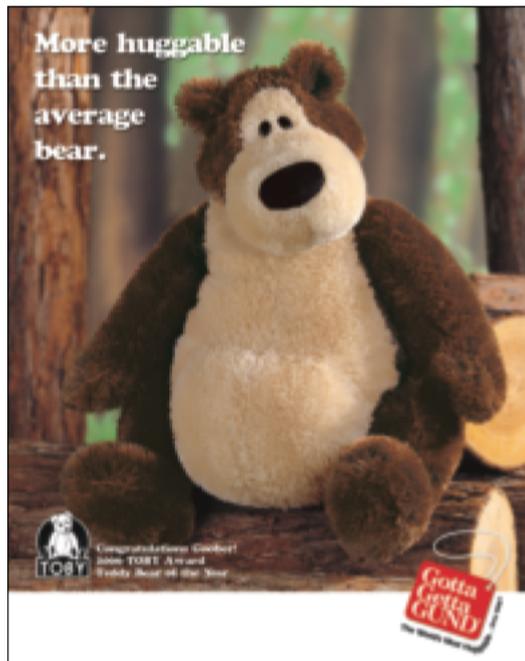
exactly what makes today's GUND products the world's most huggable.

GUND has been nominated for and has won numerous Golden Teddy Awards and TOBY Industry Awards for plush designs. The Golden Teddy Awards and TOBY Industry Awards are the hallmark of the plush industry's recognition.

HISTORY

America's oldest and most recognized toy company was founded in 1898 by German immigrant Adolf Gund. He used the best fabrics available and built a reputation that distinguished the company from its competition. When he retired in 1925, with no children of his own, he sold the business to Jacob Swedlin for a token sum with the understanding that the name and principles of GUND would always remain.

Continuing the company's traditions, Jacob Swedlin ran the company with the help of brothers Abe and John for more than 40 years. During this time, they built the company into a booming business, trading within the toy industry and acting as



presidents of the Toy Industry Association. With a full line of licensed characters and the further development of GUND's basic lines, the company grew and was able to supply all major toy retailers across the country.

As control of the company transitioned over many years from Jacob Swedlin to Rita and Herbert Raiffe, Herbert officially took the reins in 1969 when he became president of GUND. Under Herbert's insightful leadership, the company expanded the breadth of its unique designs and stayed focused on the mission to produce plush toys of the highest quality. Herbert's decision to move away from licensing and to primarily rely on its own design team to support the majority of sales assured the company's successful longevity and intractable position as a market leader. Rita Raiffe was invaluable to the realization of Herbert's vision. Her contribution of the now-famous understuffing technique and cultivation of an industry-envied design team led to the continually increasing popularity of the GUND brand.

Bruce Raiffe, the third generation to run the company, joined GUND in 1977, became president in 1993, and chairman and chief executive officer in 2004. During his presidency, GUND's sales expanded threefold, and the company enjoyed growth in international markets. He is credited with making GUND an international company and, by far, the most recognized brand name by consumers of plush animals everywhere.



The appointment of Jim Madonna to president in July 2004 marks the first time that a nonfounding family member has been given control of the company. Building on an eight-year tenure with the company, Jim's sharp business acumen and tender

appreciation for all GUND products has evolved the company from a plush company operating within the channels of toy distribution to an upscale gift company that defines GUND's position in the market as a producer of quality.

THE PRODUCT

GUND has flourished over the years by staying true to the company's core beliefs: superior designs, integrity, and incomparable quality. The company has never deviated from its established high standards of craftsmanship. Perhaps the greatest testament to the quality of GUND is the fact that several characters, such as Snuffles and Tinkle Crinkle, have been in the line for 25 years — an unheard-of occurrence in the industry.

Every design is conceived by GUND artists and produced under close management supervision in factories overseas. The company's obsessive attention to quality and detail is unparalleled, as evidenced by its long-standing reputation for exquisite craftsmanship.

Known worldwide for its top quality, as well as its soft and huggable plush designs, award-winning GUND products have ageless appeal. The extensive GUND brand comprises major labels including GUND, babyGUND, GUND KIDS, and babyGUND Nursery.

RECENT DEVELOPMENTS

GUND believes that the strength of its brand centers on a careful balance of celebrating past achievements while inspiring future ones. With a steady focus on its core business as the foundation of its success, GUND constantly seeks to adjust its product lines to satisfy current market trends.

With market trends predicting increases in the infant, preschool, and tween markets into 2010, GUND has successfully launched product lines in these and other categories:

BabyGund™ has expanded its product offering to appeal to the ever-growing market of infant products. In addition to a wide selection of soft stuffed animals, BabyGund™ offers Comfy Cozies™ (soft blankets in the shape of animals), rattles, musicals, early-childhood learning toys, and a large selection of giftware to decorate the nursery.

GUNDKIDS™, introduced in 2004, responded to the fastest-growing market segment of young consumers with fashion-forward product that addresses the lifestyles of kids and their families.

The launch of GundGifts™ in 2005 has taken the company to another level by applying its design expertise to a line of product that includes ceramic giftware, frames, mugs, magnets, and wall plaques — just to name a few.

Gundfun™, introduced in 2006, combined Gund's expertise in creating plush toys with technical

innovation in the field of sound and motion. Gundfun™ now offers battery-operated plush toys for every day and season with state-of-the-art technology that animates a wide variety of characters.

PROMOTION

Throughout the years, GUND has built its promotional strategies around its founding principles. Despite the changing dynamics of the marketplace, the company's heritage and the emotional appeal of its products have always played center stage.

The 1980 "Gotta Getta GUND" consumer ad campaign is by far the most famous. This remarkable campaign featured photographs of GUND's most beautiful products with humorous "GUND-Puns" for headlines such as "Ain't love GUND," "We've only just beGUND," and "Oink if you love GUND." The campaign resonated with the trade and consumers and firmly established the company's name as the most recognized plush brand in the world. Even now, the company relies upon this memorable slogan as it represents the quality reputation GUND has earned over the years. The success of this campaign continues a quarter of a century later.



BRAND VALUES

By delivering on its promise of quality, originality, and unparalleled huggability, GUND is the most-loved plush worldwide. Each and every character is unique, its appeal ageless, and its place in the hearts of consumers timeless. For more than 100 years, GUND products have embodied the very spirit of a hug, that incredible feeling of joy and promise that cannot be contained. It is why GUND has earned and cherishes the trust of consumers around the world.

THINGS YOU DIDN'T KNOW ABOUT GUND

- For GUND's 100th anniversary celebration in 1998, Rita Raiffe designed a one-of-a-kind GUND bear that sold at auction for \$100,000. All of the proceeds were donated to four children's charities, including the Pediatric AIDS Foundation and the Cerebral Palsy Association of Middlesex County, New Jersey.
- The GUND Foundation was formed over 20 years ago and provides children in "distressed" situations with a toy to hug. Working with select organizations, the Foundation has contributed more than 500,000 GUND toys to sick, impoverished, or displaced children.
- Celebrating the 100th anniversary of the naming of the teddy bear in 2002, the U.S. Postal Service chose to use a GUND bear on its commemorative stamp recognizing the 1902 naming of the teddy.