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LEATHER FACTORY INC  
Form 8-K  
August 06, 2004

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C.

FORM 8-K

CURRENT REPORT PURSUANT  
TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported): August 3, 2004

The Leather Factory, Inc.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of Incorporation)

1-12368 75-2543540  
(Commission File Number) (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)

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(Former Name or Former Address, if Changed Since Last Report)

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibits.

99.1 Press release dated August 3, 2004 furnished pursuant to  
Item 12.

ITEM 12. RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The Registrant is furnishing the press release attached as Exhibit 99.1  
announcing the Registrant's second quarter 2004 financial results. This press  
release was issued on August 3, 2004.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the  
Registrant has duly caused this report to be signed on its behalf by the  
undersigned hereunto duly authorized.

THE LEATHER FACTORY, INC.

Date: August 6, 2004

BY: /s/ Wray Thompson

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Wray Thompson, Chairman of the Board  
and Chief Executive Officer

EXHIBIT 99.1

FOR IMMEDIATE RELEASE

AUGUST 3, 2004

### THE LEATHER FACTORY REPORTS 2ND QUARTER 2004 RESULTS

FORT WORTH, TEXAS - The Leather Factory, Inc. (AMEX: TLF) today reported financial results for the second quarter of 2004. Consolidated net income for the quarter ended June 30, 2004 was \$516,000 compared to consolidated net income of \$778,000 for the second quarter of 2003. Fully diluted earnings per share for the quarter was \$0.05, compared to \$0.07 in the second quarter of last year. Total sales for the quarter ended June 30, 2004 increased 4.8% to \$10.9 million from \$10.5 million for the same quarter last year.

Consolidated sales for the six months ended June 30, 2004 were \$23.1 million, an increase of 10% over 2003 first half total sales of \$21.0 million. Consolidated net income for the first half of 2004 was \$1.5 million or \$0.14 per fully-diluted share versus \$1.6 million or \$0.14 per fully-diluted share in the comparable period last year.

Sales at our Tandy Leather subsidiary increased \$860,000 in the second quarter, a 40% improvement over last year's second quarter. Thirty-two stores comprised the Tandy Leather's retail operations on June 30, 2004, compared to twenty-two retail stores a year ago. Three stores were added in the second quarter of 2004 bringing the total number of new stores added in 2004 to six as of the end of the quarter. For the first six months of 2004, Tandy Leather sales increased \$2.2 million, or 54%, over the first six months of 2003. Second quarter sales for the Leather Factory wholesale centers decreased \$378,000 over the same quarter last year, a 4.8% decline. The sales decrease is due to a reduction in sales to our national account customers of \$648,000 that was partially offset by sales gains to our other customer groups of \$270,000. For the first six months of 2004, Leather Factory's sales were down \$136,000 over the same period in 2003.

Consolidated gross profit margin for the current quarter was 54.6%, a slight decline from 54.7% for the second quarter of 2003. For the first two quarters, consolidated gross profit margin for the current year was 54.9%, an improvement over last year's gross profit margin at this point of 54.1%. Consolidated operating expenses rose \$560,000 in the current quarter and \$1.3 million for the first six months over the same periods a year ago. Costs associated with the new Tandy Leather stores (personnel, rents, utilities, etc.), marketing and advertising costs, and rising health insurance costs account for the majority of the increase.

Wray Thompson, Chairman and Chief Executive Officer, commented, "Our second quarter story is one of positives and negatives. The Leather Factory wholesale centers performed well, generating a 4.5% and 5.6% sales gain for the quarter and the year, respectively. However, that success was more than offset by the poor performance of our national account group. Overall, we're pleased with the performance of the Tandy stores as we've opened or acquired ten new Tandy stores so far this year and expect to open two more in the third quarter. Our cost management initiatives are working as many expenses showed decreases from last year. Unfortunately, this progress was masked by increases in a few expenses such as employee health insurance costs and reserves for uncollectible customer accounts. Overall, we have made good progress in the first half of 2004, and we believe we are still on track to meet our guidance for the year."

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The Leather Factory, Inc., (<http://www.leatherfactory.com>), headquartered in Fort Worth, Texas, is a marketer and distributor of a broad product line including leather, leatherworking tools, buckles and adornments for belts, leather dyes and finishes, shoe repair supplies, saddle and tack hardware, and do-it-yourself leathercraft kits. The Company distributes its products worldwide through its Leather Factory stores, Tandy Leather retail stores and mail/telephone/website orders (<http://www.tandy-leather.com>). Its common stock trades on the American Stock Exchange with the symbol "TLF".

**Contact:**

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 Shannon L. Greene, CFO, The Leather Factory, Inc. [sgreene@leatherfactory.com](mailto:sgreene@leatherfactory.com)

This news release may contain forward-looking statements. All forward-looking statements made here or in other news releases issued by The Leather Factory, Inc. are based on current expectations as of the date of the release. These forward-looking statements involve risks and uncertainties that could cause the results of The Leather Factory, Inc. to differ materially from management's current expectations. Many of these risks and uncertainties are detailed from time to time in TLF's reports filed with the Securities and Exchange Commission, including its most recent annual report on Form 10-K and the most recent quarterly report on Form 10-Q. Investors are reminded that past performance may not be predictive of future results.

THE LEATHER FACTORY, INC.  
 CONSOLIDATED STATEMENTS OF INCOME  
 (UNAUDITED)  
 FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2004 AND 2003

|                                       | Three Months |              | Six months   |            |
|---------------------------------------|--------------|--------------|--------------|------------|
|                                       | 2004         | 2003         | 2004         | 2003       |
| NET SALES                             | \$10,959,813 | \$10,460,675 | \$23,140,689 | \$21,020,7 |
| COST OF SALES                         | 4,978,754    | 4,739,621    | 10,434,717   | 9,654,2    |
| Gross Profit                          | 5,981,059    | 5,721,054    | 12,705,972   | 11,366,5   |
| OPERATING EXPENSES                    | 5,127,223    | 4,566,590    | 10,405,002   | 9,096,4    |
| INCOME FROM OPERATIONS                | 853,836      | 1,154,464    | 2,300,970    | 2,270,1    |
| Interest expense                      | 12,471       | 70,468       | 26,109       | 133,8      |
| Other, net                            | 25,353       | (43,705)     | 27,089       | (74,5      |
| Total other expense                   | 37,824       | 26,763       | 53,198       | 59,2       |
| INCOME BEFORE INCOME TAXES            | 816,012      | 1,127,701    | 2,247,772    | 2,210,8    |
| PROVISION FOR INCOME TAXES            | 299,799      | 348,997      | 760,594      | 657,6      |
| NET INCOME                            | \$ 516,213   | \$ 778,704   | \$ 1,487,178 | \$ 1,553,2 |
| NET INCOME PER COMMON SHARE - BASIC   | \$ 0.05      | \$ 0.08      | \$ 0.14      | \$ 0.      |
| NET INCOME PER COMMON SHARE - DILUTED | \$ 0.05      | \$ 0.07      | \$ 0.14      | \$ 0.      |

Weighted Average Number of Shares Outstanding:

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|         |            |            |            |          |
|---------|------------|------------|------------|----------|
| Basic   | 10,553,243 | 10,234,054 | 10,530,119 | 10,205,9 |
| Diluted | 11,006,638 | 10,805,019 | 11,011,525 | 10,802,6 |

THE LEATHER FACTORY, INC.  
CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

|   | 6/30/04             | 12/31/03            |
|---|---------------------|---------------------|
| Cash  | \$ 1,181,604        | \$ 1,728,344        |
| Accounts receivable, net of allowance for doubtful accounts | 2,695,997           | 1,828,738           |
| Inventory   | 12,189,111          | 11,079,893          |
| Prepaid income taxes  | 4,388               | 206,023             |
| Deferred income taxes                                       | 199,368             | 134,312             |
| Other current assets  | 808,784             | 702,236             |
| <b>TOTAL CURRENT ASSETS</b>                                 | <b>17,079,252</b>   | <b>15,679,546</b>   |
| Property and equipment, net                                 | 1,844,288           | 1,905,893           |
| Goodwill and other intangibles, net                         | 1,154,893           | 1,136,784           |
| Other assets  | 323,896             | 336,183             |
|   | <b>\$20,402,329</b> | <b>\$19,058,406</b> |
|   | =====               | =====               |
| Accounts payable  | \$ 1,888,053        | \$ 1,545,079        |
| Accrued expenses and other liabilities                      | 1,102,728           | 1,000,427           |
| Notes payable and current maturities of long-term debt      | -                   | 1,134               |
| <b>TOTAL CURRENT LIABILITIES</b>                            | <b>2,990,781</b>    | <b>2,546,640</b>    |
| Deferred income taxes                                       | 207,947             | 209,289             |
| Notes payable and long-term debt, net of current maturities | 1,100,000           | 1,792,984           |
| <b>Total liabilities</b>                                    | <b>4,298,728</b>    | <b>4,548,913</b>    |
|   | -----               | -----               |
| Common stock  | 25,345              | 25,171              |
| Paid-in capital   | 4,796,999           | 4,673,158           |
| Retained earnings   | 11,291,897          | 9,804,719           |
| Notes receivable secured by common stock                    | (15,000)            | (20,000)            |
| Accumulated other comprehensive loss                        | 4,360               | 26,445              |
| <b>Total Stockholders' Equity</b>                           | <b>16,103,601</b>   | <b>14,509,493</b>   |
|   | -----               | -----               |
|   | <b>\$20,402,329</b> | <b>\$19,058,406</b> |
|   | =====               | =====               |