

TANDY LEATHER FACTORY INC
Form 10-Q
August 11, 2009

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, 2009

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
(IRS Employer Identification Number)

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, 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

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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, 2009 |
|--|--|
| Common Stock, par value \$0.0024 per share | 10,664,328 |

TANDY LEATHER FACTORY, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2009

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Tandy Leather Factory, Inc.
Consolidated Balance Sheets

| | June 30, 2009 (unaudited) | December 31, 2008 (audited) |
|---|---------------------------------|-----------------------------------|
| CURRENT ASSETS: | | |
| Cash | \$5,618,813 | \$7,810,298 |
| Short-term investments, including certificates of deposit | 5,572,000 | 3,011,000 |
| Accounts receivable-trade, net of allowance for doubtful accounts of \$35,000 and \$43,000 in 2009 and 2008, respectively | 1,657,816 | 1,180,349 |
| Inventory | 15,789,292 | 16,011,147 |
| Deferred income taxes | 229,162 | 229,501 |
| Other current assets | 1,072,512 | 777,550 |
| Total current assets | 29,939,595 | 29,019,845 |
| PROPERTY AND EQUIPMENT, at cost | 15,807,808 | 15,340,732 |
| Less accumulated depreciation and amortization | (5,570,565) | (5,019,885) |
| | 10,237,243 | 10,320,847 |
| GOODWILL | 971,464 | 966,655 |
| OTHER INTANGIBLES, net of accumulated amortization of \$392,000 and \$367,000 in 2009 and 2008, respectively | 330,856 | 355,492 |
| OTHER assets | 312,022 | 313,074 |
| | \$41,791,180 | \$40,975,913 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable-trade | \$1,514,288 | \$1,148,577 |
| Accrued expenses and other liabilities | 2,979,974 | 3,182,194 |
| Income taxes payable | 53,805 | 271,122 |
| Current maturities of capital lease obligation | - | 265,111 |
| Current maturities of long-term debt | 202,500 | 202,500 |
| Total current liabilities | 4,750,567 | 5,069,504 |
| DEFERRED INCOME TAXES | 644,896 | 600,309 |
| LONG-TERM DEBT, net of current maturities | 3,611,250 | 3,712,500 |
| CAPITAL LEASE OBLIGATION, net of current maturities | - | 328,838 |
| 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; | | |
| 11,019,951 and 10,994,951 shares issued at 2009 and 2008; | | |
| 10,665,281 and 10,664,555 shares outstanding at 2009 and 2008, | 26,448 | 26,388 |
| Paid-in capital | 5,490,360 | 5,464,443 |
| Retained earnings | 28,101,021 | 26,641,853 |
| Treasury stock (354,670 and 330,396 shares at cost at 2009 and 2008)) | (893,282) | (828,385) |
| Accumulated other comprehensive income | 59,920 | (39,537) |
| Total stockholders' equity | 32,784,467 | 31,264,762 |
| | \$41,791,180 | \$40,975,913 |

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

Tandy Leather Factory, Inc.
Consolidated Statements of Income
(Unaudited)
For the Three and Six Months Ended June 30, 2009 and 2008

| | THREE MONTHS | | SIX MONTHS | |
|---|--------------|--------------|--------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| NET SALES | \$13,214,940 | \$13,847,964 | \$26,575,930 | \$27,108,124 |
| COST OF SALES | 5,473,058 | 5,836,312 | 11,017,602 | 11,355,450 |
| Gross profit | 7,741,882 | 8,011,652 | 15,558,328 | 15,752,674 |
| OPERATING EXPENSES | 6,599,484 | 6,920,134 | 13,378,621 | 13,939,773 |
| INCOME FROM OPERATIONS | 1,142,398 | 1,091,518 | 2,179,707 | 1,812,901 |
| OTHER INCOME (EXPENSE): | | | | |
| Interest expense | (83,575) | (87,912) | (160,984) | (169,653) |
| Other, net | 142,915 | 26,293 | 220,187 | 306,683 |
| Total other income (expense) | 59,340 | (61,619) | 59,203 | 137,030 |
| INCOME BEFORE INCOME TAXES | 1,201,738 | 1,029,899 | 2,238,910 | 1,949,931 |
| PROVISION FOR INCOME TAXES | 440,487 | 374,649 | 779,742 | 710,183 |
| NET INCOME | \$761,251 | \$655,250 | \$1,459,168 | \$1,239,748 |
| NET INCOME PER COMMON SHARE-BASIC | \$ 0.07 | \$ 0.06 | \$ 0.14 | \$ 0.11 |
| NET INCOME PER COMMON SHARE-DILUTED | \$ 0.07 | \$ 0.06 | \$ 0.14 | \$ 0.11 |
| Weighted Average Number of Shares Outstanding: | | | | |
| Basic | 10,673,245 | 10,981,378 | 10,650,573 | 10,979,235 |
| Diluted | 10,731,998 | 11,076,340 | 10,705,871 | 11,072,102 |

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

Tandy Leather Factory, Inc.
Consolidated Statements of Cash Flows
(Unaudited)
For the Six Months Ended June 30, 2009 and 2008

| | 2009 | 2008 |
|---|-------------|-------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$1,459,168 | \$1,239,748 |
| Adjustments to reconcile net income to net cash provided by operating activities- | | |
| Depreciation & amortization | 561,253 | 509,324 |
| Loss on disposal of assets | - | 14,760 |
| Non-cash stock-based compensation | 2,540 | 15,250 |
| Deferred income taxes | 44,926 | 358,413 |
| Other | 84,037 | (36,354) |
| Net changes in assets and liabilities: | | |
| Accounts receivable-trade, net | (477,467) | 183,169 |
| Inventory | 221,855 | 2,162,406 |
| Income taxes | (217,317) | (184,140) |
| Other current assets | (294,962) | 262,063 |
| Accounts payable | 365,711 | 292,114 |
| Accrued expenses and other liabilities | (202,220) | 720,975 |
| Total adjustments | 88,356 | 4,297,980 |
| Net cash provided by operating activities | 1,547,524 | 5,537,728 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | (442,402) | (3,098,638) |
| Purchase of certificates of deposit | (5,336,000) | (396,000) |
| Proceeds from maturities of certificates of deposit | 2,775,000 | - |
| Proceeds from sale of assets | - | 38,181 |
| Decrease (increase) in other assets | 1,052 | 721,907 |
| Net cash used in investing activities | (3,002,350) | (2,734,550) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments on long-term debt and notes payable | (101,250) | (33,750) |
| Payments on capital lease obligations | (593,949) | (103,647) |
| Repurchase of common stock (treasury stock) | (64,897) | - |
| Proceeds from issuance of common stock | 23,437 | 13,500 |
| Net cash used in financing activities | (736,659) | (123,897) |
| NET CHANGE IN CASH | (2,191,485) | 2,679,281 |
| CASH, beginning of period | 7,810,298 | 6,310,396 |
| CASH, end of period | \$5,618,813 | \$8,989,677 |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW
INFORMATION:

| | | |
|---|-----------|-----------|
| Interest paid during the period | \$160,487 | \$169,653 |
| Income taxes paid during the period, net of (refunds) | 884,425 | 534,957 |

NON-CASH INVESTING ACTIVITIES:

| | | |
|---|---|---------|
| Equipment acquired under capital lease financing arrangements | - | 803,712 |
|---|---|---------|

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

Tandy Leather Factory, Inc.
Consolidated Statements of Stockholders' Equity
(Unaudited)
For the Six Months Ended June 30, 2009 and 2008

| | Number of Shares | Par Value | Paid-in Capital | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total | Comprehensive Income (Loss) |
|---|---------------------|--------------|--------------------|-------------------|----------------------|--|--------------|--------------------------------|
| BALANCE, December 31, 2007 | 10,977,092 | \$26,359 | \$5,419,477 | \$(25,487) | \$24,037,672 | \$357,483 | \$29,815,504 | |
| Shares issued - stock options and warrants exercised | 10,000 | 24 | 13,476 | - | - | - | 13,500 | |
| Stock-based compensation | - | - | 15,250 | - | - | - | 15,250 | |
| Net income | - | - | - | - | 1,239,748 | - | 1,239,748 | \$1,239,748 |
| Translation adjustment | - | - | - | - | - | (39,362) | (39,362) | (39,362) |
| BALANCE, June 30, 2008 | 10,987,092 | \$26,383 | \$5,448,203 | \$(25,487) | \$25,277,420 | \$318,121 | \$31,044,640 | |
| Comprehensive income for the six months ended June 30, 2008 | | | | | | | | \$1,200,386 |

| | | | | | | | | |
|--|------------|----------|-------------|-------------|--------------|------------|--------------|-------------|
| BALANCE, December 31, 2008 | 10,664,555 | \$26,388 | \$5,464,443 | \$(828,385) | \$26,641,853 | \$(39,537) | \$31,264,762 | |
| Shares issued - stock options exercised | 25,000 | 60 | 23,377 | - | - | - | 23,437 | |
| Purchase of treasury stock | (24,274) | - | - | (64,897) | - | - | (64,897) | |
| Stock-based compensation | - | - | 2,540 | - | - | - | 2,540 | |
| Net income | - | - | - | - | 1,459,168 | - | 1,459,168 | \$1,459,168 |
| Translation adjustment | - | - | - | - | - | 99,457 | 99,457 | |