

TANDY LEATHER FACTORY INC
Form 10-Q
August 14, 2014

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, 2014

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 such 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 the definitions 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 10, 2014
Common Stock, par value \$0.0024 per share	10,233,334

TANDY LEATHER FACTORY, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Tandy Leather Factory, Inc.
Consolidated Balance Sheets

	June 30, 2014 (unaudited)	December 31, 2013 (audited)
ASSETS		
CURRENT ASSETS:		
Cash	\$7,402,534	\$11,082,679
Accounts receivable-trade, net of allowance for doubtful accounts of \$0 and \$1,000 in 2014 and 2013, respectively	796,106	762,405
Inventory	36,001,590	26,300,830
Prepaid income taxes	468,307	-
Deferred income taxes	369,978	309,533
Prepaid expenses	1,277,871	1,609,644
Other current assets	350,232	478,593
Total current assets	46,666,618	40,543,684
PROPERTY AND EQUIPMENT, at cost	21,156,669	20,290,990
Less accumulated depreciation and amortization	(6,484,259)	(5,863,280)
	14,672,410	14,427,710
GOODWILL	981,527	981,985
OTHER INTANGIBLES, net of accumulated amortization of approximately \$645,000 and \$622,000 in 2014 and 2013, respectively	80,582	103,228
OTHER assets	336,975	341,959
TOTAL ASSETS	\$62,738,112	\$56,398,566
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable-trade	\$2,055,912	\$1,884,637
Accrued expenses and other liabilities	6,697,117	5,808,882
Dividend payable	2,549,684	-
Income taxes payable	-	272,198
Current maturities of long-term debt	2,452,500	202,500
Total current liabilities	13,755,213	8,168,217
DEFERRED INCOME TAXES	1,129,589	1,212,557
LONG-TERM DEBT, net of current maturities	2,041,875	2,396,250
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		

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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; 11,226,957 and 11,192,356 shares issued at 2014 and 2013, respectively; 10,233,334 and 10,198,733 shares outstanding at 2014 and 2013, respectively	26,945	26,862
Paid-in capital	5,921,889	5,892,907
Retained earnings	42,577,805	41,507,592
Treasury stock at cost (993,623 shares at 2014 and 2013)	(2,894,068)	(2,894,068)
Accumulated other comprehensive income	178,864	88,249
Total stockholders' equity	45,811,435	44,621,542
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$62,738,112	\$56,398,566

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, 2014 and 2013

	THREE MONTHS		SIX MONTHS	
	2014	2013	2014	2013
NET SALES	\$19,703,607	\$18,973,013	\$39,542,073	\$38,210,840
COST OF SALES	6,924,001	7,052,892	14,046,744	14,359,890
Gross profit	12,779,606	11,920,121	25,495,329	23,850,950
OPERATING EXPENSES	10,123,329	9,574,057	19,872,389	18,884,026
INCOME FROM OPERATIONS	2,656,277	2,346,064	5,622,940	4,966,924
OTHER INCOME (EXPENSE):				
Interest expense	(44,855)	(51,544)	(90,683)	(107,638)
Other, net	5,334	98,284	6,678	125,023
Total other income (expense)	(39,521)	46,740	(84,005)	17,385
INCOME BEFORE INCOME TAXES	2,616,756	2,392,804	5,538,935	4,984,309
PROVISION FOR INCOME TAXES	851,271	763,451	1,919,038	1,768,635
NET INCOME	\$1,765,485	\$1,629,353	\$3,619,897	\$3,215,674
NET INCOME PER COMMON SHARE:				
Basic	\$0.17	\$0.16	\$0.35	\$0.32
Diluted	\$0.17	\$0.16	\$0.35	\$0.32
Weighted Average Number of Shares Outstanding:				
Basic	10,198,733	10,167,649	10,198,733	10,165,060
Diluted	10,239,823	10,216,535	10,239,447	10,205,439

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, 2014 and 2013

	THREE MONTHS		SIX MONTHS	
	2014	2013	2014	2013
NET INCOME	\$1,765,485	\$1,629,353	\$3,619,897	\$3,215,674
Foreign currency translation adjustments	220,023	(173,142)	90,615	(361,493)
COMPREHENSIVE INCOME	\$1,985,508	\$1,456,211	\$3,710,512	\$2,854,181

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, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$3,619,897	\$3,215,674
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	715,920	562,710
(Gain) loss on disposal or abandonment of assets	(1,409)	85,458
Non-cash stock-based compensation	29,065	11,686
Deferred income taxes	(143,413)	157,099
Other	84,854	(328,000)
Net changes in assets and liabilities:		
Accounts receivable-trade, net	(33,701)	(315,451)
Inventory	(9,700,760)	(1,635,238)
Prepaid expenses	331,773	(365,277)
Other current assets	128,361	(611,980)
Accounts payable-trade	171,275	1,270,216
Accrued expenses and other liabilities	888,235	163,184
Income taxes payable	(740,505)	24,484
Total adjustments	(8,270,305)	(981,109)
Net cash provided by (used in) operating activities	(4,650,408)	2,234,565
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(949,082)	(1,962,700)
Proceeds from sale of assets	18,736	515
Decrease (increase) in other assets	4,984	91
Net cash used in investing activities	(925,362)	(1,962,094)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in revolving credit loans	2,250,000	-
Payments on notes payable and long-term debt	(354,375)	(405,000)
Net cash provided by (used in) financing activities	1,895,625	(405,000)
NET DECREASE IN CASH	(3,680,145)	(132,529)
CASH, beginning of period	11,082,679	7,705,182
CASH, end of period	\$7,402,534	\$7,572,653
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid during the period	\$90,683	\$107,638
Income tax paid during the period, net of (refunds)	\$2,567,257	\$1,584,223

NON-CASH INVESTING ACTIVITIES:

Accrued dividend	\$2,549,684	-
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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, 2014 and 2013

	Number of Shares	Par Value	Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
BALANCE, December 31, 2012	10,162,442	\$26,775	\$5,767,508	\$(2,894,068)	\$34,241,875	\$378,927	\$37,521,017
Stock-based compensation	9,291	22	11,664	-	-	-	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

	Number of Shares	Par Value	Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
BALANCE, December 31, 2013	10,198,733	\$26,862	\$5,892,907	\$(2,894,068)	\$41,507,592	\$88,249	\$44,621,542
Stock-based compensation	34,601	83	28,982	-	-	-	29,065
Net income	-	-	-	-	3,619,897	-	3,619,897
Dividend payable	-	-	-	-	(2,549,684)	-	(2,549,684)
Translation adjustment	-	-	-	-	-	90,615	90,615
BALANCE, June 30, 2014	10,233,334	\$26,945	\$5,921,889	\$(2,894,068)	\$42,577,805	\$178,864	\$45,811,435

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

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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, 2014 and December 31, 2013, and its results of operations and cash flows for the three and six-month periods ended June 30, 2014 and 2013. Operating results for the three and six-month periods ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. 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, 2013.

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 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, 2014	December 31, 2013
Inventory on hand:		
Finished goods held for sale	\$31,335,255	\$24,546,771
Raw materials and work in process	968,678	853,200
Inventory in transit	3,697,657	900,859
	\$36,001,590	\$26,300,830

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, 2013, 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 six months of 2014.

A summary of changes in our goodwill for the periods ended June 30, 2014 and 2013 is as follows:

	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
	Leather Factory	Tandy Leather	Total
Balance, December 31, 2013	\$598,579	\$383,406	\$981,985
Acquisitions and adjustments	-	-	-