

TANDY LEATHER FACTORY INC
Form 10-Q
November 13, 2006

**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, 2006

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 incorporate of organization)

75-2543540

(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.

| Class | Shares outstanding as of November 6, 2006 |
|--|---|
| Common Stock, par value \$0.0024 per share | 10,849,000 |

TANDY LEATHER FACTORY, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006

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Tandy Leather Factory, Inc.
Consolidated Balance Sheets

| | September 30, 2006 (unaudited) | December 31, 2005 (audited) |
|--|---|--|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | \$4,970,230 | \$3,215,727 |
| Accounts receivable-trade, net of allowance for doubtful accounts of \$134,000 and \$138,000 in 2006 and 2005, respectively | 2,427,790 | 2,178,848 |
| Inventory | 17,162,865 | 15,669,182 |
| Prepaid income taxes | 213,095 | - |
| Deferred income taxes | 229,015 | 273,872 |
| Other current assets | 1,006,938 | 358,058 |
| Total current assets | 26,009,933 | 21,695,687 |
| PROPERTY AND EQUIPMENT, at cost | 6,757,607 | 6,424,091 |
| Less accumulated depreciation and amortization | (4,878,481) | (4,664,614) |
| | 1,879,126 | 1,759,477 |
| GOODWILL | 751,082 | 746,611 |
| OTHER INTANGIBLES, net of accumulated amortization of \$252,000 and \$223,000 in 2006 and 2005, respectively | 370,248 | 398,967 |
| OTHER assets | 1,070,323 | 1,079,731 |
| | \$30,080,712 | \$25,680,473 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable-trade | \$3,144,495 | \$1,220,420 |
| Accrued expenses and other liabilities | 1,719,699 | 2,550,573 |
| Income taxes payable | - | 199,581 |
| Current maturities of capital lease obligations | 134,067 | 134,067 |
| Total current liabilities | 4,998,261 | 4,104,641 |
| DEFERRED INCOME TAXES | 218,371 | 206,253 |
| LONG-TERM DEBT, net of current maturities | - | - |
| CAPITAL LEASE OBLIGATIONS, net of current maturities | 11,172 | 111,722 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock, \$0.10 par value; 20,000,000 shares authorized; none issued or outstanding | - | - |
| Common stock, \$0.0024 par value; 25,000,000 shares authorized; | | |

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10,837,000 and 10,741,835 shares issued at 2006 and 2005,
respectively;

10,831,141 and 10,735,976 outstanding at 2006 and 2005,
respectively

| | | |
|--|---------------------|---------------------|
| | 26,008 | 25,780 |
| Paid-in capital | 5,173,407 | 4,988,445 |
| Retained earnings | 19,541,650 | 16,172,475 |
| Treasury stock | (25,487) | (25,487) |
| Accumulated other comprehensive income | 137,330 | 96,644 |
| Total stockholders' equity | 24,852,908 | 21,257,857 |
| | \$30,080,712 | \$25,680,473 |

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, 2006 and 2005

| | THREE MONTHS | | NINE MONTHS | |
|-------------------------------------|--------------|--------------|--------------|--------------|
| | 2006 | 2005 | 2006 | 2005 |
| NET SALES | \$12,559,593 | \$11,777,133 | \$40,366,325 | \$36,666,348 |
| COST OF SALES | 5,488,179 | 5,013,331 | 17,458,476 | 15,845,392 |
| Gross profit | 7,071,414 | 6,763,802 | 22,907,849 | 20,820,956 |
| OPERATING EXPENSES | 5,807,442 | 5,865,676 | 17,903,337 | 17,031,669 |
| INCOME FROM OPERATIONS | 1,263,972 | 898,126 | 5,004,512 | 3,789,287 |
| OTHER INCOME (EXPENSE): | | | | |
| Interest expense | - | - | - | (3,188) |
| Other, net | 37,422 | 80,185 | 84,951 | 104,404 |
| Total other income (expense) | 37,422 | 80,185 | 84,951 | 101,216 |
| INCOME BEFORE INCOME TAXES | 1,301,394 | 978,311 | 5,089,463 | 3,890,503 |
| PROVISION FOR INCOME TAXES | 410,975 | 282,221 | 1,720,288 | 1,357,522 |
| NET INCOME | \$890,419 | \$696,090 | \$3,369,175 | \$2,532,981 |
| NET INCOME PER COMMON SHARE-BASIC | \$0.08 | \$0.07 | \$0.31 | \$0.24 |
| NET INCOME PER COMMON SHARE-DILUTED | \$0.08 | \$0.06 | \$0.30 | \$0.23 |

Weighted Average Number of Shares Outstanding:

| | | | | |
|---------|------------|------------|------------|------------|
| Basic | 10,818,130 | 10,679,389 | 10,788,720 | 10,626,857 |
| Diluted | 11,102,383 | 11,029,840 | 11,105,903 | 10,965,922 |

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, 2006 and 2005

| | 2006 | 2005 |
|--|-------------|-------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$3,369,175 | \$2,532,981 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation & amortization | 291,257 | 346,217 |
| Gain on disposal of assets | (1,750) | (9,145) |
| Non-cash stock-based compensation | 78,600 | - |
| Deferred income taxes | 56,975 | (173,744) |
| Other | 36,215 | 35,123 |
| Net changes in assets and liabilities: | | |
| Accounts receivable-trade, net | (248,942) | (375,163) |
| Inventory | (1,493,683) | |