

TANDY LEATHER FACTORY INC
Form 10-Q
August 14, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-12368

TANDY LEATHER FACTORY, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of Incorporation or Organization)

75-2543540
(I.R.S. Employer Identification No.)

1900 Southeast Loop 820, Fort Worth, Texas 76140
(Address of Principal Executive Offices) (Zip Code)

(817) 872-3200
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for a shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes
[] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Shares outstanding as of August 12, 2013
Common Stock, par value \$0.0024 per share	10,171,733

TANDY LEATHER FACTORY, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2013

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Tandy Leather Factory, Inc.
Consolidated Balance Sheets

	June 30, 2013 (unaudited)	December 31, 2012 (audited)
ASSETS		
CURRENT ASSETS:		
Cash	\$7,572,653	\$7,705,182
Accounts receivable-trade, net of allowance for doubtful accounts of \$84,000 and \$112,000 in 2013 and 2012, respectively	1,138,223	822,772
Inventory	27,498,022	25,862,784
Deferred income taxes	341,938	349,478
Prepaid expenses	1,141,740	776,463
Other current assets	765,430	153,450
Total current assets	38,458,006	35,670,129
PROPERTY AND EQUIPMENT, at cost	18,598,208	17,574,895
Less accumulated depreciation and amortization	(5,345,969)	(5,630,305)
	13,252,239	11,944,590
GOODWILL	983,313	990,725
OTHER INTANGIBLES, net of accumulated amortization of \$562,000 and \$539,000 in 2013 and 2012, respectively	125,820	145,533
Other assets	336,604	336,695
	\$53,155,982	\$49,087,672
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable-trade	\$2,882,843	\$1,612,627
Accrued expenses and other liabilities	6,091,982	5,928,798
Income taxes payable	138,189	113,705
Current maturities of long-term debt	202,500	202,500
Total current liabilities	9,315,514	7,857,630
DEFERRED INCOME TAXES	956,084	806,525
LONG-TERM DEBT, net of current maturities	2,497,500	2,902,500
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.10 par value; 20,000,000 shares authorized; none issued or outstanding; attributes to be determined on issuance	-	-
Common stock, \$0.0024 par value; 25,000,000 shares authorized;		

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11,165,356 and 11,156,065 shares issued at 2013 and 2012,
respectively;

10,171,733 and 10,162,442 shares outstanding at 2013 and 2012,
respectively

	26,797	26,775
Paid-in capital	5,779,172	5,767,508
Retained earnings	37,457,549	34,241,875
Treasury stock at cost (993,623 shares at 2013 and 2012)	(2,894,068)	(2,894,068)
Accumulated other comprehensive income	17,434	378,927
Total stockholders' equity	40,386,884	37,521,017
	\$53,155,982	\$49,087,672

The accompanying notes are an integral part of these financial statements.

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Tandy Leather Factory, Inc.
Consolidated Statements of Income
(Unaudited)
For the Three and Six Months Ended June 30, 2013 and 2012

	THREE MONTHS		SIX MONTHS	
	2013	2012	2013	2012
NET SALES	\$18,973,013	\$16,904,254	\$38,210,840	\$35,081,332
COST OF SALES	7,052,892	5,964,053	14,359,890	12,775,498
Gross profit	11,920,121	10,940,201	23,850,950	22,305,834
OPERATING EXPENSES	9,574,057	8,475,429	18,884,026	17,286,887
INCOME FROM OPERATIONS	2,346,064	2,464,772	4,966,924	5,018,947
OTHER INCOME (EXPENSE):				
Interest expense	(51,544)	(58,235)	(107,638)	(116,627)
Other, net	98,284	42,757	125,023	62,571
Total other income (expense)	46,740	(15,478)	17,385	(54,056)
INCOME BEFORE INCOME TAXES	2,392,804	2,449,294	4,984,309	4,964,891
PROVISION FOR INCOME TAXES	763,451	909,656	1,768,635	1,851,147
NET INCOME	\$1,629,353	\$1,539,638	\$3,215,674	\$3,113,744
NET INCOME PER COMMON SHARE:				
Basic	\$0.16	\$0.15	\$0.32	\$0.30
Diluted	\$0.16	\$0.15	\$0.32	\$0.30
Weighted Average Number of Shares Outstanding:				
Basic	10,167,649	10,156,442	10,165,060	10,156,442
Diluted	10,216,535	10,172,171	10,205,439	10,172,561

The accompanying notes are an integral part of these financial statements.

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Tandy Leather Factory, Inc.
 Consolidated Statements of Comprehensive Income
 (Unaudited)
 For the Three and Six Months Ended June 30, 2013 and 2012

	THREE MONTHS		SIX MONTHS	
	2013	2012	2013	2012
NET INCOME	\$1,629,353	\$1,539,638	\$3,215,674	\$3,113,744
Foreign currency translation adjustments	(173,142)	(191,986)	(361,493)	(100,367)
COMPREHENSIVE INCOME	\$1,456,211	\$1,347,652	\$2,854,181	\$3,013,377

The accompanying notes are an integral part of these financial statements.

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Tandy Leather Factory, Inc.
Consolidated Statements of Cash Flows
(Unaudited)
For the Six Months Ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$3,215,674	\$3,113,744
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	562,710	524,053
Loss on disposal or abandonment of assets	85,458	6,145
Non-cash stock-based compensation	11,686	10,000
Deferred income taxes	157,099	(117,930)
Other	(328,000)	(97,094)
Net changes in assets and liabilities, net of effect of business acquisitions:		
Accounts receivable-trade, net	(315,451)	209,708
Inventory	(1,635,238)	(9,809,560)
Income taxes	24,484	(304,657)
Prepaid expenses	(365,277)	(400,094)
Other current assets	(611,980)	(215,633)
Accounts payable-trade	1,270,216	1,395,665
Accrued expenses and other liabilities	163,184	1,437,262
Total adjustments	(981,109)	(7,362,135)
Net cash provided by (used in) operating activities	2,234,565	(4,248,391)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,962,700)	(403,611)
Proceeds from maturities of certificates of deposit	-	336,000
Proceeds from sale of assets	515	1,150
Decrease (increase) in other assets	91	3,201
Net cash used in investing activities	(1,962,094)	(63,260)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable and long-term debt	(405,000)	(101,250)
Payment of cash dividend	-	(2,536,131)
Net cash used in financing activities	(405,000)	(2,637,381)
NET CHANGE IN CASH	(132,529)	(6,949,032)
CASH, beginning of period	7,705,182	10,765,591
CASH, end of period	\$7,572,653	\$3,816,559

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Interest paid during the period	\$107,638	\$116,627
Income tax paid during the period, net of (refunds)	\$1,584,223	\$2,273,330

The accompanying notes are an integral part of these financial statements.

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Tandy Leather Factory, Inc.
 Consolidated Statements of Stockholders' Equity
 (Unaudited)
 For the Six Months Ended June 30, 2013 and 2012

	Number of Shares	Par Value	Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, December 31, 2011	10,156,422	\$26,760	\$5,736,543	\$(2,894,068)	\$31,181,936	\$382,630	\$34,433,801
Stock-based compensation	-	-	10,000	-	-	-	10,000
Cash dividend	-	-	-	-	(2,536,131)	-	(2,536,131)
Net income	-	-	-	-	3,113,744	-	3,113,744
Translation adjustment	-	-	-	-	-	(100,367)	(100,367)
BALANCE, June 30, 2012	10,156,422	\$26,760	\$5,746,543	\$(2,894,068)	\$31,759,549	\$282,263	\$34,921,047

	Number of Shares	Par Value	Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, December 31, 2012	10,162,442	\$26,775	\$5,767,508	\$(2,894,068)	\$34,241,875	\$378,927	\$37,521,017
Shares issued – stock options exercised	9,291	22	(22)	-	-	-	-
Stock-based compensation	-	-	11,686	-	-	-	11,686
Net income	-	-	-	-	3,215,674	-	3,215,674
Translation adjustment	-	-	-	-	-	(361,493)	(361,493)
BALANCE, June 30, 2013	10,171,733	\$26,797	\$5,779,172	\$(2,894,068)	\$37,457,549	\$17,434	\$40,386,884

The accompanying notes are an integral part of these financial statements.

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TANDY LEATHER FACTORY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND CERTAIN SIGNIFICANT ACCOUNTING POLICIES

In the opinion of management, the accompanying consolidated financial statements for Tandy Leather Factory, Inc. and its consolidated subsidiaries contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly its financial position as of June 30, 2013 and December 31, 2012, and its results of operations and cash flows for the three and/or six-month periods ended June 30, 2013 and 2012. Operating results for the three and six-month periods ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2012.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Inventory. Inventory is stated at the lower of cost or market and is accounted for on the “first in, first out” method. Based on negotiations with vendors, title generally passes to us when merchandise is put on board. Merchandise to which we have title but which we have not yet received is recorded as inventory in transit. In addition, the value of inventory is periodically reduced for slow-moving or obsolete inventory based on management's review of items on hand compared to their estimated future demand.

The components of inventory consist of the following:

	As of	
	June 30, 2013	December 31, 2012
Inventory on hand:		
Finished goods held for sale	\$25,043,689	\$24,039,846
Raw materials and work in process	938,440	495,182
Inventory in transit	1,515,893	1,327,756
	\$27,498,022	\$25,862,784

Goodwill and Other Intangibles. Goodwill represents the excess of the purchase price over the fair value of net assets acquired in a business combination. Goodwill is required to be evaluated for impairment on an annual basis, absent indicators of impairment during the interim. Application of the goodwill impairment test requires exercise of judgment, including the estimation of future cash flows, determination of appropriate discount rates and other important assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment for each reporting unit.

A two-step process is used to test for goodwill impairment. The first phase screens for impairment, while the second phase (if necessary) measures the impairment. We have elected to perform the annual analysis during the fourth calendar quarter of each year. As of December 31, 2012, management determined that the present value of the discounted estimated future cash flows of the stores associated with the goodwill is sufficient to support their

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respective goodwill balances. No indicators of impairment were identified during the first half of 2013. In accordance with recent guidance from the FASB, beginning in 2012, we are permitted to first assess qualitative factors in testing goodwill for impairment prior to performing a quantitative assessment.

A summary of changes in our goodwill for the periods ended June 30, 2013 and 2012 is as follows:

	Leather Factory	Tandy Leather	Total
Balance, December 31, 2011	\$603,603	\$383,406	\$987,009
Acquisitions and adjustments	-	-	-
Foreign exchange gain/loss	625	-	625
Impairments	-	-	-
Balance, June 30, 2012	\$604,228	\$383,406	\$987,634
	Leather Factory	Tandy Leather	Total
Balance, December 31, 2012	\$607,319	\$383,406	\$990,725
Acquisitions and adjustments	-	-	-
Foreign exchange gain/loss	(7,412)	-	(7,412)
Impairments	-	-	-
Balance, June 30, 2013	\$599,907	\$383,406	\$983,313

Other intangibles consist of the following:

	As of June 30, 2013			As of December 31, 2012	
	Gross	Accumulated Net Amortization		Gross	Accumulated Net Amortization
Trademarks, Copyrights	\$544,369	\$472,382	\$71,987	\$544,369	\$456,836