

TANDY LEATHER FACTORY INC  
Form 10-Q  
November 14, 2007

**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 ACT OF 1934**

For the quarterly period ended September 30, 2007

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**

**75-2543540**

(State or other jurisdiction of incorporate of organization) (IRS Employer Identification Number)

**3847 East Loop 820 South, Fort Worth, Texas 76119**

(Address of principal executive offices) (Zip Code)

**(817) 496-4414**

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer  Accelerated filer  Non-accelerated filer

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

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

<b>Class</b>	<b>Shares outstanding as of November 9, 2007</b>
Common Stock, par value \$0.0024 per share	10,977,092



**TANDY LEATHER FACTORY, INC.**

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007

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**PART I. FINANCIAL INFORMATION**

## Item 1. Financial Statements

**Tandy Leather Factory, Inc.  
Consolidated Balance Sheets**

	September 30, 2007 (unaudited)	December 31, 2006 (audited)
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$3,757,534	\$6,739,891
Accounts receivable-trade, net of allowance for doubtful accounts of \$127,000 and \$149,000 in 2007 and 2006, respectively	2,294,922	2,599,279
Inventory	20,721,612	17,169,358
Prepaid income taxes	520,826	-
Deferred income taxes	287,942	266,018
Other current assets	974,559	1,089,258
<b>Total current assets</b>	<b>28,557,394</b>	<b>27,863,804</b>
<b>PROPERTY AND EQUIPMENT, at cost</b>	<b>11,709,818</b>	<b>6,865,946</b>
Less accumulated depreciation and amortization	(5,197,704)	(4,989,341)
	6,512,114	1,876,605
<b>GOODWILL</b>	<b>989,296</b>	<b>746,139</b>
<b>OTHER INTANGIBLES, net of accumulated amortization of \$300,000 and \$262,000 in 2007 and 2006, respectively</b>	<b>396,957</b>	<b>360,676</b>
<b>OTHER assets</b>	<b>1,189,678</b>	<b>1,069,411</b>
	<b>\$37,645,440</b>	<b>\$31,916,635</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable-trade	\$2,341,491	\$1,776,646
Accrued expenses and other liabilities	2,431,130	3,424,010
Income taxes payable	-	59,392
Current maturities of capital lease obligations	11,172	111,723
Current maturities of long-term debt	84,375	-
<b>Total current liabilities</b>	<b>4,868,168</b>	<b>5,371,771</b>
<b>DEFERRED INCOME TAXES</b>	<b>225,396</b>	<b>221,621</b>
<b>LONG-TERM DEBT, less current maturities</b>	<b>3,965,625</b>	<b>-</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	<b>-</b>	<b>-</b>
<b>STOCKHOLDERS' EQUITY:</b>		
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;

10,974,951 and 10,885,068 shares issued at 2007 and 2006, respectively;

10,969,092 and 10,879,209 outstanding at 2007 and 2006, respectively

	26,340	26,124
Paid-in capital	5,389,111	5,292,591
Retained earnings	22,864,188	20,949,540
Treasury stock (5,859 shares at cost)	(25,487)	(25,487)
Accumulated other comprehensive income	332,099	80,475
Total stockholders' equity	28,586,251	26,323,243
	<b>\$37,645,440</b>	<b>\$31,916,635</b>

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

**Tandy Leather Factory, Inc.**  
**Consolidated Statements of Income**  
**(Unaudited)**  
**For the Three and Nine Months Ended September 30, 2007 and 2006**

	THREE MONTHS		NINE MONTHS	
	2007	2006	2007	2006
NET SALES	\$12,806,333	\$12,559,593	\$40,691,125	\$40,366,325
COST OF SALES	5,864,699	5,488,179	17,465,869	17,458,476
Gross profit	6,941,634	7,071,414	23,225,256	22,907,849
OPERATING EXPENSES	6,836,357	5,807,442	20,460,848	17,903,337
INCOME FROM OPERATIONS	105,277	1,263,972	2,764,408	5,004,512
OTHER INCOME (EXPENSE):				
Interest expense	(50,494)	-	(50,494)	-
Other, net	272,658	37,422	349,172	84,951
Total other income (expense)	222,164	37,422	298,678	84,951
INCOME BEFORE INCOME TAXES	327,441	1,301,394	3,063,086	5,089,463
PROVISION FOR INCOME TAXES	155,835	410,975	1,148,438	1,720,288
NET INCOME	\$171,606	\$890,419	\$1,914,648	\$3,369,175
NET INCOME PER COMMON				
SHARE-BASIC	\$ 0.02	\$ 0.08	\$ 0.17	\$ 0.31
NET INCOME PER COMMON				
SHARE-DILUTED	\$ 0.02	\$ 0.08	\$ 0.17	\$ 0.30
Weighted Average Number of Shares				
Outstanding:				
Basic	10,968,635	10,818,130	10,943,817	10,788,720
Diluted	11,152,731	11,102,383	11,157,013	11,105,903

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 Nine Months Ended September 30, 2007 and 2006**

	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$1,914,648	\$3,369,175
Adjustments to reconcile net income to net cash provided by (used in) operating activities-		
Depreciation & amortization	470,832	291,257
Gain on disposal of assets	-	(1,750)
Non-cash stock-based compensation	22,876	78,600
Deferred income taxes	(18,149)	56,975
Other	233,465	36,217
Net changes in assets and liabilities:		
Accounts receivable-trade, net	360,709	(248,942)
Inventory	(3,202,032)	(1,493,683)