

Hermann Oak Leather Co.



4050 NORTH FIRST STREET • ST. LOUIS, MO. 63147-3493
 holc@hermannoakleather.com • www.hermannoakleather.com
 1-800-325-7950 • (314) 421-1173 • FAX (314) 421-6152

SKIRTING
 BRIDLE
 HARNESS
 LATIGO
 STRAP
 CRAFT
 TOOLING
 HOLSTER
 WAISTBELT
 SPLITS

September 24, 2013

Dear Customer,

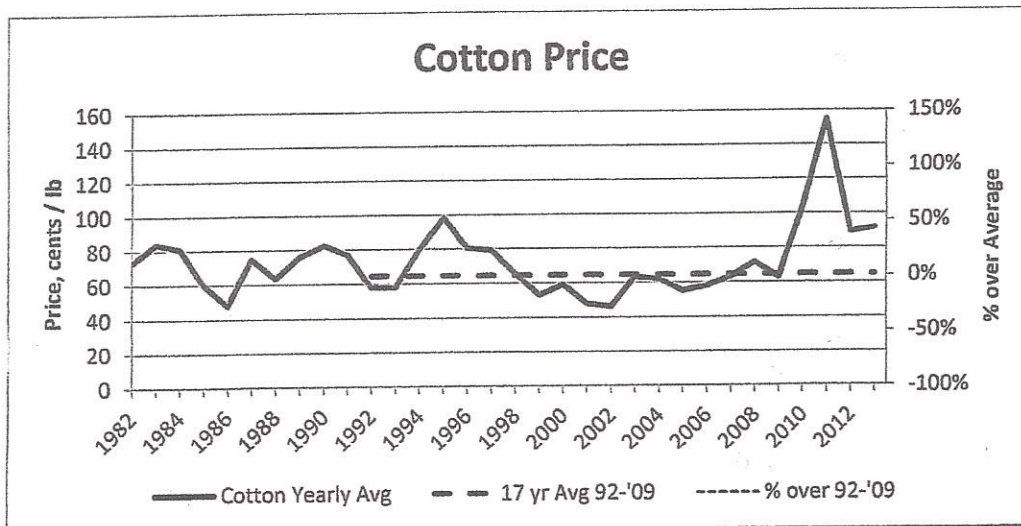
This is an update on the hide market, and the 6% surcharge we currently have in place to cover it.

The hide market held at its peak for six months, from April through August of this year. Over the past few weeks, it has come off slightly, which many thought was the inevitable comedown. However, it is now on its way back up. As a commodity, hides are always going up and down a little, but usually within a range. It appears that hide prices will stay within this new, higher range.

Our view is that hides will be more expensive long term, because cotton prices are up and staying high. As we said in our April letter, shoe makers "at the margin" (between low- and mid-priced shoes, supplying the Chinese and Indian markets or Wal-Mart stores) will switch to another raw material if leather gets too high. Nylon and Cotton Canvas are the other materials they usually use. Nylon is an "offal" market, just like hides, and seems to behave the same way as the hide market (priced so that it is all consumed). The price of beef went up over the past ten years; the price of hides did not. The price of oil went up; the price of nylon did not. Why? Because low cotton prices held them down.

Cotton is a far larger market. Its price is set by the huge clothing market. The price of Cotton then sets the price for the smaller Nylon and Hide/Leather markets.

Here is a graph of long-term cotton prices from the Index Mundi web site:



<http://www.indexmundi.com/commodities/?commodity=cotton&months>

Cotton prices are up 42% over their long-term average. Hide prices are up 46% over their long-term average. Cotton prices look to be up to stay, as they've been stable now for two years. Therefore, we believe hide prices will also stay up where they are.

Last January, we increased our card price to cover additional tanning costs, then added the surcharge in April and July to cover hide increases. Unfortunately, hide prices increased so much that all three increases went to cover only hides.

Since the hide market looks to be staying up, we must now incorporate the surcharge into permanent pricing. We will then need to add an additional increase this coming January, similar to that of last January, to cover those operating costs we had mentioned in earlier letters. Net net, we are projecting that our prices will be above where they are now.

We appreciate everyone's understanding. Our desire is to keep you as well informed as possible, and to give you lead time for any pricing you have to do in the coming year.

Regards,

A handwritten signature in cursive script that reads "Shep".

Shep Hermann