

**THE COMPANY**

In operation since 1972, Danier Leather is a vertically integrated company, which designs, manufactures and retails leather and suede products. The company's clothing and accessories are sold exclusively under The Danier label. Currently, Danier operates 97 shopping mall, street-front and power centre stores.

**FINANCIAL DATA**

	2009	2010	2011
Earnings per Share (\$)	(0.37)	1.28	1.57
Price to Earnings (times)	n/m	8.2	6.7
Dividend (\$)	n/a	n/a	n/a
Dividend Yield (%)	n/a	n/a	n/a
Book Value (\$)	9.59	11.69	13.17
Price to Book Value (times)	1.1	0.9	0.8

**HISTORICAL SHARE PRICES**



**WHY ABC FUNDS BOUGHT DANIER LEATHER**

The Canadian retailing market has proven to be challenging over the past year. We have seen large department stores struggle as consumers flock to niche players and superstores. In light of this consumer trend, we feel that Danier Leather is an opportunistic value find. At its current price of \$10.00, Danier is trading at approximately its tangible book value and under 7 times 2002 earnings. Further enhancing its low valuation is a solid balance sheet with no debt.

Danier is built upon a strong business model, led by President and CEO, Jeffrey Wortsman. As a vertically integrated company, Danier is in full control of all aspects of its business. Consequently, it has forged strong relationships with suppliers, which have provided Danier with the quality leather they seek in order to manufacture its well-known, exclusive Danier products.

Furthermore, over the last 5 years, Danier has consistently demonstrated positive sales growth. It is expected that further growth will be led with expansion into power centers. The company feels that there is potential for 50 more outlets in Canada. In addition, Danier will continue to slowly increase its presence in the United States.

On another note, with the recent strength of the Canadian dollar, it is also essential to evaluate Danier's exposure to the currency. A stronger Canadian dollar is actually beneficial with 70% of Danier's products purchased and manufactured overseas in US\$. Hence, its cost of goods sold will be reduced which will improve its gross margins. While a positive, management has indicated that the benefits of a stronger Canadian dollar will not be realized until sometime in the next fiscal year since the company has proactively purchased its leather ahead of time.

Being a predominantly outerwear retailer, Danier operates in a very volatile industry with weather and consumer confidence serving as a main driver for its sales. We feel that Danier's strong fundamentals, market niche and business model will support the company's potential growth. As this growth through expansion continues, backed by a solid, debt-free balance sheet, we feel that Danier's share price will improve over time.

ABC Funds  
June 20, 2003

**UPDATE**

Like many specialty and apparel retailers, Danier Leather had a difficult Christmas season this year. Danier reported revenue of \$79.3 million for the quarter ended December 27 compared to \$86.6 million the previous year. Earnings also declined on a year over year basis to \$9.0 million or \$1.29 per fully diluted share compared to \$11.8 million or \$1.67 per fully diluted share. The Company blamed warmer weather and a generally tough operating environment for its performance in the quarter.

We view our holding in Danier Leather as long-term and therefore are not overly concerned with the results. Moreover, we are comfortable with Danier's business model. We were pleased to see that the Company maintained its gross margin at 57% and did not resort to aggressive discounting to drive sales at the expense of profitability. We were also pleased to see that selling, general and administrative expenses increased only 3% despite 7 additional stores and an additional 30,000 square feet of

## UPDATE (cont'd)

selling space. Finally, we expect that the Company will benefit from the stronger Canadian dollar over next year since raw materials have been purchased with cheaper US dollars.

Another area of comfort is Danier's pristine balance sheet. Danier Leather has no debt and actually holds almost \$14 million in cash. The Company's cash position increased to \$19 million just after the books were closed due to the timing of bank settlements over the final weekend of the quarter. This equates to cash of \$2.72 per fully diluted share. Book value is now \$10.53, which should provide solid support for the share price until the Canadian consumer gets back on track.

ABC Funds  
January 23, 2004

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Danier Leather reported third quarter results that were generally in line with expectations. Revenue increased 11% to \$46.2 million as comparable stores sales increased 7%. Although the spring and summer are not typically strong selling seasons for leather goods, management suggested that "vibrant leather colours" were a big hit with mall shoppers. Also, sales of higher margin accessories rose 29% to reach 17% of total sales in the quarter. Net earnings for the quarter were \$0.53 million or \$0.08 per share compared to \$0.45 million or \$0.07 a year ago. The improvement in net earnings was driven by cost control, as selling, general and administrative expenses as a percentage of sales declined to 44.5% compared to 45.2% last year.

Danier still has a pristine balance sheet with \$21.9 million in cash or \$3.17 per share. The Company has no long-term debt and has \$44.8 million of working capital. Danier is currently trading below its book value of \$10.61 per share.

Finally, we must briefly mention that a legal decision went against Danier Leather, which the Company plans to vigorously appeal. The judgment concerned the accuracy and disclosure of information in a forecast issued by the Company during its initial public offering in 1998. We believe that at this point it is difficult to assess the potential outcome or time frame of the legal process. However, the press release stated, "the Company anticipates having sufficient financial resources to pay any award, interest and costs". We will update the situation as it plays out and note that the market reaction to the news was muted.

ABC Funds  
July 2, 2004

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As the temperature turns colder, Danier Leather is gearing up for its all important winter season. We were impressed with the Company's progress in the seasonally weak first quarter and are encouraged about Danier's prospects over Christmas. For the thirteen weeks ended September 25, Danier reported sales growth of 6% to \$24.6 million on the back of a 5% increase in comparable store sales. Sales of higher margin accessories increased 9% and represented 22% of total sales. Although the Company lost money in the quarter, again the seasonally softest, gross profit margin improved 350 basis points to 46.9%. Remember that the Company benefits from a stronger Canadian dollar by purchasing raw materials with cheaper US dollars.

The financial strength of the Company is unquestionable, with almost \$40 million, or \$5.82 per share, of working capital and no long-term debt. Consequently, the Company's Board of Directors declared an initial quarterly cash dividend of \$0.06 per share in August. At current price levels, the stock yields a respectable 1.75%. Perhaps this was the catalyst that has driven Danier shares sharply higher in recent months. Or maybe it was the Company's new advertising campaign featuring Chris Noth from Sex and the City and Law and Order fame that is expected to generate traffic to Danier stores this winter. In any case, Danier Leather continues to perform well and the Company continues to buy back stock, which is accretive to shareholder value.

ABC Funds  
November 26, 2004

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After a strong run through the Christmas season to a high of \$14, shares of Danier Leather have since retreated. For the first three quarters of the current fiscal year revenue has declined 4% to \$140.9 million compared to \$146.4 million and comparable store sales have decreased 5%. Management has pointed to weak consumer spending on outerwear due to unseasonably warm weather in the second quarter and a lukewarm response to the Company's promotional activities. Irrespective of the weaker than anticipated financial results, Danier Leather has maintained its pristine balance sheet. Currently, the Company has working capital of \$44.8 million and a cash balance of \$20.7 million or \$3.16 per share.

Given the weak financial results and the ongoing litigation issues, it is quite possible that Jeffrey Wortsman, President and CEO, is losing his taste for running a public company. He has recently closed all three U.S. locations, one in New Jersey and two on Long Island. This removes the potential need to access the capital markets in order to fund growth south of the border. Further, the Company has been aggressively buying back stock. During the 39 week period ended March 26, 2005,

## UPDATE (cont'd)

402,400 subordinate voting shares were repurchased for \$4,583,000. This implies an average price of \$11.39 per share, well above the current share price. The Company has also just renewed its normal course issuer bid to acquire up to 421,061 subordinate voting shares, representing approximately 10% of the public float.

What would it take to privatize the entire Company? The Wortsman family owns 100% of the multiple voting shares so they would only have to repurchase the subordinate voting shares. With 5,319,825 shares outstanding, assume it would cost between \$65 and \$80 million. After using the cash on the balance sheet, the Company would need to add \$45 to \$60 million in debt to complete the transaction. At today's low rates, interest payments would amount to no more than \$5 million per year. This expense could be easily covered since EBITDA, excluding litigation provisions, has averaged \$20.7 million over the past five years. Under these assumptions, the Wortsman family would still make a sufficient return to justify taking the Company private. Therefore we believe that such a transaction would make financial sense for both the founders and current shareholders alike.

ABC Funds  
June 30, 2005

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Danier Leather has finally been vindicated in a long running legal battle with activist shareholders. Yesterday, the Ontario Court of Appeal overturned an earlier judgment against the Company related to Danier's initial public offering prospectus. Essentially, the justices found that management did not misrepresent the Company's sales forecast and were not responsible for updating the prospectus after it was filed. Management was also given credit for the fact that the implied financial projections were substantially met.

We believe that the market will react favourably to the decision for two reasons. First, Danier Leather had taken provisions to cover estimated costs and damages in the amount of \$18 million pre-tax. Once this provision is reversed, earnings and book value could have a one-time boost of almost \$1.90 per share. Second, given the strength of Danier's balance sheet we believe that this decision removes any impediment to a large share buyback or an eventual privatization of the entire Company. With working capital of \$36.4 million, or approximately \$5.50 per share and no long-term debt Danier has the financial stability to weather the present challenges of a difficult retail environment.

ABC Funds  
December 16, 2005

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The mild winter has wreaked havoc with weather-sensitive retailers this season. Based on disappointing holiday season sales and margins released by a national sporting-goods chain, we had been expecting the worst from Danier Leather. However, as CEO Jeffrey Wortsman said on the most recent conference call, "it was cold enough to put on a leather jacket this past December".

Danier's results, for the 13 and 26 weeks ended December 23, 2006, were simply excellent. Sales in the second quarter of fiscal 2007 increased 9% to \$67.6 million from \$61.8 million in 2006. Importantly, comparable store sales increased 12%. Year to date, sales increased 8% to \$89.5 million and comparable stores sales increased 10%. In the current quarter, EBITDA increased to \$13.3 million from \$9.0 million in the comparable period last year. The year to date increase in EBITDA was even more impressive, growing to \$8.6 million from \$1.9 million. Earnings per share were \$1.17 versus \$0.70 in the second quarter and \$0.53 versus a loss of \$0.11 in the first six months of the year. It is important to remember that due to the seasonal nature of the business investors should not annualize these numbers to forecast the full year results.

Going through the financial statements, this quarter was "clean"; no unusual gains, assets sales or accounting techniques were used to bolster the results. So how did they do it? We are finally seeing the results of management's renewed focus on Danier's core customer. The flashy billboards are gone and the celebrity advertising campaign was not renewed. The Company's advertising now portrays a more upscale and sophisticated image. From a merchandising perspective, the stores carry fewer styles but greater inventory of essential, timeless products. Management also made the decision to close several underperforming stores and has no plans to expand the store count this year.

Investors and analyst alike applauded these results and sent the shares soaring approximately 40%. We hope that we are just at the beginning of an improving trend after a difficult two year period for the Company.

ABC Funds  
January 19, 2007

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With the release of Danier's fiscal 2007 fourth quarter and year end results, we believe that the Company has "turned the corner". Same store sales, one of the most important retail metrics, showed 9% growth after four years of declines. On an absolute basis, the Company generated sales of \$158.1 million compared to \$148.4 million despite closing five underperforming stores over the course of the year. By concentrating on the Company's core customer through a more upscale and sophisticated product offering, shoppers have returned.

Working down the income statement, Danier reported gross profit of \$78.5 million compared to \$71.4 million an increase of 10%. The 49.7% gross margin compares favourably to the 48.8% gross margin reported in fiscal 2002, a year when the Company earned \$1.57 per share. In fiscal 2007, Danier earned \$1.65 million or \$0.25 per share compared to a loss of \$5.50 million or (\$0.84) per share the previous year. Although the Company's financial results show a marked improvement on a year over year basis, there is still plenty of upside based on historic results.

So how does Danier get back to historic levels of profitability? Easier said than done but management needs to focus on growing sales from existing stores while controlling costs. Note that sales per square foot were just \$455 in fiscal 2007 but \$560 per square foot in 2002 and \$605 per square foot in 2001. SGA (selling, general and administrative) costs were \$76.3 million in fiscal 2007 for 90 stores compared to \$69.3 million in fiscal 2002 for 87 stores. Rather than cutting expenses to the bone, we would prefer to see management's efforts directed toward sales growth from the current asset base. Effective advertising, targeted merchandising and the right product mix could potentially lead to tremendous earnings growth.

As a final note, we continue to wait for a resolution to the outstanding litigation. Hopefully, we will have an answer before the end of the year but legal issues always have a tendency of taking longer than expected. In the meantime we look forward to steadily improving financial and operating results from the Company.

ABC Funds  
September 7, 2007

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The Supreme Court of Canada has just released its ruling on the class action lawsuit against Danier Leather. The saga has dragged on for almost ten years after allegations of deliberately misleading forecasts in the Company's 1998 initial public offering prospectus. Although the plaintiffs won a lower court ruling, the Ontario Court of Appeal overturned the judgment in 2005 and the case was sent to the Supreme Court of Canada.

Shares were halted Friday morning as management and investors awaited the decision. By mid-morning we learned that the case had been unanimously dismissed by the court, which is a huge win for Danier. Essentially, the \$18 million litigation provision will flow back through the Company's financial statements as a one time gain to retained earnings. Assuming the application of a \$4.6 million tax provision, the Company's book value should increase from approximately \$7.55 per share to \$9.60 per share. In addition, Danier is entitled to recoup its legal expenses and "such costs will be determined at a later date".

With the elimination of the threat of a large punitive settlement, management has several strategic options available. Although the Company requires a large amount of working capital to make seasonal purchases of inventory, at least a portion of the \$20.6 million of cash could be returned to shareholders. We believe that the \$0.06 per quarter dividend could be reinstated, which would cost the Company just over \$1.5 million per year. The balance could be used to buy back shares, either through a Dutch auction or in the open market. After everything management has been through, a going-private transaction is a definite consideration now that the litigation has been resolved.

ABC Funds  
October 12, 2007

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After grinding through a couple of difficult years, Danier Leather finally made significant progress in fiscal 2007. Danier reported impressive same store sales growth of 9% for the year, as the Company successfully refocused its merchandise and marketing on its core customer. Danier was also vindicated by the courts with the dismissal of a class action lawsuit that had dragged on for almost ten years. We were quite pleased with management's efforts and the shares responded well to the good news.

Unfortunately, Danier faced a difficult Christmas season, coinciding with the Company's second quarter of fiscal 2008, this past year. After adjusting the Company's second quarter results to include Boxing week in both periods, sales decreased 8% or \$6.4 million and same store sales decreased 7%. Net earnings fell \$1.5 million to \$6.0 million or \$0.94 per fully diluted share compared with \$7.5 million or \$1.14 per diluted share last year. In the press release, management pointed to a 5% decline in customer traffic and a 3% reduction in the average sale. The combination of a slowing economy, strong Canadian dollar and a warm start to the winter resulted in the need to increase markdowns and sales promotions, which negatively impacted the results.

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We weren't too surprised by the tough quarter given the generally weak results across the Canadian retail sector. Further, the factors that led to the setback in the critical holiday season appear to have been out of management's control. On a positive note, we were pleased to see that the Company was active with its normal course issuer bid. Since the start date of April 23, 2007, Danier has repurchased a total of 292,500 shares. We think that the financial results for the coming quarter should show some improvement given the colder weather and reduced promotional activity.

At today's trading price of approximately \$8.00, we continue to believe that a takeout or privatization is possible. With only 6.3 million shares outstanding and approximately \$16 million in cash on the balance sheet, the transaction could be completed with an equity partner or with debt financing without much difficulty.

ABC Funds

February 29, 2008

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We were astounded to watch Danier Leather scrape bottom through December and January and touch a low of \$2.20 per share. At that price, with 6,176,429 shares outstanding, the market cap was a miniscule \$13.6 million. As a comparison, Danier has reported running 12 month revenue of over \$160 million. Obviously, fears of a consumer led recession weighed heavily on the stock as investors seemed to be anticipating a disastrous Christmas quarter. Thankfully, the recently released results were actually pretty decent.

On January 20, Danier reported results for the 13 week period ended December 27, which covered the crucial holiday period. Sales decreased by 3% to \$69.1 million and comparable store sales decreased by 4%. Considering the lack of consumer confidence these results were much better than a worst case scenario. Further, management did a good job at protecting margins in the quarter. Although the gross margin slipped to 48% from 50% during the comparable period last year, we were pleased to see selling, general and administrative expenses decline both on an absolute basis (to \$23.2 million from \$26.5 million) and as a percentage of sales (to 34% from 37%). This improvement led to an increase in net earnings to \$6.5 million (\$1.05 per diluted share) from \$6.0 million (\$0.94 per diluted share) a year ago.

After examining the balance sheet, we were also pleased to see good inventory control. Inventory at the end of the quarter was \$40.8 million compared with \$41.3 million last year. The year over year decline in inventory was similar to the magnitude of the decline in sales, which indicates that the merchandise is reasonably current. On the quarterly conference call management stated that the quality of the inventory is better, with more appropriate winter merchandise in styles that "resonated well" with consumers. As a final note, the accessories category has been performing well for the retailer.

So how cheap was Danier Leather at the bottom? Once the Christmas sales were settled, the Company's cash balance was \$17 million and working capital totaled \$42.3 million. With no long-term debt, Danier traded at a 20% discount to the cash on the balance sheet, a 68% discount to the working capital and 0.2 times the Company's book value of \$10.16 per share. After reporting the second quarter results, the shares rebounded 17% overnight to \$3.34, an increase of 52% from the 52-week low. Even after this bounce, the shares are trading at the lowest price to book value multiple in ten years.

ABC Funds

January 23, 2009

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Given how tough this recession has become, we are very cognizant of the difficulties faced by companies dependent on consumer spending. Danier Leather is a perfect example of a discretionary retailer that is facing serious headwinds. However, with a pristine balance sheet, we need to focus on management's performance as they cope with the current economic environment.

In the thirteen weeks ended March 28th, Danier reported sales of \$43.5 million compared to \$42.4 million a year ago. This 2.4% increase was driven by same store sales growth of 3%, which excludes the impact of the closure of three underperforming stores. On a year over year basis, Danier's gross profit margin improved 180 basis points, EBITDA increased \$1.2 million and the Company's cash position grew \$6.3 million. Although the Company reported a loss of \$2.3 million in the quarter compared to earnings of \$116,000 last year, the results were impacted by several one-time items. Notably, the net loss in the third quarter of fiscal 2009 included staff reduction costs of \$1.4 million, which should help to protect margins going forward. Further, last year's results were positively impacted by a recovery of legal and expert fees of \$1.9 million. Adjusting for these items, the results improved year over year from a loss of \$0.18 per share in the seasonally weak third quarter of fiscal 2008 to a loss of \$0.16 in the third quarter of fiscal 2009. In all, we were generally pleased with management's progress.

Finally, let's examine the Company's valuation in what has been an extremely unusual and fearful stock market. We have already noted that at the peak of despair, Danier Leather traded below its cash value. Today, although the shares have

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recovered somewhat, they only trade at 40% of the Company's book value. Net working capital per share totals \$6.45 and even if we assume that inventory could only be liquidated at a 50% discount, the stock currently trades below this value of \$4.20 per share. Without a doubt, we have to monitor the situation closely to ensure that the financial strength does not deteriorate dramatically. However, at current price levels the downturn seems to be priced-in and we will continue to hold our position in Danier Leather.

ABC Funds  
May 29, 2009

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At the peak of the financial crisis, viable businesses traded as if the end of the world was coming. As we have discussed before, Danier Leather's market capitalization, for a brief period, was less than the value of the Company's cash on the balance sheet. Even after almost tripling from a low of \$2.20, the shares still trade around the Company's net working capital per share of \$6.00. Most investors, including ourselves, thought they would never see stocks trading at this traditional Graham and Dodd valuation threshold.

Some may argue that this metric should not apply to Danier since approximately \$21 million out of \$35.6 million in net working capital is inventory. The argument goes that the inventory is overvalued and therefore management will be forced to liquidate it at a discount or even take an inventory write-down. However, after examining the Company's results for fiscal 2009, ended June 30, we believe that the inventory is in decent shape.

In the fourth quarter of fiscal 2009, same store sales increased 2%. Importantly, this was not accomplished through price discounting as the gross profit margin increased 1.9% to 47.0% in the quarter. Management stated, "The increase was mainly due to less clearance activity resulting from management's decision to reduce inventory purchases during the last half of the fiscal year". For the full year, gross profit margin declined slightly to 45.4% compared to 46.6% during fiscal 2008. Management explained, "The year-to-date gross margin rate decline was mainly due to a decline in the Canadian dollar relative to the US dollar during the first half of the year, which resulted in higher merchandise costs to the Company". The recent strength of the Canadian dollar should allow Danier to report an improving gross margin through the first half of fiscal 2010.

Further balance sheet analysis revealed that inventories are down \$6.4 million from the previous year, which implies that cash is being squeezed from non-cash components of working capital. This can be confirmed by looking at the current cash position, which has grown to \$24.6 million compared to \$19.9 million last year.

Today the shares are still undervalued, trading at \$6.00, or only slightly below net working capital per share and 62.5% of the current book value per share of \$9.59. Management has recognized this disparity and repurchased 267,160 subordinate voting shares during the fourth quarter of fiscal 2009. In summary, investors need to reset their expectations and targets to realistic levels post the credit crisis and stock market collapse. However, shares of Danier Leather are simply too cheap based on a normalized economic scenario.

ABC Funds  
October 23, 2009

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Danier Leather has just reported results for the all-important second quarter of fiscal 2010 that ended December 26, 2009. Thankfully, we were quite impressed with the operational and financial performance. In the quarter, sales increased by 2% to \$70.6 million and same store sales increased by 6%. The gross profit margin increased to 54.4% from 48.0%, which boosted gross profit by 16% to \$38.5 million from \$33.2 million in the comparable period last year. The main drivers of this improvement were a stronger Canadian dollar, reduced markdowns or discounting and improved merchandise planning and purchasing. Net earnings increased approximately 32% to \$8.5 million from \$6.5 million that was during the second quarter of fiscal 2009. At the bottom line, net earnings per share totaled \$1.44 in the second quarter of fiscal 2010 compared to \$1.05 a year ago.

Further, the Company's balance sheet is pristine, with cash of \$28.7 million, working capital of \$43.3 million and no long-term debt. Importantly, inventory management liberated almost \$8.8 million of cash from working capital on a year over year basis. Management suggested that accessories, including gloves, scarves, wallets and belts, have been performing well. This category now accounts for almost 25% of sales, which should allow Danier to run with leaner inventory going forward. All told, we were very pleased with the Company's performance in the Christmas quarter.

Occasionally, a catalyst materializes when you least expect it. In conjunction with the solid earnings report, Danier announced a substantial issuer bid. The Company has offered to repurchase up to \$7 million of outstanding subordinate voting shares by way of a modified "Dutch auction". The details are contained in the related press release but essentially the modified Dutch auction allows shareholders to tender to the offer within a specified range, in this case \$6.10 to \$6.45 per share. The upper end

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of the range corresponds to a premium of approximately 17% over the volume weighted average trading price of the shares for the last 30 trading days preceding the release.

Here is how it works according to the Company, "When the Offer expires, Danier will select the lowest tendered price from within the range of prices allowing it to buy up to \$7 million of the Shares validly tendered to the Offer. All Shares tendered at or below the selected price level will be bought at the Purchase Price, subject to pro-rata in the event that the aggregate cost to purchase all of the Shares exceeds Cdn\$7 million. All Shares tendered at prices higher than the Purchase Price will be returned to shareholders." Based on the minimum purchase price per share of \$6.10 and 4,689,940 shares outstanding, the offer will be for up to approximately 24% of the total number of issued and outstanding shares.

The market responded very favourably to this announcement and the shares of Danier Leather moved up more than 20% on the day. With the stock trading above the maximum purchase price, we believe that investors are correctly anticipating earnings per share to be very positively impacted by the reduced share count. We will examine the Offer Documents closely, once we receive them, and will pay special attention to the fairness opinion, prepared by Deloitte and Touche, in order to determine our best course of action.

ABC Funds  
January 22, 2010

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Danier Leather has released the results of its substantial issuer bid. Recall that the Company offered to purchase and cancel up to \$7 million in value of its subordinate voting shares at a price of not less than \$6.10 per share and not more than \$6.45 per share. A total of 1,845,592 shares were validly deposited and, pursuant to the terms of the offer, Danier determined the purchase price to be \$6.25 per share. Since the value of shares deposited exceeded the \$7 million cap on the buyback, a pro-rata factor of 0.6088 was applied to each deposited share. In effect, the Company bought back and cancelled 1,120,000 shares at \$6.25 per share. These shares represented 23.88% of the total subordinate shares issued and outstanding prior to the offer. Following the cancellation of these shares, approximately 3,569,940 of the subordinate voting shares remain outstanding. If we include the 1.2 million multiple voting shares, approximately 4.8 million total shares are currently outstanding.

We did not tender any of our shares to the offer since the offer was nicely accretive to shareholders. Due to the issuer bid, book value per share increased from \$10.48 per share at December 26, 2009 to approximately \$11.48 per share today. For the first half of fiscal 2010, Danier earned \$5.1 million or approximately \$0.86 per share. If we use the new share count, earnings would jump to \$1.06 per share. Even after deducting the cash used in the buyback, cash and cash equivalents on the balance sheet still totals \$4.53 per share. With the stock currently trading at approximately \$6.50, we believe that shareholders could still see some good upside from today's levels.

ABC Funds  
April 9, 2010

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Our April comment on Danier Leather covered the results and implications of the Company's substantial issuer bid. We disclosed that we did not tender our shares to the offer since we believed that the repurchase and cancellation of 1.12 million shares at a price of \$6.25 per share would be nicely accretive to shareholders. Thankfully, the stock has more than doubled from when we published our comment and closed yesterday at \$13.70 per share.

The share price performance has been driven by what can be described as excellent operating and financial results. During the most recent fiscal year, ended June 26, 2010, the Company benefited from a better product mix, a stronger Canadian dollar and reduced markdowns relative to the prior year. Management did an exceptional job with merchandising, inventory control and astutely repurchasing a significant amount of cheap stock.

Over the twelve month period, sales increased 1% to \$164.2 million from \$162.1 million but, more importantly, comparable store sales increased by 4%. Gross profit as a percentage of revenue increased by 740 basis points to 52.8% compared to 45.4% during fiscal 2009. EBITDA (earnings before interest, taxes, depreciation and amortization) more than tripled to \$15.2 million from \$4.3 million the previous year. Net earnings in fiscal 2010 were \$7.2 million (or \$1.28 per diluted share) up \$9.5 million compared to a net loss of \$2.3 million (or a loss of \$0.37 per diluted share) in fiscal 2009.

The positive trends continued with the release of the Company's first quarter results this past week. Sales increased 17% to \$23.4 million compared to \$20.0 million during the first quarter of last year. Comparable store sales increased an impressive 18%. Even during this seasonally slow period, the gross margin improved 400 basis points to 52.4% compared to 48.4% in the first quarter of last year. The sales growth and margin improvement allowed the Company to reduce its net loss for the quarter to \$2.8 million from \$3.4 million during the first quarter of last year.

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Despite the large share buyback and the seasonal inventory build, Danier has a clean balance sheet with cash of \$9.3 million, working capital of \$34.0 million, no long-term debt and a book value of \$11.37 per outstanding share. With rising sales, better margins and a smaller share count, we believe that investors could be pleasantly surprised by the Company's reported EPS going forward. We believe that the shares of Danier Leather could continue to outperform, especially through the crucial Christmas season of winter 2010/2011.

ABC Funds  
October 22, 2010

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On August 11th, Danier Leather reported year-end results for the period ended June 25th, 2011. While annual sales declined by 4% year-over-year, gross margin increased by 54%, which reflected a strong Canadian dollar. The improved margin contributed to significant growth in EPS, which increased to \$1.57 versus \$1.28 in 2010. Danier continues to maintain a strong financial position with \$28.7 million in cash (\$6.13 per share) and no debt. In addition, tangible book value at the end of the fiscal year was approximately \$13.17 per share.

Danier's recovery post the economic downturn has been remarkable. During challenging market conditions in fiscal 2009, the company generated an EPS loss of (\$0.37), which has been followed by consecutive profits of \$1.28 in fiscal 2010 and \$1.57 in fiscal 2011. We believe this reflects successful execution of management's strategy to maximize profits by focusing on margin improvement as opposed to volume. Going forward, management indicated that it would emphasize brand awareness by introducing new merchandise collections including the Danier Black label, which is a higher-end label.

At its current price of \$10.50 per share, DL shares are currently trading at just 0.8x tangible book value. With \$6.13/share in cash and no debt, we believe the market is effectively attributing just \$4.37 per share for Danier's operations. Given that the company has just earned \$1.57 per share and demonstrated significant year-over-year growth in earnings (23%), we believe the shares are extremely undervalued at current levels.

ABC Funds  
September 23, 2011