

TANDY LEATHER FACTORY INC
Form 10-Q
May 16, 2016

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 March 31, 2016

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)

(Former name, former address and former fiscal year, if changed since last report)

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Edgar Filing: TANDY LEATHER FACTORY INC - Form 10-Q

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 [X]

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 May 10, 2016 |
|--|---------------------------------------|
| Common Stock, par value \$0.0024 per share | 9,272,012 |

TANDY LEATHER FACTORY, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2016

TABLE OF CONTENTS

| | PAGE NO. |
|--|----------|
| PART I. FINANCIAL INFORMATION | |
| Item 1. Financial Statements | |
| <u>Consolidated Balance Sheets</u> | 1 |
| <u>Consolidated Statements of Income</u> | 2 |
| <u>Consolidated Statements of Comprehensive Income</u> | 3 |
| <u>Consolidated Statements of Cash Flows</u> | 4 |
| <u>Consolidated Statements of Stockholders' Equity</u> | 5 |
| <u>Notes to Consolidated Financial Statements</u> | 6 |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 11 |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 13 |
| Item 4. <u>Controls and Procedures</u> | 13 |
| PART II. OTHER INFORMATION | |
| Item 1. <u>Legal Proceedings</u> | 13 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 13 |
| Item 6. <u>Exhibits</u> | 14 |
| <u>SIGNATURES</u> | 14 |

Table on Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Tandy Leather Factory, Inc.
Consolidated Balance Sheets

| | March 31, 2016 (unaudited) | December 31, 2015 (audited) |
|---|----------------------------------|--------------------------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | \$11,444,262 | \$10,962,615 |
| Accounts receivable-trade, net of allowance for doubtful accounts of \$1,677 and \$1,746 in 2016 and 2015, respectively | 682,580 | 553,206 |
| Inventory | 33,632,302 | 33,584,539 |
| Prepaid income taxes | 188,430 | 549,277 |
| Deferred income taxes | 328,048 | 326,830 |
| Prepaid expenses | 1,627,169 | 1,514,887 |
| Other current assets | 146,273 | 70,197 |
| Total current assets | 48,049,064 | 47,561,551 |
| PROPERTY AND EQUIPMENT, at cost | 24,548,702 | 23,992,208 |
| Less accumulated depreciation and amortization | (8,650,964) | (8,297,155) |
| | 15,897,738 | 15,695,053 |
| GOODWILL | 959,784 | 953,356 |
| OTHER INTANGIBLES, net of accumulated amortization of approximately \$706,000 and \$702,000 in 2016 and 2015, respectively | 23,421 | 27,282 |
| OTHER assets | 329,838 | 329,684 |
| TOTAL ASSETS | \$65,259,845 | \$64,566,926 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable-trade | \$1,920,311 | \$1,983,376 |
| Accrued expenses and other liabilities | 4,573,776 | 6,045,552 |
| Current maturities of capital lease obligations | 72,686 | 72,686 |
| Current maturities of long-term debt | 822,653 | 231,952 |
| Total current liabilities | 7,389,426 | 8,333,566 |
| DEFERRED INCOME TAXES | 1,735,450 | 1,702,515 |
| LONG-TERM DEBT, net of current maturities | 5,758,571 | 3,479,273 |
| CAPITAL LEASE OBLIGATIONS, net of current maturities | 72,688 | 79,396 |
| COMMITMENTS AND CONTINGENCIES | | - |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock, \$0.10 par value; 20,000,000 shares authorized; | | |

Edgar Filing: TANDY LEATHER FACTORY INC - Form 10-Q

| | | |
|---|--------------|--------------|
| none issued or outstanding; attributes to be determined on issuance | - | - |
| Common stock, \$0.0024 par value; 25,000,000 shares authorized; 11,309,326 and 11,275,641 shares issued at 2016 and 2015, respectively; | | |
| 9,382,555 and 9,753,293 shares outstanding at 2016 and 2015, respectively | 27,142 | 27,062 |
| Paid-in capital | 6,212,171 | 6,168,489 |
| Retained earnings | 54,588,231 | 53,067,234 |
| Treasury stock at cost (1,926,771 and 1,522,348 shares at 2016 and 2015, respectively) | (9,473,670) | (6,602,930) |
| Accumulated other comprehensive income | (1,050,164) | (1,687,679) |
| Total stockholders' equity | 50,303,710 | 50,972,176 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$65,259,845 | \$64,566,926 |

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

Table on Contents

Tandy Leather Factory, Inc.
Consolidated Statements of Income
(Unaudited)
For the Three Months Ended March 31, 2016 and 2015

| | 2016 | 2015 |
|--|--------------|--------------|
| NET SALES | \$20,672,227 | \$20,788,764 |
| COST OF SALES | 8,019,481 | 8,205,836 |
| Gross profit | 12,652,746 | 12,582,928 |
| OPERATING EXPENSES | 10,289,956 | 10,194,047 |
| INCOME FROM OPERATIONS | 2,362,790 | 2,388,881 |
| OTHER (INCOME) EXPENSE: | | |
| Interest expense | 23,429 | 44,163 |
| Other, net | 39 | (19,873) |
| Total other (income) expense | 23,468 | 24,290 |
| INCOME BEFORE INCOME TAXES | 2,339,322 | 2,364,591 |
| PROVISION FOR INCOME TAXES | 818,325 | 920,184 |
| NET INCOME | \$1,520,997 | \$1,444,407 |
| NET INCOME PER COMMON SHARE: | | |
| BASIC | \$0.16 | \$0.14 |
| DILUTED | \$0.16 | \$0.14 |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING: | | |
| BASIC | 9,698,951 | 10,211,333 |
| DILUTED | 9,718,453 | 10,241,096 |

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

Table on Contents

Tandy Leather Factory, Inc.
Consolidated Statements of Comprehensive Income
(Unaudited)
For the Three Months Ended March 31, 2016 and 2015

| | 2016 | 2015 |
|--|-------------|-------------|
| NET INCOME | \$1,520,997 | \$1,444,407 |
| Foreign currency translation adjustments, net of tax | 637,515 | (644,456) |
| COMPREHENSIVE INCOME | \$2,158,512 | \$799,951 |

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

Table on Contents

Tandy Leather Factory, Inc.
Consolidated Statements of Cash Flows
(Unaudited)
For the Three Months Ended March 31, 2016 and 2015

| | 2016 | 2015 |
|---|-------------|-------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$1,520,997 | \$1,444,407 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 414,228 | 383,936 |
| (Gain) / loss on disposal or abandonment of assets | (12,023) | 5,804 |
| Non-cash stock-based compensation | 43,762 | 29,064 |
| Deferred income taxes | 31,717 | 67,831 |
| Foreign currency translation | 614,366 | (585,107) |
| Net changes in assets and liabilities: | | |
| Accounts receivable-trade, net | (129,374) | (39,095) |
| Inventory | (47,763) | 2,467,610 |
| Prepaid expenses | (112,282) | (123,481) |
| Other current assets | (76,076) | 43,888 |
| Accounts payable-trade | (63,065) | 486,852 |
| Accrued expenses and other liabilities | (1,471,776) | |