

TANDY LEATHER FACTORY INC  
Form 10-Q  
May 13, 2015

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, 2015

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

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

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 11, 2015 |
|--|---------------------------------------|
| Common Stock, par value \$0.0024 per share | 10,282,018                            |

---

TANDY LEATHER FACTORY, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2015

TABLE OF CONTENTS

|   | PAGE NO. |
|---|----------|
| <b>PART I. FINANCIAL INFORMATION</b>  |          |
| <b>Item 1. Financial Statements</b>   |          |
| <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        |
| <b>Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b> |          |
| <b>Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u></b>                            | 12       |
| <b>Item 4. <u>Controls and Procedures</u></b>   | 12       |
| <b>PART II. OTHER INFORMATION</b>   |          |
| <b>Item 1. <u>Legal Proceedings</u></b>   | 12       |
| <b>Item 6. <u>Exhibits</u></b>  | 13       |
| <b>SIGNATURES</b>   | 14       |

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

Tandy Leather Factory, Inc.  
Consolidated Balance Sheets

|   | March 31,<br>2015<br>(unaudited) | December<br>31,<br>2014<br>(audited) |
|---|----------------------------------|--------------------------------------|
| <b>ASSETS</b>   |                                  |                                      |
| <b>CURRENT ASSETS:</b>  |                                  |                                      |
| Cash  | \$9,928,649                      | \$10,636,530                         |
| Accounts receivable-trade, net of allowance for doubtful accounts<br>of \$370 and \$395 in 2015 and 2014, respectively        | 664,149                          | 625,054                              |
| Inventory   | 30,407,882                       | 32,875,492                           |
| Prepaid income taxes  | -                                | 336,828                              |
| Deferred income taxes   | 302,571                          | 371,491                              |
| Prepaid expenses  | 1,472,133                        | 1,348,652                            |
| Other current assets  | 113,870                          | 157,758                              |
| Total current assets  | 42,889,254                       | 46,351,805                           |
| PROPERTY AND EQUIPMENT, at cost   | 22,724,155                       | 22,199,943                           |
| Less accumulated depreciation and amortization  | (7,312,549)                      | (7,037,665)                          |
|   | 15,411,606                       | 15,162,278                           |
| GOODWILL  | 962,091                          | 971,786                              |
| OTHER INTANGIBLES, net of accumulated amortization of approximately<br>\$674,000 and \$665,000 in 2015 and 2014, respectively | 46,748                           | 58,026                               |
| OTHER assets  | 327,635                          | 329,979                              |
| <b>TOTAL ASSETS</b>   | <b>\$59,637,334</b>              | <b>\$62,873,874</b>                  |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                                  |                                      |
| <b>CURRENT LIABILITIES:</b>   |                                  |                                      |
| Accounts payable-trade  | \$1,742,070                      | \$1,255,218                          |
| Accrued expenses and other liabilities  | 4,297,326                        | 5,394,514                            |
| Income taxes payable  | 86,575                           | -                                    |
| Current maturities of long-term debt  | 202,500                          | 3,702,500                            |
| Total current liabilities   | 6,328,471                        | 10,352,232                           |
| DEFERRED INCOME TAXES   | 1,456,916                        | 1,458,005                            |
| LONG-TERM DEBT, net of current maturities   | 1,890,000                        | 1,940,625                            |
| <b>COMMITMENTS AND CONTINGENCIES</b>  |                                  |                                      |
| <b>STOCKHOLDERS' EQUITY:</b>  |                                  |                                      |
| 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;<br>11,275,641 and 11,239,157 shares issued at 2015 and 2014,<br>respectively; |              |              |
| 10,282,018 and 10,245,534 shares outstanding at 2015 and 2014   | 27,072       | 26,984       |
| Paid-in capital   | 6,052,221    | 6,013,325    |
| Retained earnings   | 48,109,236   | 46,664,829   |
| Treasury stock at cost (993,623 shares at 2015 and 2014)  | (2,894,068)  | (2,894,068)  |
| Accumulated other comprehensive income  | (1,332,514)  | (688,058)    |
| Total stockholders' equity  | 49,961,947   | 49,123,012   |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY  | \$59,637,334 | \$62,873,874 |

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

Table of Contents

Tandy Leather Factory, Inc.  
Consolidated Statements of Income  
(Unaudited)  
For the Three Months Ended March 31, 2015 and 2014

|  | 2015         | 2014         |
|--|--------------|--------------|
| NET SALES                                      | \$20,788,764 | \$19,838,466 |
| COST OF SALES                                  | 8,205,836    | 7,122,743    |
| Gross profit                                   | 12,582,928   | 12,715,723   |
| OPERATING EXPENSES                             | 10,194,047   | 9,749,060    |
| INCOME FROM OPERATIONS                         | 2,388,881    | 2,966,663    |
| OTHER (INCOME) EXPENSE:                        |              |              |
| Interest expense                               | 44,163       | 45,828       |
| Other, net                                     | (19,873)     | (1,344)      |
| Total other (income) expense                   | 24,290       | 44,484       |
| INCOME BEFORE INCOME TAXES                     | 2,364,591    | 2,922,179    |
| PROVISION FOR INCOME TAXES                     | 920,184      | 1,067,767    |
| NET INCOME                                     | \$1,444,407  | \$1,854,412  |
| NET INCOME PER COMMON SHARE:                   |              |              |
| BASIC  | \$0.14       | \$0.18       |
| DILUTED  | \$0.14       | \$0.18       |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING: |              |              |
| BASIC  | 10,211,333   | 10,198,733   |
| DILUTED  | 10,241,096   | 10,239,505   |

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

2

---

Table of Contents

Tandy Leather Factory, Inc.  
 Consolidated Statements of Comprehensive Income  
 (Unaudited)  
 For the Three Months Ended March 31, 2015 and 2014

|  | 2015        | 2014        |
|--|-------------|-------------|
| NET INCOME   | \$1,444,407 | \$1,854,412 |
| Foreign currency translation adjustments, net of tax | (644,456)   | (129,408)   |
| COMPREHENSIVE INCOME                                 | \$799,951   | \$1,725,004 |

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



Table of Contents

Tandy Leather Factory, Inc.  
Consolidated Statements of Cash Flows  
(Unaudited)  
For the Three Months Ended March 31, 2015 and 2014

|   | 2015             | 2014               |
|---|------------------|--------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                  |                    |
| Net income  | \$1,444,407      | \$1,854,412        |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                  |                    |
| Depreciation and amortization   | 383,936          | 346,555            |
| Loss on disposal or abandonment of assets   | 5,804            | 3,600              |
| Non-cash stock-based compensation   | 29,064           | -                  |
| Deferred income taxes   | 67,831           | (58,670)           |
| Foreign currency translation  | (585,107)        | (124,726)          |
| Net changes in assets and liabilities:  |                  |                    |
| Accounts receivable-trade, net  | (39,095)         | (124,239)          |
| Inventory   | 2,467,610        | (4,231,692)        |
| Prepaid expenses  | (123,481)        | (30,478)           |
| Other current assets  | 43,888           | 318,050            |
| Accounts payable-trade  | 486,852          | 843,414            |
| Accrued expenses and other liabilities  | (1,097,188)      | (578,676)          |
| Income taxes payable  | 423,403          | 332,579            |
| Total adjustments   | 2,063,517        | (3,304,283)        |
| Net cash provided by (used in) operating activities   | 3,507,924        | (1,449,871)        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                  |                    |
| Purchase of property and equipment  | (677,444)        | (641,282)          |
| Decrease in other assets  | 2,344            | 9,014              |
| Net cash used in investing activities   | (675,100)        | (632,268)          |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                  |                    |
| Net decrease in revolving credit loans  | (3,500,000)      | -                  |
| Payments on notes payable and long-term debt  | (50,625)         | (50,625)           |
| Proceeds from issuance of common stock  | 9,920            | -                  |
| Net cash used in financing activities   | (3,540,705)      | (50,625)           |
| <b>NET DECREASE IN CASH</b>   | <b>(707,881)</b> | <b>(2,132,764)</b> |
| CASH, beginning of period   | 10,636,530       | 11,082,679         |
| CASH, end of period   | \$9,928,649      | \$8,949,915        |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>                                   |                  |                    |
| Interest paid during the period   | \$44,163         | \$45,828           |
| Income tax paid during the period, net of (refunds)   | \$379,690        | \$791,137          |

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

4

---

Table of Contents

Tandy Leather Factory, Inc.  
 Consolidated Statements of Stockholders' Equity  
 (Unaudited)  
 For the Three Months Ended March 31, 2015 and 2014

|                               | Number of<br>Shares | Par<br>Value | Paid-in<br>Capital | Treasury<br>Stock | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total        |
|-------------------------------|---------------------|--------------|--------------------|-------------------|----------------------|--|--------------|
| BALANCE, December<br>31, 2013 | 10,198,733          | \$26,862     | \$5,892,907        | \$(2,894,068)     | \$41,507,592         | \$88,249   | \$44,621,542 |
| Stock-based<br>compensation   | 34,601              | 83           | (83)               | -                 | -                    | -  | -            |
| Net income                    | -                   | -            | -                  | -                 | 1,854,412            | -  | 1,854,412    |
| Translation adjustment        | -                   | -            | -                  | -                 | -                    | (129,408)  | (129,408)    |
| BALANCE, March 31,<br>2014    | 10,233,334          | \$26,945     | \$5,892,824        | \$(2,894,068)     | \$43,362,004         | \$(41,159)   | \$46,346,546 |

|  | Number of<br>Shares | Par<br>Value | Paid-in<br>Capital | Treasury<br>Stock | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total        |
|--|---------------------|--------------|--------------------|-------------------|----------------------|--|--------------|
| BALANCE, December<br>31, 2014            | 10,245,534          | \$26,984     | \$6,013,325        | \$(2,894,068)     | \$46,664,829         | \$(688,058)  | \$49,123,012 |
| Shares issued – stock<br>option exercise | 2,000               | 5            | 9,915              | -                 | -                    | -  | 9,920        |
| Stock-based<br>compensation              | 34,484              | 83           | 28,981             | -                 | -                    | -  | 29,064       |
| Net income                               | -                   | -            | -                  | -                 | 1,444,407            | -  | 1,444,407    |
| Translation adjustment                   | -                   | -            | -                  | -                 | -                    | (644,456)  | (644,456)    |
| BALANCE, March 31,<br>2015               | 10,282,018          | \$27,072     | \$6,052,221        | \$(2,894,068)     | \$48,109,236         | \$(1,332,514)  | \$49,961,947 |

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

5

---

Table of Contents

TANDY LEATHER FACTORY, INC.  
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 March 31, 2015 and December 31, 2014, and its results of operations and cash flows for the three-month periods ended March 31, 2015 and 2014. Operating results for the three-month period ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. 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, 2014.

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 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               |                      |
|-----------------------------------|---------------------|----------------------|
|                                   | March 31, 2015      | December 31,<br>2014 |
| <b>Inventory on hand:</b>         |                     |                      |
| Finished goods held for sale      | \$27,565,831        | \$31,257,820         |
| Raw materials and work in process | 1,023,870           | 1,118,506            |
| Inventory in transit              | 1,818,181           | 499,166              |
|                                   | <b>\$30,407,882</b> | <b>\$32,875,492</b>  |

**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, 2014, 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

respective goodwill balances. No indicators of impairment were identified during the first quarter of 2015.

A summary of changes in our goodwill for the periods ended March 31, 2015 and 2014 is as follows:

|                              | Leather Factory | Tandy Leather | Total     |
|------------------------------|-----------------|---------------|-----------|
| Balance, December 31, 2013   | \$598,579       | \$383,406     | \$981,985 |
| Acquisitions and adjustments | -               | -             | -         |
| Foreign exchange gain/loss   | (4,634)         | -             | (4,634)   |
| Impairments                  | -               | -             | -         |
| Balance, March 31, 2014      | \$593,945       | \$383,406     | \$977,351 |
|                              | Leather Factory | Tandy Leather | Total     |
| Balance, December 31, 2014   | \$588,380       | \$383,406     | \$971,786 |
| Acquisitions and adjustments | -               | -             | -         |
| Foreign exchange gain/loss   | (9,695)         | -             | (9,695)   |
| Impairments                  | -               | -             | -         |
| Balance, March 31, 2015      | \$578,685       | \$383,406     | \$962,091 |

Other intangibles consist of the following:

|                           | As of March 31, 2015 |              |          | As of December 31, 2014 |              |          |
|---------------------------|----------------------|--------------|----------|-------------------------|--------------|----------|
|                           | Gross                | Accumulated  |          | Gross                   | Accumulated  |          |
|                           |                      | Amortization | Net      |                         | Amortization | Net      |
| Trademarks,<br>Copyrights | \$544,369            | \$526,038    | \$18,331 | \$544,369               | \$518,426    | \$25,943 |
| Non-Compete<br>Agreements | 176,664              | 148,247      | 28,417   | 178,882                 | 146,799      | 32,083   |
|                           | \$721,033            | \$674,285    | \$46,748 | \$723,251               | \$665,225    | \$58,026 |

We recorded amortization expense of \$11,278 during the first quarter of 2015 compared to \$11,368 during the first quarter of 2014. All of our intangible assets, other than goodwill, are subject to amortization under U.S. GAAP. Based on the current amount of intangible assets subject to amortization, the estimated amortization expense for each of the succeeding 5 years is as follows:

|      | Wholesale<br>Leathercraft | Retail<br>Leathercraft | Total    |
|------|---------------------------|------------------------|----------|
| 2015 | \$108                     | \$40,302               | \$40,410 |
| 2016 | 108                       | 5,667                  | 5,775    |
| 2017 | 90                        | 1,000                  | 1,090    |
| 2018 | -                         | 750                    | 750      |
| 2019 | -                         | -                      | -        |

Revenue Recognition. Our sales generally occur via two methods: (1) at the counter in our stores, and (2) shipment by common carrier. Sales at the counter are recorded and title passes as transactions occur. Otherwise, sales are recorded and title passes when the merchandise is shipped to the customer. Our shipping terms are FOB shipping point.

We offer an unconditional satisfaction guarantee to our customers and accept all product returns. Net sales represent gross sales less negotiated price allowances, product returns, and allowances for defective merchandise.



## Table of Contents

Comprehensive Income (loss) and Accumulated Other Comprehensive Income (loss). Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-stockholder sources and includes all changes in equity during a period except those resulting from investments by and dividends to stockholders. Our comprehensive income (loss) consists of our net income and foreign currency translation adjustments from our international operations.

**Recent Accounting Pronouncements.** In April 2014, FASB issued Accounting Standards Update 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. Under the new guidance, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations only if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. This guidance also changes an entity's requirements when presenting, for each comparative period, the assets and liabilities of a disposal group that includes a discontinued operation. A discontinued operation may include a component of an entity, or a business or nonprofit activity. The guidance is effective for interim and annual reporting periods beginning after December 15, 2014. The adoption of the new requirements did not have a material impact on our consolidated earnings, financial position or cash flows.

In May 2014, FASB issued Accounting Standards Update 2014-09 which creates a new topic in the Accounting Standards Codification ("ASC") Topic 606, "Revenue From Contracts With Customers." In addition to superseding and replacing nearly all existing U.S. GAAP revenue recognition guidance, including industry-specific guidance, ASC 606 establishes a new control-based revenue recognition model; changes the basis for deciding when revenue is recognized over time or at a point in time; provides new and more detailed guidance on specific topics; and expands and improves disclosures about revenue. In addition, ASU 2014-09 adds a new Subtopic to the Codification, ASC 340-40, "Other Assets and Deferred Costs: Contracts with Customers," to provide guidance on costs related to obtaining a contract with a customer and costs incurred in fulfilling a contract with a customer that are not in the scope of another ASC Topic. The guidance is effective for interim and annual reporting periods beginning after December 15, 2016. Companies are permitted to apply the guidance in ASC 606 using one of the following two methods: retrospectively to each prior period presented in accordance with ASC 250, subject to certain practical expedients; or retrospectively with a cumulative effect adjustment to opening retained earnings in the period of initial adoption. If applying this transition method, an entity should apply the new revenue recognition guidance only to contracts not completed under existing U.S. GAAP at the date of adoption. We are currently evaluating the adoption method to apply and the impact that the update will have on our financial position, results of operations, cash flows and financial statement disclosures.

## 2. NOTES PAYABLE AND LONG-TERM DEBT

On July 31, 2007, we entered into a Credit Agreement and Line of Credit Note with JPMorgan Chase Bank, N.A., pursuant to which the bank agreed to provide us with a credit facility of up to \$5,500,000 to facilitate our purchase of real estate consisting of a 191,000 square foot building situated on 30 acres of land located at 1900 SE Loop 820 in Fort Worth, Texas. Under the terms of the Line of Credit Note, we could borrow from time to time until April 30, 2008, up to the lesser of \$5,500,000 or 90% of the cost of the property and make monthly payments. Proceeds in the amount of \$4,050,000 were used to fund the purchase of the property from Standard Motor Products, Inc. under an Agreement of Purchase and Sale, dated June 25, 2007, which closed on July 31, 2007. No further borrowings were drawn. On April 30, 2008, the principal balance was rolled into a 10-year term note with an interest rate of 7.10% per annum.

On July 12, 2012, we executed a Line of Credit Note with JPMorgan Chase Bank, N.A., pursuant to which the bank agreed to provide us with a revolving credit facility of up to \$4 million. The revolver bears interest at LIBOR plus 2% (2.27% at March 31, 2015) and was to mature on June 30, 2013. On June 25, 2013, we executed a Note Modification



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

Agreement which extended the maturity date of the Line of Credit Note to June 30, 2014. On June 23, 2014, we executed a Note Modification Agreement which increased the maximum amount available from \$4 million to \$6 million and extended the maturity date from June 30, 2014 to June 30, 2015. All other terms remain unchanged. Interest is paid monthly. The note was obtained for working capital purposes and is secured by the real estate and improvements located at 1900 Southeast Loop 820, Fort Worth, Texas. No amounts were outstanding under this Line of Credit Note as of March 31, 2015.

At March 31, 2015 and December 31, 2014, the amount outstanding under the above agreement consisted of the following:

|   | March 31,<br>2015 | December 31,<br>2014 |
|---|-------------------|----------------------|
| Credit Agreement with JPMorgan Chase Bank – collateralized by real estate; payable as follows:  |                   |                      |
| Line of Credit Note dated July 31, 2007, converted to a 10-year term note on April 30, 2008; \$16,875 monthly principal payments plus interest at 7.1% per annum; matures April 30, 2018  | \$2,092,500       | \$2,143,125          |
| Line of Credit Note with JPMorgan Chase Bank – collateralized by real estate, payable as follows:   |                   |                      |
| Line of Credit Note dated July 12, 2012, as amended on June 25, 2013 and June 23, 2014, in the maximum principal amount of \$6,000,000 with revolving features as more fully described above – interest due monthly at LIBOR plus 2%, matures June 30, 2015 | -                 | 3,500,000            |
|   | 2,092,500         | 5,643,125            |
| Less - Current maturities   | (202,500)         | (3,702,500)          |
|   | \$1,890,000       | \$1,940,625          |

### 3. STOCK-BASED COMPENSATION

We have one stock option plan which permits annual stock option grants to non-employee directors with an exercise price equal to the fair market value of the shares at the date of grant. Options outstanding and exercisable were granted at a stock option price which was not less than the fair market value of our common stock on the date the option was granted and no option has a term in excess of ten years. Under this plan, no options were awarded to directors during the quarters ended March 31, 2015 and 2014 and therefore, no share based compensation expense was recorded for the quarters ended March 31, 2015 and 2014, respectively. During the three months ended March 31, 2015 and 2014, the stock option activity under our stock option plans was as follows:

|                              | Weighted Average Exercise Price | # of shares | Weighted Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value |
|------------------------------|---------------------------------|-------------|--|---------------------------|
| Outstanding, January 1, 2014 | \$5.04                          | 84,600      |  |                           |
| Granted                      | -                               | -           |  |                           |
| Cancelled                    | -                               | -           |  |                           |
| Exercised                    | -                               | -           |  |                           |

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

|                              |        |         |      |           |
|------------------------------|--------|---------|------|-----------|
| Outstanding, March 31, 2014  | \$5.04 | 84,600  | 6.72 | \$104,656 |
| Exercisable, March 31, 2014  | \$5.04 | 84,600  | 6.72 | \$104,656 |
| Outstanding, January 1, 2015 | \$5.16 | 72,400  |      |           |
| Granted                      | -      | -       |      |           |
| Cancelled                    | -      | -       |      |           |
| Exercised                    | (4.96) | (2,000) |      |           |
| Outstanding, March 31, 2015  | \$5.17 | 70,400  | 6.07 | \$86,886  |
| Exercisable, March 31, 2015  | \$5.17 | 70,400  | 6.07 | \$86,886  |

Other information pertaining to option activity during the three-month periods ended March 31, 2015 and 2014 are as follows:

|   | March 31, 2015 | March 31, 2014 |
|---|----------------|----------------|
| Weighted average grant-date fair value of stock options granted | N/A            | N/A            |
| Total fair value of stock options vested                        | N/A            | N/A            |
| Total intrinsic value of stock options exercised                | \$2,953        | N/A            |

As of March 31, 2015 and 2014, there was no unrecognized compensation cost related to non-vested stock options.

We have a restricted stock plan that was adopted by our Board of Directors in January 2013 and approved by our stockholders in June 2013. The plan reserves up to 300,000 shares of our common stock for restricted stock awards to our executive officers, non-employee directors and other key employees. Awards granted under the plan may be stock awards or performance awards, and may be subject to a graded vesting schedule with a minimum vesting period of four years, unless otherwise determined by the committee that administers the plan.

Table of Contents

In February 2014, our Chief Executive Officer, Chief Financial Officer and Senior Vice President were awarded restricted stock grants consisting of 9,375 shares each. In addition, four of our independent directors were awarded restricted stock grants consisting of 1,619 shares each. The grants will vest in equal annual amounts over a four-year period. The fair value of non-vested restricted common stock awards is the market value of our common stock on the date of grant. Compensation costs for these awards will be recognized on a straight-line basis over the four year vesting period.

In February 2015, our Chief Executive Officer, Chief Financial Officer and Senior Vice President were awarded restricted stock grants consisting of 9,343 shares each. In addition, four of our independent directors were awarded restricted stock grants consisting of 1,613 shares each. The grants will vest in equal annual amounts over a four-year period. The fair value of non-vested restricted common stock awards is the market value of our common stock on the date of grant. Compensation costs for these awards will be recognized on a straight-line basis over the four year vesting period.

A summary of the activity for non-vested restricted common stock awards as of March 31, 2015 and 2014 is presented below:

|                                  | Shares  | Award Fair Value |
|----------------------------------|---------|------------------|
| Balance, January 1, 2014         | -       | -                |
| Granted                          | 34,601  | \$8.96           |
| Forfeited                        | -       | -                |
| Vested                           | -       | -                |
| Unvested Balance, March 31, 2014 | 34,601  | \$8.96           |
| Balance, January 1, 2015         | 34,601  | \$8.96           |
| Granted                          | 34,484  | \$8.99           |
| Forfeited                        |         |                  |
| Vested                           | (8,652) | \$8.96           |
| Unvested Balance, March 31, 2015 | 60,433  | \$8.97           |

Total unrecognized compensation expense for the non-vested restricted stock awards as of March 31, 2015 and 2014 totals \$523,154 and \$310,025, respectively, and is expected to be recognized in equal annual amounts over a period of four years as follows:

|      | 2015 Award | 2014 Award | Total     |
|------|------------|------------|-----------|
| 2015 | \$58,127   | \$58,130   | \$116,257 |
| 2016 | \$77,503   | \$77,506   | \$155,009 |
| 2017 | \$77,503   | \$77,506   | \$155,009 |
| 2018 | \$77,503   | \$9,688    | \$87,191  |
| 2019 | \$9,688    | -          | \$9,688   |
|      | \$300,324  | \$222,830  | \$523,154 |

#### 4. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share ("EPS") for the three months ended March 31, 2015 and 2014:

|  | 2015 | 2014 |
|--|------|------|
|--|------|------|

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

|  |             |             |
|--|-------------|-------------|
| Net income   | \$1,444,407 | \$1,854,412 |
| Numerator for basic and diluted earnings per share                   | \$1,444,407 | \$1,854,412 |
| Denominator for basic earnings per share – weighted-average shares   | 10,211,333  | 10,198,733  |
| Effect of dilutive securities:                                       |             |             |
| Stock options  | 29,763      | 39,193      |
| Restricted stock   | -           | 1,579       |
| Dilutive potential common shares                                     | 29,763      | 40,772      |
| Denominator for diluted earnings per share – weighted-average shares | 10,241,096  | 10,239,505  |
| Basic earnings per share   | \$0.14      | \$0.18      |
| Diluted earnings per share   | \$0.14      | \$0.18      |

The net effect of assuming the exercise of all potentially dilutive common share equivalents, including stock options to purchase common stock at exercise prices less than the average market prices and restricted stock awards of an aggregate of 130,833 and 119,201 shares of common stock have been included in the computations of diluted EPS for the quarters ended March 31, 2015 and 2014, respectively.

## 5. COMMITMENTS AND CONTINGENCIES

**Legal Proceedings.** On March 16, 2011, two former employees of ours filed a lawsuit, entitled Mark Barnes and Jerry Mercante on behalf of themselves and all other similarly situated v. Tandy Leather Company, Inc., Tandy Leather Factory, and Does 1-50, in the US District Court for the District of Nevada. The lawsuit was subsequently transferred to the United States District Court, Northern District of Texas, Fort Worth Division (“Court”), and an amended complaint was filed on May 9, 2011 by plaintiffs to add another former employee, Donna Cavota, as a third named plaintiff. The suit alleged that we violated requirements of the Fair Labor Standards Act (FLSA) as well as various state wage laws. Plaintiffs sought to represent themselves and all similarly situated U.S. current and former store managers of ours. A Settlement Agreement was reached between the parties, and on September 24, 2012, the Court issued an Order Preliminarily Approving the Settlement of all federal and state claims asserted by the plaintiffs in the litigation. We continue to deny any violation of any statute, law, rule or regulation, any liability or wrongdoing, and the truth of plaintiffs’ allegations. We agreed to enter into the Settlement Agreement to avoid further expense and inconvenience, end the disruption and burden of the litigation, avoid any other present or future litigation arising out of the facts that gave rise to the litigation, avoid the risk inherent in uncertain complex litigation, and to put to rest the controversy underlying the litigation.

The Settlement Agreement preliminarily approved by the Court required us to establish a fund designated as a Qualified Settlement Fund (Escrow Account) in the amount of \$993,386 to fund (1) settlement payments to the plaintiffs, (2) settlement payments to the other members of the settlement class who joined the case, (3) plaintiffs’ attorneys’ fees and expenses, and (4) and the claim administrator (Escrow Agent’s) fees and expenses. The foregoing description is not complete and is qualified in its entirety by reference to the full text of the Settlement Agreement which was attached as Exhibit 10.1 to a Current Report on Form 8-K, as filed with the Securities and Exchange Commission on October 1, 2012.

The deadline established by the Court for any persons employed by us as store managers between November 23, 2008 and September 24, 2012 to join the lawsuit as class members expired on May 24, 2013. On June 28, 2013, the Court issued two orders: (1) an Order Approving Class and Collective Action Settlement and Dismissing Case with Prejudice, and (2) a Final Judgment, Approving Class and Collective Action Settlement and Dismissing Case with Prejudice. Pursuant to the Court’s June 28, 2013 orders, the claims administrator (Escrow Agent) was required to

make payments to the plaintiffs and those existing and former store managers who joined the lawsuit by signing and returning Consent to Join Forms, which contained a release of us from the claims asserted in plaintiffs' lawsuit.

The settlement payments to the class members and the plaintiffs were made from the Escrow Account pursuant to the formula set forth in the Settlement Agreement by the claims administrator, as well as the payment of the plaintiffs' attorney's fees and the fees and expenses of the claims administrator (Escrow Agent). The total payment from the Escrow Account, including our required FICA payments based on the settlement payments, was \$744,273 from the total Escrow Account of \$993,386. All payments were made by the claims administrator and the balance of the Escrow Account (approximately \$249,000) was returned to us in the first quarter of 2014.

We are periodically involved in other litigation that arises in the ordinary course of business and operations. There are no such matters pending that we expect to have a material impact on our financial position and operating results. Legal costs associated with the resolution of claims, lawsuits and other contingencies are expensed as incurred.

Table of Contents

## 6. SEGMENT INFORMATION

We identify our segments based on the activities of three distinct operations:

- a. Wholesale Leathercraft, which consists of a chain of wholesale stores operating under the name, The Leather Factory, located in North America;
- b. Retail Leathercraft, which consists of a chain of retail stores operating under the name, Tandy Leather Company, located in North America; and
- c. International Leathercraft, which sells to both wholesale and retail customers. We have three stores operating in this segment: one in Northampton, United Kingdom, one in Sydney, Australia, and one in Jerez, Spain. These stores carry the same products as our North American stores.

Our reportable operating segments have been determined as separately identifiable business units, and we measure segment earnings as operating earnings, defined as income before interest and income taxes.

|                                      | Wholesale<br>Leathercraft | Retail<br>Leathercraft | Int'l<br>Leathercraft | Total        |
|--------------------------------------|---------------------------|------------------------|-----------------------|--------------|
| For the quarter ended March 31, 2015 |                           |                        |                       |              |
| Net sales                            | \$6,725,304               | \$13,109,413           | \$954,047             | \$20,788,764 |
| Gross profit                         | 4,169,635                 | 7,845,766              | 567,527               | 12,582,928   |
| Income from operations               | 951,855                   | 1,403,452              | 33,574                | 2,388,881    |
| Interest expense                     | 44,163                    | -                      | -                     | 44,163       |
| Other, net                           | (11,393)                  | -                      | (8,480)               | (19,873)     |
| Income before income taxes           | 919,085                   | 1,403,452              | 42,054                | 2,364,591    |
| Depreciation and amortization        | 239,718                   | 132,862                | 11,356                | 383,936      |
| Fixed asset additions                | 419,906                   | 257,538                | -                     | 677,444      |
| Total assets                         | \$39,891,481              | \$16,388,517           | \$3,357,336           | \$59,637,334 |
| For the quarter ended March 31, 2014 |                           |                        |                       |              |
| Net sales                            | \$6,823,968               | \$11,956,354           | \$1,058,144           | \$19,838,466 |
| Gross profit                         | 4,530,209                 | 7,498,416              | 687,098               | 12,715,723   |
| Income from operations               | 1,372,637                 | 1,472,703              | 121,323               | 2,966,663    |
| Interest expense                     | 45,828                    | -                      | -                     | 45,828       |
| Other, net                           | (9,776)                   | -                      | 8,432                 | (1,344)      |
| Income before income taxes           | 1,336,585                 | 1,472,703              | 112,891               | 2,922,179    |
| Depreciation and amortization        | 225,855                   | 104,441                | 16,259                | 346,555      |
| Fixed asset additions                | 236,211                   | 356,198                | 48,873                | 641,282      |
| Total assets                         | \$41,806,750              | \$13,903,814           | \$2,919,417           | \$58,629,981 |

Net sales for geographic areas were as follows for the three months ended March 31, 2015 and 2014:

|                     | 2015         | 2014         |
|---------------------|--------------|--------------|
| United States       | \$17,748,632 | \$16,645,886 |
| Canada              | 1,899,118    | 1,913,512    |
| All other countries | 1,141,014    | 1,279,068    |

|              |              |
|--------------|--------------|
| \$20,788,764 | \$19,838,466 |
|--------------|--------------|

Geographic sales information is based on the location of the customer. No single foreign country, except for Canada, accounted for any material amount of our consolidated net sales for the three-month periods ended March 31, 2015 and 2014. We do not have any significant long-lived assets outside of the United States.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Our Business

We are the world's largest specialty retailer and wholesale distributor of leather and leathercraft related items. We market our products to our growing list of customers through company-owned retail and wholesale stores. We are a Delaware corporation, and our common stock trades on the NASDAQ Global Market under the symbol "TLF." We operate our business in three segments: Wholesale Leathercraft, which operates wholesale stores in North America under the trade name, The Leather Factory, Retail Leathercraft, which operates retail stores in North America under the trade name, Tandy Leather Company, and International Leathercraft, which operates combination retail/wholesale stores outside of North America under the trade name, Tandy Leather Factory. See Note 6 to the Consolidated Financial Statements for additional information concerning our segments, as well as our foreign operations.

Our Wholesale Leathercraft segment operates 28 company-owned wholesale stores in 18 states and three Canadian provinces. These stores are engaged in the wholesale distribution of leather and related items, including leatherworking tools, buckles and belt adornments, leather dyes and finishes, saddle and tack hardware, and do-it-yourself kits, to retailers, manufacturers, and end users. Our Wholesale Leathercraft segment previously included our National Account sales group, whose only customers were national craft chains. We ended sales through this group in April 2014.

Our Retail Leathercraft segment operates company-owned Tandy Leather Company retail stores in 38 states and six Canadian provinces. Tandy Leather Company, one of the best-known suppliers of leather and related supplies used in the leathercraft industry, has been a primary leathercraft resource for decades. Tandy Leather Company's products include quality tools, leather, accessories, kits and teaching materials. In 2002, we began expanding our industry presence by opening retail stores. As of May 1, 2015, we were operating 82 Tandy Leather Company retail stores located throughout North America.

Our International Leathercraft segment operates 3 company-owned stores, all located outside of North America. These stores operate as combination retail / wholesale stores and consist of one store in Northampton, United Kingdom, one store in Sydney, Australia, and one store in Jerez, Spain. We expect to continue opening international stores in the future, but do not intend to open any new stores in 2015.

Table of Contents

## Critical Accounting Policies

A description of our critical accounting policies appears in Item 7 “Management's Discussions and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

## Forward-Looking Statements

Certain statements contained in this report and other materials we file with the Securities and Exchange Commission, as well as information included in oral statements or other written statements made or to be made by us, other than statements of historical fact, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements generally are accompanied by words such as “may,” “will,” “could,” “should,” “anticipate,” “believe,” “budgeted,” “intend,” “plan,” “project,” “potential,” “estimate,” “continue,” or “future” variations thereof or other similar statements. There are certain important risks that could cause results to differ materially from those anticipated by some of the forward-looking statements. Some, but not all, of the important risks, including, without limitation, those described below, could cause actual results to differ materially from those suggested by the forward-looking statements. Please refer also to our Annual Report on Form 10-K for fiscal year ended December 31, 2014 for additional information concerning these and other uncertainties that could negatively impact the Company. Potential factors, which could cause our actual results of operations to differ materially from those in the forward-looking statements include, among others:

Ø General economic conditions in the United States and abroad;

Ø Increased pressure on margins;

Ø Increases in the cost of the products we sell or a reduction in availability of those products;

Ø Challenges in implementing our planned international expansion;

Ø Failure to open additional stores in North America;

Ø Failure to hire and train qualified personnel to operate new and existing stores;

Ø Failure to protect our trademarks and other proprietary intellectual property rights;

Ø Negative impact of foreign currency fluctuations on our financial condition and results of operations;

Ø Damage to our brand image.

We assume no obligation to update or otherwise revise our forward-looking statements even if experience or future changes make it clear that any projected results, express or implied, will not be realized.

## Results of Operations

The following tables present selected financial data of each of our three segments for the quarters ended March 31, 2015 and 2014.

|                            | Quarter Ended March 31, 2015 |                        | Quarter Ended March 31, 2014 |                        |
|----------------------------|------------------------------|------------------------|------------------------------|------------------------|
|                            | Sales                        | Income from Operations | Sales                        | Income from Operations |
| Wholesale Leathercraft     | \$6,725,304                  | \$951,855              | \$6,823,968                  | \$1,372,637            |
| Retail Leathercraft        | 13,109,413                   | 1,403,452              | 11,956,354                   | 1,472,703              |
| International Leathercraft | 954,047                      | 33,574                 | 1,058,144                    | 121,323                |
| Total Operations           | \$20,788,764                 | \$2,388,881            | \$19,838,466                 | \$2,966,663            |

Consolidated net sales for the quarter ended March 31, 2015 increased \$950,000, or 4.8%, compared to the same period in 2014. Retail Leathercraft reported a sales gain of 9.6%, while Wholesale Leathercraft and International



Leathercraft reported sales declines of 1.4% and 9.8%, respectively. Income from operations on a consolidated basis for the quarter ended March 31, 2015 decreased 19.5%, or \$578,000, from the first quarter of 2014 due primarily to the decline in gross profit margin.

The following table shows in comparative form our consolidated net income for the first quarters of 2015 and 2014:

|            | 2015        | 2014        | % change |
|------------|-------------|-------------|----------|
| Net income | \$1,444,407 | \$1,854,412 | (22.1)%  |

All segments were profitable in the first quarter of 2015 and therefore, contributed to our consolidated net income. Additional information appears below for each segment.

Table of Contents

## Wholesale Leathercraft

Our Wholesale Leathercraft operation consists of 28 wholesale stores. In the first quarter of 2014, this segment also included our National Account sales group, whose customers consisted of national craft chains only. We ended sales through our National Account sales group in April 2014. The following table presents the combined sales mix by customer categories for the quarters ended March 31, 2015 and 2014:

| Customer Group  | Quarter ended |          |
|---|---------------|----------|
|   | 03/31/15      | 03/31/14 |
| RETAIL (end users, consumers, individuals)  | 49%           | 43%      |
| INSTITUTION (prisons, prisoners, hospitals, schools, youth organizations, etc.)     | 3%            | 4%       |
| WHOLESALE (resellers & distributors, saddle & tack shops, authorized dealers, etc.) | 41%           | 40%      |
| MANUFACTURERS   | 6%            | 7%       |
| NATIONAL ACCOUNTS   | 1%            | 6%       |
|   | 100%          | 100%     |

Net sales decreased 1.4%, or \$99,000, for the first quarter of 2015 compared to the first quarter of 2014 as follows:

|                        | #      | Qtr Ended   | #      | Qtr Ended   | \$         | %        |
|------------------------|--------|-------------|--------|-------------|------------|----------|
|                        | Stores | 03/31/15    | Stores | 03/31/14    | Change     | Change   |
| Same store sales       | 28     | \$6,725,304 | 28     | \$6,353,531 | \$371,773  | 5.9%     |
| Closed store sales     | -      | -           | 1      | 127,590     | (127,590)  | (100.0)% |
| National account group | n/a    | -           | n/a    | 342,847     | (342,847)  | (100.0)% |
| Total sales            |        | \$6,725,304 |        | \$6,823,968 | \$(98,664) | (1.4)%   |

Sales to our retail customers increased in the first quarter of 2015 compared to the first quarter of 2014, while sales to our other customer groups declined. Sales to our national account customers ended in April 2014 due to the elimination of certain products from our product line that these customers were buying (as these products have not historically provided an acceptable gross profit margin), which explains the significant decrease in sales to that customer group. Income from operations for Wholesale Leathercraft during the current quarter decreased by \$421,000 from the comparative 2014 quarter, a decline of 31%.

A decrease in gross profit of \$360,000 and an increase in operating expenses of \$60,000 contributed to the decline in income from operations. Gross profit as a percentage of sales decreased from 66.4% in the first quarter of 2014 to 62.0% in the first quarter of 2015, due to an increase in sales of leather, our lowest margin item, compared to that of non-leather products. Operating expenses increased less than 2%, increasing \$60,000 compared to last year's comparable period. The most significant expense increase occurred in advertising and marketing expenses, partially offset by a decrease in legal and professional fees.

## Retail Leathercraft

Our Retail Leathercraft operation consists of 82 Tandy Leather Company retail stores at March 31, 2015 compared to 80 stores at March 31, 2014. Net sales increased 9.6% for the first quarter of 2015 over the same quarter last year. A store is categorized as "new" until it is operating for the full comparable period in the prior year.

| #      | Qtr Ended | #      | Qtr Ended | \$     | %      |
|--------|-----------|--------|-----------|--------|--------|
| Stores | 03/31/15  | Stores | 03/31/14  | Change | Change |

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

|                  |    |              |    |              |             |      |
|------------------|----|--------------|----|--------------|-------------|------|
| Same store sales | 79 | \$12,829,124 | 79 | \$11,916,631 | \$912,493   | 7.7% |
| New store sales  | 3  | 280,289      | 1  | 39,723       | 240,566     | N/A  |
| Total sales      |    | \$13,109,413 |    | \$11,956,354 | \$1,153,059 | 9.6% |

The following table presents sales mix by customer categories for the quarters ended March 31, 2015 and 2014 for our Retail Leathercraft operation:

| Customer Group  | Quarter ended |          |
|---|---------------|----------|
|   | 03/31/15      | 03/31/14 |
| RETAIL (end users, consumers, individuals)  | 61%           | 62%      |
| INSTITUTION (prisons, prisoners, hospitals, schools, youth organizations, etc.)     | 3%            | 3%       |
| WHOLESALE (resellers & distributors, saddle & tack shops, authorized dealers, etc.) | 34%           | 33%      |
| MANUFACTURERS   | 2%            | 2%       |
|   | 100%          | 100%     |

Sales to all customer groups increased over the first quarter of 2014.

Income from operations decreased \$69,000, or 4.7%, from the comparative 2014 quarter due to an increase in operating expenses offset partially by an increase in gross profit. Our gross profit increased by \$347,000 from the prior period primarily due to higher sales, although as a percentage of sales, gross profit margin declined from 62.7% in the first quarter of 2014 to 59.9% in the first quarter of 2015. The increase in sales was primarily of leather, our lowest margin item, causing the decrease in our gross profit margin percentage. Operating expenses as a percentage of sales decreased from 50.4% in the first quarter of 2014 to 49.1% in the first quarter of 2015. The increase in operating expenses of \$416,000 compared to the first quarter of 2014 was caused primarily by increases in employee compensation (\$107,000), advertising and marketing (\$102,000), rent and utilities expense (\$107,000), depreciation (\$28,000), freight out (\$26,000) and credit card fees (\$25,000).

#### International Leathercraft

International Leathercraft consists of all stores located outside of North America. As of March 31, 2015 and 2014, the segment contained three stores located in United Kingdom, Australia, and Spain. This segment's sales totaled \$954,000 for the first quarter of 2015, compared to \$1.1 million in the first quarter of 2014, a decrease of 9.8%. The decline in sales is the result of the change in currency exchange rates from the first quarter of 2014 compared to the same rates in the first quarter of 2015. In their local currencies, this segment achieved a 3% sales increase this quarter compared to last year's first quarter. Gross profit margin decreased \$119,000, while operating expenses decreased by \$32,000. Operating expenses totaled \$534,000 in the first quarter of 2015, up from \$566,000 in the first quarter of 2014. Advertising and marketing expenses are this segment's largest expense, followed by employee compensation, rent, travel, and shipping costs to customers.

#### Other Expenses

We paid \$44,000 in interest on our bank debt in the first quarter of 2015, compared to \$46,000 in the first quarter of 2014. We recorded income of \$10,000 for currency fluctuations in the first quarter of 2015. Comparatively, in the first quarter of 2014, we recorded an expense of \$8,000 for currency fluctuations.

Table of Contents

Capital Resources, Liquidity and Financial Condition

On our consolidated balance sheet, total assets decreased from \$62.9 million at year-end 2014 to \$59.6 million at March 31, 2015. Total stockholders' equity increased from \$49.1 million at December 31, 2014 to \$50.0 million at March 31, 2015, the increase being attributable to our net income earned in the first quarter of 2015. Our current ratio increased from 4.5 at December 31, 2014 to 6.8 at March 31, 2015 due primarily to the reduction in current portion of debt during the first quarter of 2015.

As of March 31, 2015, our investment in inventory decreased by \$2.5 million from year-end 2014. Inventory turnover reached an annualized rate of 2.6 times during the first quarter of 2015, decreasing from 2.8 times for the first quarter of 2014. Inventory turnover was 2.8 times for all of 2014. We compute our inventory turns as sales divided by average inventory.

Trade accounts receivable was approximately \$664,000 at March 31, 2015, up \$39,000 from \$625,000 at year-end 2014. The average days to collect accounts decreased to 35 days for the first quarter of 2015, a slight improvement from the average days to collect accounts in the first quarter of 2014 of 36 days. We are continually monitoring our customer accounts very closely in order to minimize the risk of uncollectible accounts.

Accounts payable increased approximately \$487,000 to \$1.7 million at March 31, 2015 compared to \$1.3 million at year-end 2014 due to the increase in inventory purchases late in the quarter. Accrued expenses decreased from \$5.4 million at December 31, 2014 to \$4.3 million at March 31, 2015. The payment of the 2014 manager bonuses during the first quarter of 2015, offset partially by the increase in inventory in transit, accounted for the reduction.

During the first quarter of 2015, cash flow provided by operating activities was \$3.5 million. The decrease in inventory of \$2.5 million and net income of \$1.4 million accounted for the operating cash provided during the first quarter of 2015.

By comparison, during the first quarter of 2014, cash flow used by operating activities was \$1.4 million. The increase in inventory of \$4.2 million, offset by net income of \$1.9 million and the increase in accounts payable of approximately \$843,000 accounted for the use of operating cash during the first quarter of 2014.

Cash flow used by investing activities totaled approximately \$675,000 in the first quarter of 2015, consisting primarily of the purchase of fixtures for store moves and remodels. In the first quarter of 2014, cash used by investing activities totaled approximately \$632,000, consisting primarily of the purchase of store fixtures, factory equipment and computer equipment.

Cash flow used by financing activities totaled \$3.5 million in the first quarter of 2015, compared to \$51,000 in the first quarter of 2014. In both quarters, cash used consisted entirely of debt repayments.

We expect to fund our operating and liquidity needs as well as our store growth from a combination of current cash balances and internally generated funds.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

For disclosures about market risk affecting us, see Item 7A "Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K for fiscal year ended December 31, 2014. We believe that our exposure to market risks has not changed significantly since December 31, 2014. We expect that our exposure to foreign currency exchange risk will increase as our international presence increases.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management team, under the supervision and with the participation of our principal executive officer and our principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of the last day of the fiscal period covered by this report, March 31, 2015. The term disclosure controls and procedures means our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to management, including our principal executive and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, our principal executive officer and our principal financial officer concluded that, as of March 31, 2015, our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the fiscal quarter ended March 31, 2015 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

The information contained in Note 5 to the consolidated financial statements included in Item 1 of this Report is hereby incorporated into this Item 1 by reference.

Table of Contents

## Item 6. Exhibits.

| Exhibit Number | Description  |
|----------------|--|
| 3.1            | Certificate of Incorporation of The Leather Factory, Inc., and Certificate of Amendment to Certificate of Incorporation of The Leather Factory, Inc. filed as Exhibit 3.1 to Tandy Leather Factory, Inc.'s Form 10-Q filed with the Securities and Exchange Commission on August 12, 2005 and incorporated by reference herein.  |
| 3.2            | Bylaws of The Leather Factory, Inc. (n/k/a Tandy Leather Factory, Inc.), filed as Exhibit 3.5 to the Current Report on Form 8-K (Commission File No. 001-12368) filed by Tandy Leather Factory, Inc (f/k/a The Leather Factory, Inc.) with the Securities and Exchange Commission on July 14, 2004 and incorporated by reference herein.   |
| 3.3            | Certificate of Designations of Series A Junior Participating Preferred Stock of Tandy Leather Factory, Inc. filed as Exhibit 3.1 to Tandy Leather Factory's Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on June 10, 2013 and incorporated by reference herein.   |
| 4.1            | Rights Agreement dated as of June 6, 2013 between Tandy Leather Factory, Inc. and Broadridge Corporate Issuer Solutions, Inc., as Rights Agent (including the Certificate of Designations of Series A Junior Preferred Stock attached thereto as Exhibit A, the form of Right Certificate attached thereto as Exhibit B and the Summary of Rights attached thereto as Exhibit C), filed as Exhibit 4.1 to Tandy Leather Factory Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on June 10, 2013 and incorporated by reference herein. |
| 10.1           | Form of Non-Employee Director Restricted Stock Agreement under Tandy Leather Factory, Inc.'s 2013 Restricted Stock Plan, filed as Exhibit 10.1 to Tandy Leather Factory, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on February 14, 2014 and incorporated by reference herein.  |
| 10.1           | 2007 Director Non-Qualified Stock Option Plan, filed as Exhibit A to Tandy Leather Factory, Inc.'s Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 18, 2007 and incorporated by reference herein.  |
| 10.2           | First Amendment to 2007 Director Non-Qualified Stock Option Plan dated May 3, 2010, filed as Exhibit 10.2 to Tandy Leather Factory Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 4, 2010 and incorporated by reference herein.  |
| 10.3           | Second Amendment to 2007 Director Non-Qualified Stock Option Plan dated October 7, 2010, filed as Exhibit 10.3 to Tandy Leather Factory Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 12, 2010 and incorporated by reference herein.  |
| 10.4           | Third Amendment to 2007 Director Non-Qualified Stock Option Plan dated February 11, 2014, filed as Exhibit 10.5 to Tandy Leather Factory Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on February 14, 2014 and incorporated by reference herein.  |
| 10.5           | Credit Agreement, dated July 31, 2007, by and between The Leather Factory, L.P. and JPMorgan Chase Bank, N.A., filed as Exhibit 10.2 to Tandy Leather Factory's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 6, 2007 and incorporated by reference   |

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

|          |  |
|----------|--|
|          | herein.  |
| 10.6     | Line of Credit Note, dated July 31, 2007, by and between The Leather Factory, L.P. and JPMorgan Chase Bank, N.A., filed as Exhibit 10.1 to Tandy Leather Factory's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 6, 2007 and incorporated by reference herein.  |
| 10.7     | Deed Of Trust, Assignment of Leases and Rents, Security Agreement and Financing Statement, dated as of July 31, 2007, by and among The Leather Factory, L.P., Randall B. Durant and JPMorgan Chase Bank, N.A., filed as Exhibit 10.3 to Tandy Leather Factory's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 6, 2007 and incorporated by reference herein. |
| 10.8     | Line of Credit Note, dated June 21, 2012, by and between The Leather Factory, L.P. and JPMorgan Chase Bank, N.A., filed as Exhibit 10.1 to Tandy Leather Factory's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 14, 2012 and incorporated by reference herein.  |
| 10.9     | Settlement Agreement, dated September 24, 2012, filed as Exhibit 10.1 to Tandy Leather Factory's Current Report on Form 8-K, filed with the Securities and Exchange Commission on September 28, 2012 and incorporated by reference herein.   |
| 10.10    | Form of Change of Control Agreement between the Company and each of Jon Thompson, Shannon Greene and Mark Angus, each effective as of December 3, 2012, filed as Exhibit 10.1 to Tandy Leather Factory's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 6, 2012 and incorporated by reference herein.  |
| 10.11    | Tandy Leather Factory, Inc. 2013 Restricted Stock Plan, filed as Exhibit 10.1 to Tandy Leather Factory's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2013 and incorporated by reference herein.  |
| 10.12    | Form of Non-Employee Director Restricted Stock Agreement under Tandy Leather Factory, Inc.'s 2013 Restricted Stock Plan, filed as Exhibit 10.1 to Tandy Leather Factory, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on February 14, 2014 and incorporated by reference herein.  |
| 10.13    | Form of Employee Restricted Stock Agreement under Tandy Leather Factory, Inc.'s 2013 Restricted Stock Plan, filed as Exhibit 10.6 to Tandy Leather Factory, Inc.'s Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 14, 2014 and incorporated by reference herein.  |
| *31.1    | 13a-14(a) or 15d-14(a) Certification by Jon Thompson, Chief Executive Officer and President.   |
| *31.2    | 13a-14(a) or 15d-14(a) Certification by Shannon Greene, Chief Financial Officer and Treasurer.   |
| *32.1    | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 101.INS^ | XBRL Instance Document.  |
| 101.SCH^ | XBRL Taxonomy Extension Schema Document.   |

101.CAL<sup>^</sup> XBRL Taxonomy Extension Calculation Document.

101.DEF<sup>^</sup> XBRL Taxonomy Extension Definition Document.

101.LAB<sup>^</sup> XBRL Taxonomy Extension Labels Document.

101.PRE<sup>^</sup> XBRL Taxonomy Extension Presentation Document.

---

\*Filed herewith.

<sup>^</sup> XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.



Table of Contents

SIGNATURES

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

TANDY LEATHER FACTORY, INC.  
(Registrant)

Date: May 13, 2015

By: /s/ Jon Thompson  
Jon Thompson  
Chief Executive Officer and President

Date: May 13, 2015

By: /s/ Shannon L. Greene  
Shannon L. Greene  
Chief Financial Officer and Treasurer (Chief Accounting  
Officer)

Table of Contents