

TANDY LEATHER FACTORY INC
Form 10-K/A
March 28, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K/A
Amendment No. 1

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period _____ 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)

75-2543540
(I.R.S. Employer Identification No.)

1900 Southeast Loop 820, Fort Worth,
TX 76140
(Address of Principal Executive Offices and
Zip Code)

817/872-3200
(Registrant's telephone number, including area
code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.0024	NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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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 (Section 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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$43,932,787 at June 30, 2012 (based on the price at which the common stock was last traded on the last business day of its most recently completed second fiscal quarter). At March 26, 2013, there were 10,162,442 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on June 6, 2013, are incorporated by reference in Part III of this report.

EXPLANATORY NOTE

This Amendment No. 1 is being filed solely for the purpose of correcting the date of the independent auditor report on page 26, which was inadvertently omitted from the initial filing. Except for this correction, there have been no changes in any of the financial or other information contained in the report. For convenience, the entire Annual Report on Form 10-K, as amended, is being re-filed.

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PART I

ITEM 1. BUSINESS

General

We are a retailer and wholesale distributor of a broad line of leather and related products, including leather, leatherworking tools, buckles and adornments for belts, leather dyes and finishes, saddle and tack hardware, and do-it-yourself kits. We also manufacture leather lacing and some of our do-it-yourself kits. During 2012, our consolidated sales totaled \$72.7 million of which approximately 16% were export sales. We maintain our principal offices at 1900 Southeast Loop 820, Fort Worth, Texas 76140. Our common stock trades on the NASDAQ Global Market under the symbol "TLF."

Our company was founded in 1980 as Midas Leathercraft Tool Company, a Texas corporation. Midas' original business activity focused on the distribution of leathercraft tools. In addition, the founders of Midas entered into a consulting agreement with Brown Group, Inc., a major footwear retailer, as a result of their proposal to develop a multi-location chain of wholesale stores known as "The Leather Factory." In 1985, Midas purchased the assets related to The Leather Factory stores from Brown Group, Inc., which then consisted of six wholesale stores.

In 1993, we changed our name to The Leather Factory, Inc., and reincorporated in the state of Delaware in 1994. In 2005, we changed our name to Tandy Leather Factory, Inc.

Our Development in Recent Years

We have expanded our wholesale store chain by opening new stores and by making numerous acquisitions of small businesses in strategic geographic locations including the acquisition of our Canadian distributor, The Leather Factory of Canada, Ltd., in 1996. By 2000, our wholesale chain had grown to 27 Leather Factory stores located in the United States and two Leather Factory stores in Canada. In November 2000, we acquired the operating assets of two subsidiaries of Tandycrafts, Inc. to form Tandy Leather Company. In 2002, we began opening retail stores under the "Tandy Leather" name and also opened our thirtieth wholesale store – our third in Canada. From 2002 to 2009, we purchased eleven independent leathercraft retail stores, including Heritan Ltd. and its parent, our primary Canadian competitor, and opened another 64 retail stores. In 2007, we purchased Mid-Continent Leather Sales, Inc., a competitor located in Oklahoma, a wholesale store. In 2008, we opened one combination wholesale and retail store in Northampton, United Kingdom. In 2010, we opened one retail store in Canada. In 2011, we opened one combination wholesale and retail store in Sydney, Australia and one retail store in the U.S. In 2012, we opened one combination wholesale and retail store in Jerez, Spain and one retail store in the U.S.

At December 31, 2012, we operated 29 wholesale stores operating under the Leather Factory name (26 in the U.S. and three in Canada). We also operated 78 retail stores operating under the Tandy Leather name (71 in the U.S. and seven in Canada) as well as three combination wholesale and retail stores operating under the Tandy Leather Factory name in the United Kingdom, Australia and Spain. We closed Mid-Continent Leather Sales, a wholesale store, in October 2010.

Tandy Leather Factory, Inc. wholly-owns eleven subsidiaries which create three operating segments as follows:

Segment	Subsidiaries included:
Wholesale Leathercraft	The Leather Factory, LP; The Leather Factory of Canada, Ltd (3 stores)

Retail Leathercraft Tandy Leather Company, LP;
The Leather Factory of Canada, Ltd (7 stores)

International Leathercraft Tandy Leather Factory UK Ltd.
Tandy Leather Factory Australia Pty Ltd
Tandy Leather Factory Espana, SL

Our growth, measured both by our net sales and net income, occurs as a result of the increase in the number of stores we have and the increase from year to year of the sales in our existing stores. The following tables provide summary store count information by segment in each of our fiscal years from 1999 to 2012.

STORE COUNT
YEARS ENDED DECEMBER 31, 1999 through 2012

Year Ended	Wholesale Leathercraft			Retail Leathercraft			International Leathercraft			
	Opened	Conv. (1)	Closed	Total	Opened (2)	Closed	Total	Opened	Closed	Total
Balance Fwd				22			N/A			N/A
1999	4	-	-	26	-	-	-	-	-	-
2000	2	-	-	28	1*	-	1	-	-	-
2001	2	-	-	30	-	-	1	-	-	-
2002	1	(1)	-	30	14	1*	14	-	-	-
2003	-	-	-	30	12	-	26	-	-	-
2004	-	-	-	30	16	-	42	-	-	-
2005	-	-	-	30	8	-	50	-	-	-
2006	-	(1)	-	29	12	-	62	-	-	-
2007	1^	-	-	30	10	-	72	-	-	-
2008	-	-	-	30	1	-	73	1	-	1
2009	-	-	-	30	2	-	75	-	-	1
2010	-	-	1^	29	1	-	76	-	-	1
2011	-	-	-	29	1	-	77	1	-	2
2012	-	-	-	29	1	-	78	1	-	3

(1) Leather Factory wholesale store converted to a Tandy Leather retail store.

(2) Includes conversions of Leather Factory wholesale stores to Tandy Leather retail stores.

(*) The Tandy Leather operation began as a central mail-order fulfillment center in 2000 which was closed in 2002.

(^) Wholesale store operating as Mid-Continent Leather Sales

No single customer's purchases represented more than 2% of our total sales in 2012. Sales to our five largest customers represent 2.9%, 5.5% and 5.5% of consolidated sales in 2012, 2011 and 2010, respectively. Management does not believe the loss of one of these customers would have a significant negative impact on our consolidated operations.

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Our Operating Segments

We service our customers primarily through the operation of three segments. We identify those segments based on management responsibility, customer focus, and store location. The Wholesale Leathercraft segment consists of 29 wholesale stores of which 26 are located in the United States and three are located in Canada. As of March 1, 2013, the Retail Leathercraft segment consists of 78 Tandy Leather retail stores of which 71 are located in the United States and seven are located in Canada. Both of these segments sell leather and leathercraft-related products. The International Leathercraft segment consists of all stores, wholesale or retail, located outside of North America. As of March 1, 2013, we had three such stores, one located in the United Kingdom, one located in Australia, and one located in Spain.

Information regarding net sales, gross profit, operating income and total assets, attributable to each of our segments, is included within Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and within Item 8. Financial Statements and Supplementary Data in Note 14, Segment Information, of our Notes to Consolidated Financial Statements, which are incorporated herein by reference.

Wholesale Leathercraft

The Wholesale Leathercraft operation distributes its broad product line of leather and leathercraft-related products in the United States and Canada through wholesale stores operating under the name, "The Leather Factory". This segment had net sales of \$26.9 million, \$26.5 million and \$25.9 million for 2012, 2011 and 2010, respectively.

General We operate wholesale stores in 20 states and three Canadian provinces. The stores range in size from 2,350 square feet to 15,500 square feet, with the average size of a store being approximately 5,000 square feet. The type of premises utilized for our wholesale stores is generally light industrial office/warehouse space in proximity to a major freeway or with other similar access. This type of location typically offers lower rents compared to other more retail-oriented locations.

Business Strategy Our business concept focuses on the wholesale distribution of leather and related accessories to retailers, manufacturers and end users. Our strategy is that a customer can purchase the leather, related accessories and supplies necessary to complete his project from a single source. The size and layout of the stores are planned to allow large quantities of product to be displayed in an easily accessible and visually appealing manner. Leather is displayed by the pallet where the customer can see and touch it, assessing first-hand the numerous sizes, styles and grades offered. The location of the stores is selected based on the location of customers, so that delivery time to customers is minimized. A two-day maximum delivery time for phone, internet and mail orders is our goal.

Our wholesale stores serve customers through various means including walk-in traffic, phone, internet and mail order. We also employ a distinctive marketing tactic in that we maintain an internally-developed target customer mailing list for use in our aggressive direct mail advertising campaigns. We staff our stores with experienced managers whose compensation is tied to the operating profit of the store they manage. Sales are generated by the selling efforts of the store personnel, our direct mail advertising, our website (www.tandy-leatherfactory.com), and our participation at trade shows.

Customers Our customer base consists of thousands of individuals, wholesale distributors, tack and saddle shops, institutions (prisons and prisoners, schools, hospitals), western stores, craft stores and craft store chains, other large volume purchasers, manufacturers and retailers dispersed geographically throughout the world. Wholesale sales constitute the majority of our business, although retail customers may purchase products from our wholesale stores. The Wholesale Leathercraft division's sales generally do not reflect significant seasonal patterns. No single customer's purchases represented more than 1% of this Wholesale Leathercraft's sales in 2012.

Our Authorized Sales Center (“ASC”) program was developed to create a presence in geographic areas where we do not have a company-owned store. An unrelated person operating an existing business could become an ASC by submitting an application and upon approval, placing a minimum initial order and meeting minimum annual purchase amounts. In exchange, the benefits to the ASC are free advertising in various sales flyers produced and distributed by us, preferred pricing on certain products, advance notice of new products, and priority shipping and handling of orders. In 2011, the ASC program was eliminated in North America as the number and location of our stores were deemed sufficient to represent each geographic area. We currently have 7 ASC’s located outside of North America.

Merchandise Our products are generally organized into 12 categories. We carry a wide assortment of products including leather, lace, hand tools, kits and craft supplies. We operate a light manufacturing facility in Fort Worth, Texas whose processes generally involve cutting leather into various shapes and patterns using metal dies. The factory produces approximately 20% of our products and also assembles and repackages products as needed. Products manufactured in our factory are distributed through our stores under the Tejas™ brand name. We also distribute product under the Tandy Leather™, Eco-Flo™, Craftool™ and Dr. Jackson's™ brands. We develop new products through the ideas and referrals of customers and store personnel as well as the analysis of fads and trends of interest in the market.

We offer an unconditional satisfaction guarantee to our customers. Simply stated, we will accept product returns for any reason. We believe this liberal policy promotes customer loyalty. We offer credit terms to our non-retail customers upon receipt of a credit application and approval by our credit manager. Generally, our open accounts are net 30 days.

During 2012, 2011, and 2010, Wholesale Leathercraft division sales by product category were as follows:

Product Category	2012 Sales Mix	2011 Sales Mix	2010 Sales Mix
Belts strips and straps	3%	3%	3%
Books, patterns, videos	2%	2%	2%
Buckles	4%	4%	4%
Conchos [^]	4%	4%	4%
Craft supplies	4%	5%	5%
Dyes, finishes, glues	6%	6%	6%
Hand tools	15%	15%	14%
Hardware	7%	7%	7%
Kits	8%	7%	8%
Lace	5%	7%	7%
Leather	38%	35%	36%
Stamping tools	4%	5%	4%
	100%	100%	100%

[^]A concho is a metal adornment attached to clothing, belts, saddles, etc., usually made into a pattern of some southwestern or geometric object.

In addition to meeting ordinary operational requirements, our working capital demands are a product of the need to maintain a level of inventory sufficient to fill customer orders as they are received with minimal backorders and the time required to collect our accounts receivable. Because availability of merchandise and prompt delivery time are important competitive factors for us, we maintain higher levels of inventory than our smaller competitors. For additional information regarding our cash, inventory and accounts receivable at the end of 2012 and 2011, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Suppliers We purchase merchandise and raw materials from approximately 200 vendors dispersed throughout the United States and in approximately 20 foreign countries. In 2012, our 10 largest vendors accounted for approximately

71% of our inventory purchases.

Because leather is sold internationally, market conditions abroad are likely to affect the price of leather in the United States. Outbreaks of mad cow and hoof-and-mouth disease (or foot-and-mouth disease) in any part of the world can influence the price of the leather we purchase. Because an occurrence of such an event is beyond our control, we cannot predict when and to what extent we could be affected in the future. Aside from increasing purchases when we anticipate price increases (or possibly delaying purchases if we foresee price declines), we do not attempt to hedge our inventory costs.

Overall, we believe that our relationships with suppliers are strong and do not anticipate any material changes in these supplier relationships. Due to the number of alternative sources of supply, we do not believe that the loss of any of these principal suppliers would have a material impact on our operations.

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Operations Hours of operations vary by location, but generally range from 9:00 am to 6:00 pm Monday through Friday, and from 9:00 am to 4:00 pm on Saturdays. The stores maintain uniform prices, except where lower prices are necessary to meet local competition.

Competition Most of our competition comes in the form of small, independently-owned retailers who in most cases are also our customers. We estimate that there are a few hundred of these small independent stores in the United States and Canada. We compete on price, availability of merchandise, and delivery time. While there is competition in connection with a number of our products, to our knowledge there is no direct competition affecting our entire product line. Our large size relative to most competitors gives us the advantage of being able to purchase large volumes and stock a full range of products.

Distribution The wholesale stores receive the majority of their inventory from our central warehouse located in Fort Worth, Texas, although occasionally, merchandise is shipped directly from the vendor. Inventory is shipped to the stores from our central warehouse once a week to meet customer demand without sacrificing inventory turns. Customer orders are typically filled as received, and we do not have backlogs.

We attempt to maintain the optimum number of items in our product line to minimize out-of-stock situations against carrying costs involved with such an inventory level. We generally maintain higher inventories of imported items to ensure a continuous supply. The number of products offered changes every year due to the introduction of new items and the discontinuance of others. We carry approximately 2,600 items in the current lines of leather and leather-related merchandise. All items are offered in all stores.

Expansion Our wholesale store expansion across the United States has been fairly consistent since we purchased the original six stores in 1985. We opened our thirtieth store in August 2002. We converted one wholesale (Leather Factory) store to a retail (Tandy Leather) store in 2006, reducing the number of wholesale stores to 29. We acquired Mid-Continent Leather Sales in 2007, a wholesale store located in Oklahoma, increasing the number of wholesale stores to 30, but subsequently closed it in 2010, reducing the number of wholesale stores again to 29. While we do not believe there is a significant and immediate opportunity for expansion of the Leather Factory store system in terms of opening additional locations, we do believe expansion could be achieved by acquiring companies in related areas/markets which offer collaborative advantages based on the local markets and/or the product lines of the businesses.

Retail Leathercraft

Our Retail Leathercraft segment consists of a growing chain of retail stores operating under the name, "Tandy Leather." Tandy Leather Company, established in 1919 as Hinkley-Tandy Leather Company, is the oldest and one of the best-known suppliers of leather and related supplies used in the leathercraft industry. This retail segment offers a product line of quality tools, leather, accessories, kits and teaching materials. It had net sales of \$42.6 million, \$37.4 million and \$32.3 million for 2012, 2011 and 2010, respectively.

General As of March 1, 2013, the Tandy Leather retail chain has 78 stores located in 37 states and six Canadian provinces with plans to reach 100 to 120 stores as opportunities arise. The stores range in size from 1,200 square feet to 6,325 square feet, with the average size of a store being approximately 2,400 square feet. The type of premises utilized for a retail store is generally an older strip shopping center located at well-known crossroads, making the store easy to find.

Business Strategy Tandy Leather has long been known for its reputation in the leathercraft industry and its commitment to promoting and developing the craft through education and customer development. Our commitment to this strategy is evidenced by our re-establishment of the retail store chain throughout the United States and Canada

following our acquisition of the assets of Tandy Leather in 2000. We continue to broaden our customer base by working with various youth organizations and institutions where people are introduced to leathercraft, as well as hosting classes in our stores.

The retail stores serve walk-in, mail and phone order customers as well as orders generated from our website, www.tandyleatherfactory.com. A two-day maximum delivery time for phone, internet and mail orders is our goal. Our retail stores are staffed by knowledgeable sales people whose compensation is based, in part, upon the profitability of their store. Sales by Tandy Leather are driven by the efforts of the store staff, trade shows, and our direct mail and e-mail marketing program.

Customers Individual retail customers are our largest customer group, representing approximately 60% of Tandy Leather's 2012 sales. Youth groups, summer camps, schools and a limited number of wholesale customers complete our customer base. Like the wholesale stores, the retail stores typically fill orders as they are received, and there is no order backlog. The retail stores maintain reasonable amounts of inventory to fill these orders. Tandy Leather's retail store operations historically generate slightly more sales in the fourth quarter of each year due to the holiday shopping season (28-30% of annual sales), while the other three quarters remain fairly even at 23-25% of annual sales each quarter. No single customer's purchases represented more than 1% of Retail Leathercraft's sales in 2012.

Merchandise Our products are generally organized into 12 categories. We carry a wide assortment of products including leather, hand tools, kits, dyes & finishes and stamping tools. During 2012, 2011 and 2010, Retail Leathercraft division sales by product category were as follows:

Product Category	2012 Sales Mix	2011 Sales Mix	2010 Sales Mix
Belts strips and straps	5%	5%	5%
Books, patterns, videos	2%	2%	2%
Buckles	4%	4%	4%
Conchos	3%	4%	4%
Craft supplies	3%	3%	4%
Dyes, finishes, glues	7%	7%	8%
Hand tools	16%	16%	15%
Hardware	7%	7%	6%
Kits	8%	9%	10%
Lace	3%	3%	3%
Leather	37%	35%	34%
Stamping tools	5%	5%	5%
	100%	100%	100%

As indicated above, the products sold in our retail stores are also sold in our wholesale stores. Therefore, the discussion above regarding products, their sources and the working capital requirements for the Wholesale Leathercraft division also apply to the Retail Leathercraft division. Sales at the retail stores are generally made through cash transactions or through national credit cards. The retail stores also sell on open account to selected wholesale customers including schools and other institutions and small retailers. Our terms are generally net 30 days. Like the wholesale stores, the retail stores have an unconditional return policy.

Operations Hours of operation are 9:00 am to 6:00 pm Monday through Friday, and from 9:00 am to 4:00 pm on Saturdays. In addition, most of the stores stay open late one night a week for leathercrafting classes taught in the stores. Selling prices are uniform throughout the retail store system.

Competition Our competitors are generally small local craft stores that carry a limited line of leathercraft products. Several national retail chains that are customers in our Wholesale Leathercraft division also carry

leathercraft products on a very small scale relative to their overall product line. To our knowledge, our retail store chain is the only one in existence solely specializing in leathercraft.

Distribution The retail stores receive their inventory from our central warehouse located in Fort Worth, Texas. The stores generally restock their inventory once a week with a shipment from the warehouse. Retail Leathercraft's inventory turns are higher than Wholesale Leathercraft's because the Wholesale Leathercraft calculation includes the central warehouse inventory whereas the Retail Leathercraft calculation includes only the inventory in the Tandy Leather retail stores.

Expansion We intend to expand the Tandy Leather retail store chain to between 100 and 120 stores throughout North America as it makes financial sense to do so. 14 stores were opened in 2002; 12 stores were opened in 2003; 16 were opened in 2004 (including four in Canada); eight were opened in 2005, 12 were opened in 2006, ten were opened in 2007; one was opened in 2008, two were opened in 2009, and one was opened in each of the years 2010, 2011 and 2012. Of the 78 stores opened as of December 31, 2012, 11 were independent leathercraft stores that we acquired. Separately, these acquisitions are not material. The other 67 stores have been new stores opened by us.

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International Leathercraft

Our International Leathercraft segment consists of company-owned stores located outside of North America. As of December 31, 2012, there were three wholesale/retail combination stores in this segment: one in Northampton, United Kingdom, which we opened in February 2008, one in Sydney, Australia, which we opened in October 2011, and one in Jerez, Spain, which we opened in January 2012. The stores operate under the Tandy Leather Factory trade name. This segment had net sales of \$3.3 million, \$2.1 million and \$1.7 million in 2012, 2011 and 2010, respectively. We intend to open more stores internationally as the opportunities present themselves, but we have not determined a specific time schedule for said openings.

Business Strategy The business concept for our International Leathercraft division is a blending of our Leather Factory and Tandy Leather business strategies – the wholesale distribution of leather and related accessories to retailers, manufacturers and other businesses, as well as the promotion and continuance of leathercraft through education and development of the retail customers. The stores average 7,000 square feet and are located in light industrial areas. We seek to maintain sufficient inventory so that our customers can purchase the leather, related accessories and supplies necessary to complete their projects from one supplier. The layout of the store is such that large quantities of product can be displayed in an easily accessible and visually appealing manner. The store services walk-in, mail and phone order customers as well as orders generated from our website, www.tandy-leatherfactory.com. Sales are driven by the efforts of the store staff, trade shows, and our direct mail and e-mail marketing programs.

Customers The growing customer base consists of individuals, wholesale distributors, equine-related shops, cobblers, dealers, and retailers dispersed geographically throughout Europe, Australia, and Asia. Retail sales generally occur via cash transactions or through national credits cards. We also sell on open account to selected wholesale customers including dealers, manufacturers, and retailers. Like our USA stores, our international stores have an unconditional return policy. No single customer's purchases represented more than 3% of International Leathercraft's sales in 2012.

Merchandise The products sold in our international stores are also sold in our North America stores. Therefore, the discussion above regarding products, their sources and the working capital requirements for the Wholesale and Retail Leathercraft divisions also apply here.

Operations Hours of operation are 8:00 am to 5:00 pm Monday through Friday, and from 8:00 am to 2:00 pm on Saturdays. Selling prices are consistent with the USA store pricing, adjusted for currency fluctuation.

Competition Our competitors are generally small, independently-owned retailers who, in some cases, are also our customers. We compete on price, availability of merchandise, and delivery time. While there is competition in connection with a number of the products we carry, to our knowledge there is no direct competition affecting our entire product line. We believe our ability to stock a full range of products gives us an advantage over most local competitors.

Distribution The international stores receive the majority of inventory from our central warehouse located in Fort Worth, Texas, although occasionally, merchandise is shipped directly from the vendor. Inventory is shipped from our warehouse to the store several times per month to meet customer demand without sacrificing inventory turns. Customer orders are typically filled as received, and we typically do not have backlogs.

Expansion We intend to expand further internationally. We intend to grow our customer base throughout Europe as well as other parts of the world so that we can support additional stores.

For more information about our business and our reportable segments, see Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page 8.

Additional Information

Compliance With Environmental Laws Our compliance with federal, state and local environmental protection laws has not had, and is not expected to have, a material effect on our capital expenditures, earnings or competitive position.

Employees As of December 31, 2012, we employed 566 people, 432 of whom were employed on a full-time basis. We are not a party to any collective bargaining agreements. Overall, we believe that relations with employees are good.

Intellectual Property We own approximately 120 registered trademarks, including federal trade name registrations for "Tandy Leather Factory", "The Leather Factory", "Tandy Leather Company", and "Tandy." We also own approximately 60 registered foreign trademarks worldwide. We own approximately 600 registered copyrights in the United States covering more than 800 individual works relating to various products. We also own several United States patents for specific belt buckles and leather-working equipment. These rights are valuable assets, and we defend them as necessary.

International Operations Information regarding our revenues from the United States and abroad and our long-lived assets are found in Note 14 to our Consolidated Financial Statements, Segment Information. For a description of some of the risks attendant to our foreign operations, see Item 1.A "Risk Factors" on page 5.

Our Website and Availability of SEC Reports We file reports with the Securities and Exchange Commission ("SEC"). These reports include our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to these filings. The public may read any of these filings at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. In addition, the public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Further, the SEC maintains an Internet site that contains reports, proxy and information statements and other information concerning us. You can connect to this site at <http://www.sec.gov>.

Our corporate website is located at <http://www.tandyleatherfactory.com>. We make copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and any amendments thereto filed with or furnished to the SEC available to investors on or through our website free of charge as soon as reasonably practicable after we electronically file them with or furnish them to the SEC. Our SEC filings can be found on the Investor Relations page of our website through the "SEC Filings" link. In addition, certain other corporate governance documents are available on our website through the "Corporate Governance" link.

Executive Officers of the Registrant

The following table sets forth information concerning our executive officers as of March 26, 2013:

Name and Age	Position	Served as Executive Officer Since
Jon W. Thompson, 51	Chief Executive Officer since July 2009; President and Chief Operating Officer since June 2008; Vice President from June 1993 to June 2008	2008
Shannon L. Greene, 47	Chief Financial Officer since May 2000; Treasurer and Chief Accounting Officer since 2001	2000

Mark J. Angus, 52	Senior Vice President and Assistant Secretary since June 2008; Operational Vice President of Merchandising since June 1993	2008
William M. Warren, 69	Secretary and Corporate Counsel	1993

Jon W. Thompson has served as our Chief Executive Officer since July 2009. He has also served as President and Chief Operating Officer since June 2008. He served as Vice President from June 1993 to June 2008.

Shannon L. Greene has served as our Chief Financial Officer and Treasurer since May 2000 and director since January 2001. Ms. Greene is also our Chief Accounting Officer. Ms. Greene, a certified public accountant, also serves on our 401(k) Plan committee. Her professional affiliations include the American Institute of Certified Public Accountants, the Texas Society of Certified Public Accountants and its Fort Worth chapter, and Financial Executives International and its Fort Worth chapter. She is also a member of the Board of Directors of the U.S. Chamber of Commerce and serves as chairman of the Chamber's Corporate Leadership Advisory Council. She is a member of the SEC Advisory Committee on Small and Emerging Companies as well as the Professional Standards Committee of the Texas Society of Certified Public Accountants.

Mark J. Angus has served as Senior Vice President since June 2008. He served as Vice President of Merchandising since January 1993.

William M. Warren has served as Secretary and General Counsel since 1993. Since 1979, Mr. Warren has been President and Director of Loe, Warren, Rosenfield, Kaitcer, Hibbs, Windsor & Lawrence, P.C., a law firm located in Fort Worth, Texas.

All officers are elected annually by the Board of Directors to serve for the ensuing year.

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ITEM 1A. RISK FACTORS

Risks to Our Industry

Our business may be negatively impacted by general economic conditions and the current global financial crisis.

Our performance is subject to worldwide economic conditions and their impact on levels of consumer spending that affect not only the ultimate consumer, but also small businesses and other retailers. Specialty retail, and retail in general, is heavily influenced by general economic cycles. Purchases of non-essential products tend to decline in periods of recession or uncertainty regarding future economic prospects, as disposable income declines. During periods of economic uncertainty, we may not be able to maintain or increase our sales to existing customers, make sales to new customers, open and operate new stores, maintain sales levels at our existing stores, maintain or increase our international operations on a profitable basis, or maintain our earnings from operations as a percentage of net sales. The United States and global economies have suffered from economic uncertainty for the past several years. Consumer spending in the United States appears to have stabilized recently, but could deteriorate in the future. As a result, our operating results may be adversely and materially affected by downward trends or uncertainty in the United States or global economies.

Increases in the price of leather and other items we sell or a reduction in availability of those products could increase our cost of goods and decrease our profitability.

The prices we pay our suppliers for our products are dependent in part on the market price for leather, metals, and other products. The cost of these items may fluctuate substantially, depending on a variety of factors, including demand, supply conditions, transportation costs, government regulation, economic climates, political considerations, and other unpredictable factors. Leather prices world-wide have been on the rise for the past several years and the outlook for future prices is uncertain. Increases in these costs, together with other factors, will make it difficult for us to sustain the gross margin level we have achieved in recent years and result in a decrease in our profitability unless we are able to pass higher prices on to our customers or reduce costs in other areas. Accordingly, such increases in costs could adversely affect our business and our results of operations.

Further, continued involvement by the United States in war and other military operations in the Middle East and other areas abroad could disrupt international trade and affect our inventory sources. Finally, livestock diseases such as mad cow could reduce the availability of hides and leathers or increase their cost. The occurrence of any of these events could adversely affect our business and our results of operations.

Our business could be harmed if we are unable to maintain our brand image.

Tandy Leather is one of the most recognized brand names in our industry. Our success to date has been due in large part to the strength of that brand. If we are unable to provide quality products and exceptional customer service to our customers, including education, which Tandy Leather has traditionally been known for, our brand name may be impaired which could adversely affect our operating results.

Risks Related to Our Business

We may be unable to sustain our past growth or manage our future growth, which may have a material adverse effect on our future operating results.

We have experienced solid sales and earnings growth recently. Many specialty retailers have experienced periods of growth in sales and earnings followed by periods of declining sales and losses. Our business may be similarly affected in the future. We anticipate that our future growth will depend on a number of factors, including the strength and protection of our brand name, the market success of our current and future products, the success of our growth

strategies, and our ability to manage our future growth. Further, our future success will depend substantially on the ability of our management team to manage our growth effectively, optimizing our operational, administrative, financial and legal procedures in order to maximize profitability. If we fail to manage our growth effectively, our future operating results could be adversely affected.

Our profitability may decline as a result of increasing pressure on margins.

Our industry is subject to significant pricing pressure caused by many factors, including fluctuations in the cost of the leathers and metal products that we purchase and changes in consumer spending patterns and acceptance of our products. Changes in consumers' product preferences or lack of acceptance of our products whose costs have increased may prohibit us from passing those increases on to customers which could cause our gross margin to decline. If our product costs increase and our sale prices do not, our future operating results could be adversely affected unless we are able to offset such gross margin declines with comparable reductions in operating costs.

We may be unsuccessful in implementing our planned international expansion, which could impair the value of our brand, harm our business and negatively affect our results of operation.

We plan to grow our net sales and net earnings from our International Leathercraft segment by opening stores in various international markets. As we expand outside of North America, we may incur significant costs relating to starting up, maintaining and expanding foreign operations. Such costs may include, but are not limited to, obtaining locations for stores, hiring personnel, and travel expenses. We may be unable to open and operate new stores successfully and as a result, our growth may be limited, unless we are able to identify desirable sites for store locations, negotiate acceptable lease terms, hire, train and retain competent store personnel; manage inventory effectively to meet the needs and demands of customers on a timely basis, manage foreign currency risk effectively, and achieve acceptable operating margins from the new stores. We cannot be sure that we can successfully open new stores or that our new stores will be profitable. If we are unable to successfully open new stores or our new stores are not profitable, our business and our results of operations could be adversely affected.

As we continue to increase our international operations, we face the possibility of greater losses from a number of risks inherent in doing business in international markets and from a number of factors which are beyond our control, such as political instability or acts of terrorism, which disrupt trade with the countries in which our suppliers or customers are located; local business practices that do not conform to legal or ethical guidelines; restrictions or regulations relating to imports or exports; additional or increased customs duties, tariffs, taxes and other charges on imports; significant fluctuations in the value of the dollar against foreign currencies; social, legal or economic instability in the foreign markets in which we do business, which could influence our ability to sell our products in these markets; and restrictions on the transfer of funds between the United States and foreign jurisdictions. The occurrence of any of these events could adversely affect our business and our results of operations.

We may fail to realize the anticipated benefits of the opening of additional stores in North America or we may be unable to obtain sufficient new locations on acceptable terms to meet our growth plans. Further, we may fail to hire and train qualified managers to oversee the stores opened.

Our strategy to grow our business partially depends on continuing to successfully open new stores in North America. The success of this strategy will depend largely upon our ability to find a sufficient number of suitable locations and our ability to recruit, hire and train qualified personnel to operate our new stores.

Our long-term expansion plans in North America have us opening new stores both in new geographic areas and in or near the areas where we have existing stores. To the extent that we open stores in markets where we already have existing stores, we may experience reduced net sales at those existing stores. Also, if we expand into new geographic areas, those stores may not be received as well as, or achieve net sales or profitability levels comparable to those of, our existing stores in our estimated time periods, or at all. If our stores fail to achieve, or are unable to sustain,

acceptable net sales and profitability levels, our business may be materially harmed and we may incur costs associated with closing or relocating stores. In addition, our current expansion plans are only estimates, and the actual number of stores we open each year and in total and the actual number of suitable locations for our new stores could differ significantly from these estimates. If we are unable to successfully open new stores or our new stores are not profitable, our business and our results of operations could be adversely affected.

Our success depends on the continued protection of our trademarks and other proprietary intellectual property rights.

Our trademarks and other intellectual property rights are important to our success and competitive position, and the loss of or inability to enforce our trademark and other proprietary intellectual property rights could harm our business. We devote substantial resources to the establishment and protection of our trademark and other proprietary intellectual property rights on a worldwide basis. Despite any precautions we may take to protect our intellectual property, policing unauthorized use of our intellectual property is difficult, expensive and time consuming, and we may be unable to adequately protect our intellectual property or determine the extent of any unauthorized use. Our efforts to establish and protect our trademark and other proprietary intellectual property rights may not be adequate to prevent imitation or counterfeiting of our products by others, which may not only erode sales of our products but may also cause significant damage to our brand name. Further, we could incur substantial costs in legal actions relating to our use of intellectual property or the use of our intellectual property by others. Even if we are successful in these actions, the costs we incur could have a material adverse affect on us.

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Foreign currency fluctuations could adversely impact our financial condition and results of operations.

We generally purchase our products in U.S. dollars. However, we source a large portion of our products from countries other than the United States. The cost of these products may be affected by changes in the value of the applicable currencies. Changes in currency exchange rates may also affect the U.S. dollar value of the foreign currency denominated prices at which our international business will sell products. Furthermore, the majority of our international sales are generally derived from sales in foreign countries. This revenue, when translated into U.S. dollars for consolidated reporting purposes, could be materially affected by fluctuations in the U.S. dollar, negatively impacting our results of operations and our ability to generate revenue growth.

Other uncertainties, which are difficult to predict and many of which are beyond our control, may occur as well and may adversely affect our business and our results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We lease all of our store locations premises, with the majority of our stores having initial lease terms of approximately five years. The leases are generally renewable, with increases in lease rental rates in some cases. We believe that all of our properties are adequately covered by insurance. The properties leased by us are described in Item 1 in the description of each of our three operating segments. We own our corporate headquarters, which includes our central warehouse and manufacturing facility, sales, advertising, administrative, and executive offices. The facility consists of 191,000 square feet located on approximately 30 acres.

The following table summarizes the locations of our leased premises as of December 31, 2012:

State	Wholesale Leathercraft	Retail Leathercraft	International
Alabama	-	1	n/a
Alaska	-	1	n/a
Arizona	2	3	n/a
Arkansas	-	1	n/a
California	3	7	n/a
Colorado	1	3	n/a
Connecticut	-	1	n/a
Florida	1	3	n/a
Georgia	-	1	n/a
Idaho	-	1	n/a
Illinois	1	1	n/a
Indiana	-	2	n/a
Iowa	1	-	n/a
Kansas	1	-	n/a
Kentucky	-	1	n/a
Louisiana	1	-	n/a
Maryland	-	1	n/a
Massachusetts	-	1	n/a
Michigan	1	1	n/a
Minnesota	-	2	n/a
Missouri	1	2	n/a

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Montana	1	-	n/a
Nebraska	-	1	n/a
Nevada	-	2	n/a
New Mexico	1	2	n/a
New York	-	1	n/a
North Carolina	-	2	n/a
North Dakota	-	1	n/a
Ohio	1	2	n/a
Oklahoma	-	2	n/a
Oregon	1	1	n/a
Pennsylvania	1	2	n/a
South Carolina	-	1	n/a
South Dakota	-	1	n/a
Tennessee	1	3	n/a
Texas	5	9	n/a
Utah	1	3	n/a
Virginia	-	1	n/a
Washington	1	2	n/a
Wisconsin	-	1	n/a
Wyoming	-	1	n/a

Canadian locations:

Alberta	1	1	n/a
British Columbia	-	1	n/a
Manitoba	1	-	n/a
Nova Scotia	-	1	n/a
Ontario	1	2	n/a
Quebec	-	1	n/a
Saskatchewan	-	1	n/a

International locations:

United Kingdom	n/a	n/a	1
Australia	n/a	n/a	1
Spain	n/a	n/a	1

ITEM 3. LEGAL PROCEEDINGS

See discussion of Legal Proceedings in Note 9 to the consolidated financial statements included in Item 8 of this Report.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the NASDAQ Global Market using the symbol "TLF". The high and low trading prices for each calendar quarter during the last two fiscal years are as follows:

2012	High	Low	2011	High	Low
4th quarter	\$5.52	\$5.16	4th quarter	\$5.00	\$4.17
3rd quarter	\$5.66	\$5.07	3rd quarter	\$5.25	\$4.29
2nd quarter	\$5.25	\$4.84	2nd quarter	\$5.22	\$4.45
1st quarter	\$5.42	\$4.68	1st quarter	\$5.35	\$4.50

There were approximately 390 stockholders of record on March 26, 2013.

In May 2010, our Board of Directors authorized a \$0.75 per share special one-time cash dividend that was paid to our stockholders of record at the close of business on June 3, 2010. The dividend, totaling \$7.7 million, was paid to our stockholders on July 5, 2010. Furthermore, on February 14, 2012, our Board of Directors authorized a \$0.25 per share special one-time cash dividend that was paid to our stockholders of record at the close of business on March 1, 2012. The dividend, totaling \$2.5 million, was paid to our stockholders on April 2, 2012. We did not make any dividend payments prior to 2010. Our Board of Directors will determine future cash dividends after giving consideration to our then existing levels of profit and cash flow, capital requirements, current and forecasted liquidity, as well as financial and other business conditions existing at the time. This policy is subject to change based on future industry and market conditions, as well as other factors.

We did not sell any shares of our equity securities during our fiscal year ended December 31, 2012 that were not registered under the Securities Act.

We did not repurchase any shares of our common stock during the fourth quarter of 2012.

The following table sets forth information regarding our equity compensation plans (including individual compensation arrangements) that authorize the issuance of shares of our common stock. The information is aggregated in two categories: plans previously approved by our stockholders and plans not approved by our stockholders. The table includes information for officers, directors, employees and non-employees. All information is as of December 31, 2012.

Plan Category	Column (a) Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Column (b) Weighted-average exercise price of outstanding options, warrants and rights	Column (c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in Column (a))
Equity compensation plans approved by stockholders	121,600	\$4.53	33,400

Equity compensation
plans not approved by
stockholders

TOTAL	121,600	\$4.53	33,400
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ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below are derived from and should be read in conjunction with our Consolidated Financial Statements and related notes. This information should also be read in conjunction with "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations." Data in prior years has not been restated to reflect acquisitions, if any, which occurred in subsequent years.

Income Statement Data,

Years ended December 31,	2012	2011	2010	2009	2008
Net sales	\$72,720,624	\$66,102,947	\$59,892,870	\$54,482,739	\$52,491,538
Gross profit	45,905,674	40,337,159	36,250,857	32,609,374	31,050,359
Operating income	9,144,005	7,706,650	6,635,611	5,095,101	4,025,342
Net income from continuing operations	5,596,070	4,753,969	4,158,491	3,261,143	2,511,847
Income from discontinued operations, net of tax	-	(1,368)	1,766	56,914	92,336
Net income	\$5,596,070	\$4,752,601	\$4,160,257	\$3,318,057	\$2,604,183

Net income per share from continuing operations

Basic	\$0.55	\$0.47	\$0.41	\$0.31	\$0.23
Diluted	\$0.55	\$0.47	\$0.41	\$0.31	\$0.23

Net income per share including discontinued operations

Basic	\$0.55	\$0.47	\$0.41	\$0.32	\$0.24
Diluted	\$0.55	\$0.47	\$0.41	\$0.31	\$0.24

Weighted average common shares outstanding for:

Basic EPS	10,157,395	10,156,442	10,208,944	10,471,103	10,931,306
Diluted EPS	10,175,346	10,182,098	10,251,863	10,535,736	11,015,657

Cash dividend declared per common share

\$0.25	-	\$0.75	-	-
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Balance Sheet Data, as of December 31,

	2012	2011	2010	2009	2008
Cash and certificates of deposit	\$7,705,182	\$11,189,484	\$5,915,339	\$12,908,962	\$10,821,298
Total assets	49,087,672	45,502,915	40,595,574	43,327,231	40,975,913
Capital lease obligation, including current portion	-	-	-	-	593,949
Long-term debt, including current portion	3,105,000	3,307,500	3,510,000	3,712,500	3,915,000
Total Stockholders' Equity	\$37,521,017	\$34,433,801	\$29,761,594	\$33,359,655	\$31,264,762

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We intend for the following discussion to provide you with information that will assist you in understanding our financial statements, the changes in key items in those financial statements from year to year and the primary factors that accounted for those changes, as well as how particular accounting principles affect our financial statements. This discussion also provides information about the financial results of the various segments of our business so you may better understand how those segments and their results affect our financial condition and results of operations as a whole. Finally, we have identified and discussed trends known to management that we believe are likely to have a material effect on our results of operations and financial condition.

This discussion should be read in conjunction with our financial statements as of December 31, 2012 and 2011 and the two years then ended and the notes accompanying those financial statements. You are also urged to consider the information under the caption "Summary of Critical Accounting Policies."

Summary

We are the world's largest specialty retailer and wholesale distributor of leather and leathercraft-related items. Our operations are centered on operating retail and wholesale stores. We have built our business by offering our customers quality products in one location at competitive prices. The key to our success is our ability to grow our base business. We grow that business by opening new locations and by increasing sales in our existing locations. We intend to continue to expand both domestically and internationally.

We operate in three segments. First, Wholesale Leathercraft, consisting of our Leather Factory stores and our national account sales group, which sells to large national store chains, is our oldest segment with sales of \$26.9 million in 2012. Historically, in normal economic conditions, this division has generally offered steady but very modest increases in sales. Sales in 2012 increased 1.2% compared to 2011, with the stores' sales increasing 7% but national account sales decreasing by 44%. Sales at our stores are showing signs of solid recovery despite cautious consumer spending as a result of the weak U.S. economy. Sales to national accounts are decreasing due to our intentional decision to discontinue certain products from our product line that our national account customers purchased as these products did not produce an acceptable gross profit margin. We expect our sales to our national account customers to continue to decline.

Tandy Leather has long been known for its retail leathercraft store chain. These retail stores comprise our Retail Leathercraft segment. This segment has experienced the greatest increases in sales (\$42.6 million in 2012, up from \$37.4 million in 2011) and is our largest source of revenues. We expect to grow the number of stores to 100+ from 78 stores in operation at the end of 2012. Our pace of store openings has slowed in the last several years due to the general economic conditions in the U.S. and because of the lack of personnel qualified for store manager positions. We expect to continue to open stores domestically but have not committed to a specific time frame at this point. While the store opening schedule has slowed, we are instead looking to relocate existing stores as current lease terms near expiration into larger spaces so that a larger amount of product is available to customers. We believe that the increase in sales in this segment suggests that the store relocation strategy is successful.

Our International Leathercraft segment consists of company-owned stores located outside of North America. At December 31, 2012, three combination retail/wholesale stores, with one each located in the United Kingdom, Australia and Spain, comprised this segment. It is our intention to open more stores in this segment once we have a large enough customer base to support additional stores.

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On a consolidated basis, a key indicator of costs, gross profit margin as a percent of total net sales, increased in 2012 and in 2011. Operating expenses increased at a higher pace than that of sales in 2012, increasing 13% from 2011, due to the legal settlement that we recorded in the third quarter. See Note 9 to the consolidated financial statements included in Item 8 of this Report for additional information. Operating expense rose at a slightly slower pace than that of sales in 2011, increasing 10% from 2010.

We reported consolidated net income for 2012 of \$5.6 million. Consolidated net income for 2011 and 2010 was \$4.7 million and \$4.2 million, respectively. We use our cash flow to fund our operations, to fund the opening of new stores, to purchase necessary property and equipment and to make acquisitions of small competitors in the retail and wholesale market. In 2007, we incurred \$4.0 million in bank debt to purchase a 191,000 square foot building to house our corporate headquarters and central support units. We moved into that facility in the first quarter of 2008. We paid one-time dividends in 2010 and 2012 to our stockholders, totaling \$7.7 million and \$2.5 million, respectively. At the end of 2012, our stockholders' equity had increased to \$37.5 million from \$34.4 million the previous year.

Comparing the December 31, 2012 balance sheet with the prior year's balance sheet, we increased our investment in inventory from \$19.9 million to \$25.9 million, while total cash (including certificates of deposit) decreased from \$11.2 million to \$7.7 million, primarily as a result of the special dividend of \$2.5 million paid in April 2012.

Net Sales

Net sales for the three years ended December 31, 2012 were as follows:

Year	Wholesale Leathercraft	Retail Leathercraft	International Leathercraft	Total Company	Increase from Prior Year
2012	\$26,850,002	\$42,616,546	\$3,254,076	\$72,720,624	10.0%
2011	\$26,540,899	\$37,435,832	\$2,126,216	\$66,102,947	10.4%
2010	\$25,908,177	\$32,291,442	\$1,693,251	\$59,892,870	9.9%

Our net sales increased by 10.0% in 2012 when compared with 2011 and increased by 10.4% in 2011 when compared with 2010. In 2012 and 2011, all three segments reported sales increases compared to the prior year.

Costs and Expenses

In general, our gross profit as a percentage of sales (our gross margin) fluctuates based on the mix of customers we serve, the mix of products we sell and our ability to source products globally. Our negotiations with suppliers for lower pricing are an on-going process, and we have varying degrees of success in those endeavors. Sales to retail customers tend to produce higher gross margins than sales to wholesale customers due to the difference in pricing levels. Therefore, as retail sales increase in the overall sales mix, higher gross margins tend to follow. Finally, there is significant fluctuation in gross margins between the various merchandise categories we offer. As a result, our gross margins can vary depending on the mix of products sold during any given time period.

For 2012, our cost of sales decreased as a percentage of total net sales when compared to 2011, resulting in an increase in consolidated gross profit margin from 61.0% to 63.1%. Our 2011 cost of sales as a percentage of our total net sales decreased as a percentage of total net sales when compared to 2010, resulting in an increase in consolidated gross profit margin from 60.5% to 61.0%. Fluctuations in gross margin are primarily due to sales mix. Retail sales are at a higher gross margin than that of wholesale sales. Therefore, as retail sales increase at a faster pace than that of wholesale sales, gross margin increases accordingly.

Our gross margins for the three years ended December 31, 2012 were as follows:

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Year	Wholesale Leathercraft	Retail Leathercraft	International Leathercraft	Total Company
2012	67.3%	60.6%	61.7%	63.1%
2011	61.3%	60.5%	66.9%	61.0%
2010	60.7%	60.2%	63.8%	60.5%

Our operating expenses increased as a percentage of total net sales to 50.6% in 2012 when compared with 49.4% in 2011. This increase indicates that our operating expenses grew faster than our sales during this period. 2012 operating expenses were \$4.1 million higher than those of 2011. Significant expense fluctuations in 2012 compared to 2011 are as follows:

Expense	2012 amount	Increase (Decrease) over 2011
Employee compensation & benefits	\$19.6 million	\$1.6 million
Travel expense	507,000	177,000
Advertising and marketing	\$3.5 million	571,000
Rent & utilities	4.4 million	280,000
Professional fees and licenses	798,000	(237,000)
Repairs and maintenance	435,000	133,000
Supplies	857,000	147,000
Workers compensation and property insurance	506,000	184,000
Litigation settlement	993,000	993,000

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The increase in employee compensation and benefits is due to an increase in employee headcount as well as store manager compensation. Our store managers are paid a percentage of the operating profit generated by the store they manage as additional compensation, so as store profits increase, manager compensation increases. The litigation settlement expense was a one-time charge related to the settlement of a lawsuit that was recorded in the third quarter of 2012. (See Note 9 to the consolidated financial statements included in Item 8 of this Report for additional information.) Litigation expenses are generally considered corporate expenses and not attributable to a specific store or group of stores. Further, corporate, administrative and support departments are included in the Wholesale Leathercraft segment. Therefore, the entire litigation settlement expense is included in the operating expenses of the segment.

Our operating expenses decreased minimally as a percentage of total net sales to 49.4% in 2011 when compared with 49.5% in 2010. This decrease indicates that our operating expenses grew slightly slower than our sales during the period. 2011 operating expenses were \$3.0 million higher than those of 2010. Significant expense fluctuations in 2011 compared to 2010 are as follows:

Expense	2011 amount	Increase (Decrease) over 2010
Employee compensation & benefits	\$18.0 million	\$2.1 million
Travel expense	330,000	(50,000)
Credit card fees	910,000	100,000
Rent & utilities	4.0 million	190,000
Professional fees and licenses	1.4 million	600,000
Freight out – shipping product to customers	1.7 million	120,000

Other Income/Expense (net)

Other Income/Expense consists primarily of currency exchange fluctuations, interest income and interest expense. In 2012, we incurred other expenses (net) of \$198,000 compared to other expenses (net) of \$165,000 in 2011. In 2012, we received \$12,000 in gas royalties, earned \$9,900 in interest income on our cash and paid \$239,000 in interest expense on our bank debt. We had a currency exchange gain of \$26,000 in 2012 compared to a currency exchange loss of \$200 in 2011.

In 2011, we incurred other expense (net) of \$165,000 compared to other expense (net) of \$160,000 in 2010. In 2012, we received \$16,000 in gas royalties, earned \$34,000 in interest income on our cash and paid \$248,000 in interest expense on our bank debt. We had a currency exchange loss of \$200 in 2011 compared to \$187,000 in 2010.

Net Income

During 2012, we earned net income of \$5.6 million, an 18% increase over our net income of \$4.7 million earned during 2011. The increase in net income was the result of the increase in sales and gross profit, partially offset by the increase in operating expenses and income tax expense.

During 2011, we earned net income of \$4.7 million, a 14% increase over our net income of \$4.2 million earned during 2010. The increase in net income was the result of the increase in sales and gross profit, partially offset by the increase in operating expenses and income tax expense.

Wholesale Leathercraft

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The increases (or decreases) in net sales, operating income, operating income increases (or decreases) and operating income as a percentage of sales from our Wholesale Leathercraft stores for the three years ended December 31, 2012 were as follows:

Year	Net Sales Increase (Decrease) from Prior Yr	Operating Income	Operating Income Increase (Decrease) from Prior Year	Operating Income as a Percentage of Sales
2012	1.2%	\$3,730,678	33.1%	13.9%
2011	2.4%	\$2,803,034	4.2%	10.6%
2010	3.2%	\$2,690,061	33.3%	10.4%

Wholesale Leathercraft, consisting of our 29 wholesale stores and our national account group, accounted for 36.9% of our consolidated net sales in 2012, which compares to 40.2% in 2011 and 43.3% in 2010. The decrease in this division's contribution to our total net sales is the result of the growth in Retail Leathercraft, and we expect this trend to continue while retail consumers' buying patterns continue to strengthen over that of wholesale and small businesses.

Sales in the wholesale stores increased 6.9% in 2012 compared to sales in 2011 while the 2012 sales by our national account group were down 44.0% from 2011. By customer group, sales in the wholesale stores to our retail and wholesale customers increased while sales to our institution and national account customers declined from 2011. Our sales mix by customer group in the Wholesale Leathercraft division was as follows:

Customer Group	2012	2011	2010
Retail	37%	33%	31%
Institution	4%	5%	6%
Wholesale	45%	43%	43%
National Accounts	7%	12%	12%
Manufacturers	7%	7%	8%
	100%	100%	100%

In 2012, operating income as a percentage of divisional sales improved from the prior year of 10.6% to 13.9%. Operating expenses increased \$867,000 in 2012 compared to 2011. The primary reason for the operating expense increase was the one-time charge of \$994,000 related to the settlement of litigation. (See Note 9 to the consolidated financial statements included in Item 8 of this Report for additional information.) Legal and professional fees decreased by \$271,000, while employee compensation and benefits increased by \$345,000 and supplies increased by \$122,000.

In 2011, operating income as a percentage of divisional sales remained consistent with the prior year at 10.6%. Significant operating expense increases occurred in employee compensation (\$325,000), employee benefits (\$490,000), and supplies (\$73,000), offset somewhat by decreases in advertising and marketing expenses (\$353,000) and bad debt expenses (\$130,000).

Retail Leathercraft

The increases in net sales, operating income, operating income increases (or decreases) and operating income as a percentage of sales from our Retail Leathercraft stores for the three years ended December 31, 2012 were as follows:

Year	Net Sales Increase from Prior Yr	Operating Income	Operating Income Increase (Decrease) from Prior Year	Operating Income as a Percentage of Sales
2012	13.8%	\$5,436,745	16.8%	12.8%

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2011	15.9%	\$4,656,067	28.8%	12.4%
2010	15.0%	\$3,614,856	24.6%	11.2%

Reflecting the growth previously discussed, Retail Leathercraft accounted for 58.6% of our total net sales in 2012, up from 56.6% in 2011 and 53.9% in 2010. Growth in net sales for our Retail Leathercraft division in 2012 resulted primarily from an increase in same store sales.

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Our sales mix by customer group in the Retail Leathercraft division was as follows:

Customer Group	2012	2011	2010
Retail	60%	62%	64%
Institution	4%	5%	6%
Wholesale	33%	30%	29%
National Accounts	0%	0%	0%
Manufacturers	3%	3%	1%
	100%	100%	100%

Operating income as a percentage of sales increased to 12.8% for 2012 compared to 12.4% for 2011. Gross margin increased slightly to 60.6% in 2012 from 60.5% in 2011. Operating expenses as a percent of sales in 2012 decreased from 48.0% for 2011 to 47.9% for 2012 as operating expenses grew at a slower pace than that of sales.

Operating income as a percentage of sales increased to 12.4% for 2011 compared to 11.2% for 2010. Gross margin increased slightly to 60.5% in 2011 from 60.2% in 2010. Operating expenses as a percent of sales in 2011 decreased from 49.0% for 2010 to 48.0% for 2011 as operating expenses grew at a slower pace than that of sales.

We intend to continue the slow expansion of Tandy Leather's retail store chain over the next several years, with plans to open one store in 2013 in North America. We remain committed to a conservative expansion plan for this division that minimizes risks to our profits and maintains financial stability. In the current economic environment in the U.S., it is possible that we will change our plans for store openings in 2013 if we determine that the feasibility of additional successful openings is likely.

International Leathercraft

International Leathercraft consists of all stores located outside of North America. As of December 31, 2012, that represents three retail/wholesale combination stores with one located in the United Kingdom, one located in Australia, and one located in Spain. International Leathercraft accounted for 4.5%, 3.2% and 2.8% of our total sales in 2012, 2011 and 2010, respectively. We expect this segment to become a larger part of our total operations as our international customer base continues to grow.

Operating income was \$(23,000), \$248,000 and \$331,000 in 2012, 2011 and 2010, respectively. The operating loss in 2012 was caused by the Australia and Spain stores, simply because they are so new. We intend to expand our International Leathercraft segment by opening new stores once the current stores have sufficiently built their customer bases to a level that will adequately support additional stores.

Financial Condition

At December 31, 2012, we held \$7.7 million of cash, \$25.9 million of inventory, accounts receivable of \$823,000, and \$11.9 million of property and equipment. Goodwill and other intangibles (net of amortization and depreciation) were \$991,000 and \$146,000, respectively. Net total assets were \$49.1 million. Current liabilities were \$7.9 million (including \$203,000 of current maturities of long-term debt), while long-term debt was \$2.9 million. Total stockholders' equity at the end of 2012 was \$37.5 million.

At December 31, 2011, we held \$11.2 million of cash and certificates of deposit, \$19.9 million of inventory, accounts receivable of \$1.3 million, and \$10.3 million of property and equipment. Goodwill and other intangibles (net of amortization and depreciation) were \$987,000 and \$187,000, respectively. Net total assets were \$45.5 million. Current liabilities were \$7.1 million (including \$203,000 of current maturities of long-term debt), while

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long-term debt was \$3.1 million. Total stockholders' equity at the end of 2011 was \$34.4 million.

Specific ratios on a consolidated basis at the end of each year ended December 31 were as follows:

		2012	2011	2010
Solvency Ratios:				
Quick Ratio	(Cash+Accts Rec)/Total Current Liabilities	1.09	1.76	1.04
Current Ratio	Total Current Assets/Total Current Liabilities	4.54	4.74	4.17
Current Liabilities to Net Worth	Total Current Liabilities/Net Worth	0.21	0.21	0.23
Current Liabilities to Inventory	Total Current Liabilities/Inventory	0.30	0.36	0.34
Total Liabilities to Net Worth	Total Liabilities/Net Worth	0.31	0.32	0.36
Fixed Assets to Net Worth	Fixed Assets/Net Worth	0.32	0.30	0.35
Efficiency Ratios:				
Collection Period (Days Outstanding)	Accounts Receivable/Credit Sales x 365	40.06	42.35	39.83
Inventory Turnover	Sales/Average Inventory	3.18	3.29	3.23
Assets to Sales	Total Assets/Sales	0.68	0.69	0.68
Sales to Net Working Capital	Sales/Current Assets - Current Liabilities	2.62	2.49	2.74
Accounts Payable to Sales	Accounts Payable/Sales	0.02	0.03	0.02
Profitability Ratios:				
Return on Sales (Profit Margin)	Net Profit After Taxes/Sales	0.08	0.07	0.07
Return on Assets	Net Profit After Taxes/Total Assets	0.11	0.10	0.10
Return on Net Worth (Return on Equity)	Net Profit After Taxes/Net Worth	0.15	0.14	0.14

Capital Resources and Liquidity

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 and remodel 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. Proceeds in the amount of \$4,050,000 were used to fund the initial purchase of the property. On April 30, 2008, that amount was rolled into a ten-year term note, and we began making monthly debt service payments in May 2008.

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 \$4,000,000. The revolver bears interest at LIBOR plus 2.0% (2.2087% at December 31, 2012) and matures on June 30, 2013. Interest is paid monthly. This note was obtained for working capital purposes.

We are currently in compliance with all covenants and conditions contained in the JPMorgan Chase Credit Agreement and have no reason to believe that we will not continue to operate in compliance with the provisions of these financing arrangements. The principal terms and conditions of the Credit Agreement are described in further detail in Note 6 to

the Consolidated Financial Statements, Notes Payable and Long-Term Debt.

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Reflecting the borrowing and reduction of bank indebtedness as well as dividend payments during the periods, our financing activities for 2012, 2011 and 2010 required net cash of \$2.7 million, \$0.2 million, and \$8.2 million, respectively. The special dividends of \$7.7 million and \$2.5 million paid in July 2010 and April 2012, respectively, are the reason for the significant increase in financing activities in 2010 and 2012 compared to 2011.

Our primary source of liquidity and capital resources during 2012 was cash flow provided by operating activities. Net cash flow from operations for 2012, 2011 and 2010 was \$1.9 million, \$6.6 million, and \$2.7 million, respectively. The decrease in operating cash flow in 2010 and 2012 was due to the increase in inventory in those years. In 2012, cash flow from operations was generated from income, the decrease in accounts receivable, and the increase in accrued expenses, partially offset by the increase in inventory and the decrease in income taxes payable. In 2011, cash flows from operations was generated from income, the decrease in inventory and increase in accounts payable, partially offset by the increased in accounts receivable and the decrease in accrued expenses. In 2010, cash flow from operations was generated income, partially offset by the increase in inventory.

Consolidated accounts receivable decreased \$506,000 to \$823,000 at December 31, 2012 compared to \$1.3 million at December 31, 2011 due primarily to the decline in sales to our National Account customers. Average days to collect accounts decreased from 42 days in 2011 to 40 days in 2012 on a consolidated basis. We maintain a tight credit policy and are aggressively monitoring our customer accounts to ensure collectability.

Inventory increased from \$19.9 million at the end of 2011 to \$25.9 million at December 31, 2012. We are pleased with the level of inventory at the end of 2012. We have increased the amount of inventory carried in our stores to provide our customers with greater product selection and to promote continued sales growth. We are also stocking additional inventory to support our growing International Leathercraft segment. Further, while sales remain strong, we will continue to buy large quantities of our stock leathers at special prices as those opportunities present themselves in order to relieve pressure on our gross margins. We attempt to manage our inventory levels to avoid tying up excessive capital while maintaining sufficient inventory in order to service our current customer demand as well as plan for our expected expansion. We ended the year with our total inventory on hand matching that of our internal targets for optimal inventory.

Consolidated inventory turned 3.18 times during 2012, a slight slowdown from the 2011 turns at 3.29 times. We compute our inventory turnover rates as sales divided by average inventory.

By operating division, inventory turns are as follows:

Segment	2012	2011	2010
Wholesale Leathercraft	2.09	1.95	1.96
Retail Leathercraft	5.58	6.41	6.45
International Leathercraft	3.20	6.91	5.65
Wholesale Leathercraft stores only	5.26	6.68	7.40

Retail Leathercraft inventory turns are significantly higher than that of Wholesale Leathercraft because its inventory consists only of the inventory at the stores. The retail stores have no warehouse (backstock) inventory to include in the turnover computation as the stores get their product from the central warehouse. Wholesale Leathercraft's turns are expected to be slower because the central warehouse inventory is part of this division, and its inventory is held as the backstock for all of the stores.

Accounts payable totaled \$1.6 million at the end of 2012, the same as at the end of 2011.

As discussed above, the largest use of operating cash in 2012 was the increase in inventory. Cash paid for capital expenditures totaled \$2.7 million and \$1.1 million for the years ended December 31, 2012 and 2011, respectively. In 2012, the primary capital expenditure was the construction in progress of a building to house our flagship store of \$1.8 million. Fixtures and equipment for the international stores totaled \$78,000. We moved 14 stores in the US in 2012. Fixtures and equipment for those stores totaled \$406,000. Fixtures and equipment for the new U.S. store opened in 2012 totaled \$51,000. Other capital expenditures were computer equipment (\$169,000), and factory machines and dies (\$81,000). In 2011, the primary capital expenditure was store fixtures, either for new store or for relocated or remodeled stores. Fixtures and equipment for the international stores totaled \$225,000. 14 US stores were moved or remodeled in 2011. Fixtures for those stores totaled \$310,000. Other capital expenditures were building improvements, including a video surveillance system (\$112,000), computer equipment (\$240,000) website development (\$70,000), and factory machines and dies (\$35,000).

We intend to continue to relocate US stores into larger space as leases permit and therefore, expect to incur capital expenditures, namely fixtures, related to these moves. However, the construction of the building discussed above will be completed in the first quarter of 2013. Therefore, we expect our 2013 capital expenditures to be less than that of our 2012 expenditures.

Cash applied toward stock repurchases totaled \$441,419 in 2010. There were no stock repurchases in 2011 and 2012.

We believe that cash flow from operations will be adequate to fund our operations in 2013, while also funding our expansion plans. At this time, we know of no trends or demands, commitments, events or uncertainties that will or are likely to materially affect our liquidity, capital resources or results of operations. In addition, we anticipate that this cash flow will enable us to meet our contractual obligations and commercial commitments. We could defer expansion plans if required by unanticipated drops in cash flow. In particular, because of the relatively small investment required by each new store, we have flexibility in when we make most expansion expenditures.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements during 2012, 2011 and 2010, and we do not currently have any such arrangements.

Contractual Obligations

The following table summarizes by years our contractual obligations and commercial commitments as of December 31, 2012 (not including related interest expense):

Contractual Obligations	Total	Payments Due by Periods			
		Less than 1 Year	1 - 3 Years	3 -5 Years	More than 5 Years
Long-Term Debt(1)	\$3,105,000	\$202,500	\$405,000	\$405,000	\$2,092,500
Operating Leases(2)	8,895,194	2,950,179	4,117,494	1,761,793	65,728
Total Contractual Obligations	\$12,000,194	\$3,152,679	\$4,522,494	\$2,166,793	\$2,158,228

(1) Our term loan from JPMorgan Chase matures in May 2018.

(2) These are our leased facilities.

Summary of Critical Accounting Policies

We strive to report our financial results in a clear and understandable manner, although in some cases accounting and disclosure rules are complex and require us to use technical terminology. We follow generally accepted accounting

principles in the U.S. in preparing our consolidated financial statements. These principles require us to make estimates and apply judgments that affect our financial position and results of operations. We continually review our accounting policies, how they are applied and how they are reported and disclosed in our financial statements. Following is a summary of our more significant accounting policies and how they are applied in preparation of the financial statements.

Basis of Consolidation. We report our financial information on a consolidated basis. Therefore, unless there is an indication to the contrary, financial information is provided for the parent company, Tandy Leather Factory, Inc., and its subsidiaries as a whole. Transactions between the parent company and any subsidiaries are eliminated for this purpose. We own all of the capital stock of our subsidiaries, and we do not have any subsidiaries that are not consolidated. None of our subsidiaries are “off balance sheet.”

Revenue Recognition. We recognize revenue for retail (over the counter) sales as transactions occur and other sales upon shipment of our products, provided that there are no significant post-delivery obligations to the customer and collection is reasonably assured, which generally occurs upon shipment. Net sales represent gross sales less negotiated price allowances, product returns, and allowances for defective merchandise.

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Allowance for Accounts Receivable. We reduce accounts receivable by an allowance for amounts that may become uncollectible in the future. This allowance is an estimate based primarily on our evaluation of the customer's financial condition, past collection history, and the aging of the account. If the financial condition of any of our customers deteriorates, resulting in an impairment or inability to make payments, additional allowances may be required.

Inventory. Inventory is stated at the lower of cost or market and is accounted for on the "first in, first out" method. This means that sales of inventory treat the oldest item of identical inventory as being the first sold. In addition, we regularly reduce the value of our inventory for slow-moving or obsolete inventory. This reduction is based on our review of items on hand compared to their estimated future demand. If actual future demand is less favorable than what we project, additional write-downs may be necessary. Goods shipped to us are recorded as inventory owned by us when the risk of loss shifts to us from the supplier.

Goodwill. We periodically analyze the remaining goodwill on our balance sheet to determine the appropriateness of its carrying value. As of December 31, 2012, we determined that the present value of the discounted estimated future cash flows of the operating divisions associated with the goodwill is sufficient to support their respective goodwill balances. If actual financial performance of these divisions differs significantly from our projections, such difference could affect the present value calculation in the future resulting in an impairment of all or part of the goodwill currently carried on our balance sheet.

Forward-Looking Statements

Certain statements contained in this annual report and other materials we file with the SEC, or in other written or oral statements made or to be made by us, other than statements of historical fact, are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements give our current expectations or forecasts of future events. Words such as "may," "assume," "forecast," "position," "predict," "strategy," "expect," "intend," "plan," "estimate," "anticipate," "believe," "project," "budget," "potential," or "continue," and similar expressions are used to identify forward-looking statements. They can be affected by assumptions used or by known or unknown risks or uncertainties. Consequently, no forward-looking statements can be guaranteed. Actual results may vary materially. You are cautioned not to place undue reliance on any forward-looking statements. You should also understand that it is not possible to predict or identify all such factors and you should not consider the following list to be a complete statement of all potential risks and uncertainties. Factors that could cause our actual results to differ materially from the results contemplated by such forward-looking statements include, but are not limited to, the risk factors described in Item 1A, "Risk Factors," of this Annual Report on Form 10-K. Management cautions that forward-looking statements are not guarantees, and our actual results could differ materially from those expressed or implied in the forward-looking statements. We do not intend to update forward-looking statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We face exposure to financial market risks, including adverse movement in foreign currency exchange rates and changes in interest rates. These exposures may change over time and could have a material impact on our financial results. We do not use or invest in market risk sensitive instruments to hedge any of these risks or for any other purpose.

Foreign Currency Exchange Rate Risk

Our primary foreign currency exposure is related to our foreign subsidiaries as those subsidiaries have local currency revenue and local currency operating expenses. Changes in the foreign currency exchange rates impact the U.S. dollar amount of revenue and expenses. See Note 14 to the Consolidated Financial Statements, Segment Information, for financial information concerning our foreign activities.

Interest Rate Risk

In the past, we have been subject to market risk associated with interest rate movements on certain outstanding debt. However, our current credit agreement with JPMorgan Chase includes a fixed interest rate. Therefore, changes in the prime rate do not impact us in this area.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Tandy Leather Factory, Inc.
 Consolidated Balance Sheets
 December 31, 2012 and 2011

	December 31, 2012	December 31, 2011
ASSETS		
CURRENT ASSETS:		
Cash	\$7,705,182	\$10,765,591
Short-term investments, including certificates of deposit	-	423,893
Accounts receivable-trade, net of allowance for doubtful accounts of \$112,000 and \$81,000 in 2012 and 2011, respectively	822,772	1,328,579
Inventory	25,862,784	19,940,251
Deferred income taxes	349,478	281,251
Other current assets	929,913	948,459
Total current assets	35,670,129	33,688,024
PROPERTY AND EQUIPMENT, at cost	17,574,895	14,999,826
Less accumulated depreciation and amortization	(5,630,305)	(4,700,476)
	11,944,590	10,299,350
GOODWILL	990,725	987,009
OTHER INTANGIBLES, net of accumulated amortization of \$582,000 and \$539,000 in 2012 and 2011, respectively	145,533	187,292
OTHER assets	336,695	341,240
Total Assets	\$49,087,672	\$45,502,915
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable-trade	\$1,612,627	\$1,622,697
Accrued expenses and other liabilities	5,928,798	4,641,191
Income taxes payable	113,705	638,897
Current maturities of long-term debt	202,500	202,500
Total current liabilities	7,857,630	7,105,285
DEFERRED INCOME TAXES	806,525	858,829
LONG-TERM DEBT, net of current maturities	2,902,500	3,105,000
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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authorized, 11,156,065 and 11,150,065 shares issued at 2012 and 2011,

10,162,442 and 10,156,442 shares outstanding at 2012 and 2011, respectively

	26,775	26,760
Paid-in capital	5,767,508	5,736,543
Retained earnings	34,241,875	31,181,936
Treasury stock at cost (993,623 shares at 2012 and 2011)	(2,894,068)	(2,894,068)
Accumulated other comprehensive income	378,927	382,630
Total stockholders' equity	37,521,017	34,433,801
Total Liabilities and Stockholders' Equity	\$49,087,672	\$45,502,915

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

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Tandy Leather Factory, Inc.
Consolidated Statements of Income
For the Years Ended December 31, 2012, 2011 and 2010

	2012	2011	2010
NET SALES	\$72,720,624	\$66,102,947	\$59,892,870
COST OF SALES	26,814,950	25,765,788	23,642,013
Gross Profit	45,905,674	40,337,159	36,250,857
OPERATING EXPENSES	36,761,669	32,630,509	29,615,246
INCOME FROM OPERATIONS	9,144,005	7,706,650	6,635,611
OTHER (INCOME) EXPENSE:			
Interest expense	240,934	248,576	265,405
Other, net	(42,574)	(83,428)	(105,540)
Total other expense	198,360	165,148	159,865
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	8,945,645	7,541,502	6,475,746
PROVISION FOR INCOME TAXES	3,349,575	2,787,533	2,317,255
NET INCOME FROM CONTINUING OPERATIONS	5,596,070	4,753,969	4,158,491
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX	-	(1,368)	1,766
NET INCOME	\$5,596,070	\$4,752,601	\$4,160,257
NET INCOME FROM CONTINUING OPERATIONS PER COMMON SHARE:			
BASIC	\$0.55	\$0.47	\$0.41
DILUTED	\$0.55	\$0.47	\$0.41
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX PER COMMON SHARE:			
BASIC	\$0.00	\$0.00	\$0.00
DILUTED	\$0.00	\$0.00	\$0.00
NET INCOME PER COMMON SHARE:			
BASIC	\$0.55	\$0.47	\$0.41
DILUTED	\$0.55	\$0.47	\$0.41
Weighted Average Number of Shares Outstanding:			
Basic	10,157,395	10,156,442	10,208,944
Diluted	10,175,346	10,182,098	10,251,863

Tandy Leather Factory, Inc.
 Consolidated Statements of Comprehensive Income
 For the Years Ended December 31, 2012, 2011 and 2010

	2012	2011	2010
NET INCOME	\$5,596,070	\$4,752,601	\$4,160,257
Foreign currency translation adjustments	(3,703)	(113,550)	161,975
COMPREHENSIVE INCOME	\$5,592,367	\$4,639,051	\$4,322,232

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

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Tandy Leather Factory, Inc.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2012, 2011 and 2010

	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$5,596,070	\$4,752,601	\$4,160,257
Income (loss) from discontinued operations	-	(1,368)	1,766
	5,596,070	4,753,969	4,158,491
Adjustments to reconcile net income to net cash provided by operating activities -			
Depreciation and amortization	1,068,226	1,016,561	972,409
Loss on disposal or abandonment of assets	21,092	84,168	49,154
Non-cash stock-based compensation	10,000	33,156	41,692
Deferred income taxes	(120,531)	256,544	(90,520)
Other	(15,227)	(106,345)	150,203
Net changes in assets and liabilities, net of effect of business acquisitions:			
Accounts receivable-trade, net	505,807	(74,940)	(56,736)
Inventory	(5,922,533)	295,777	(3,370,202)
Income taxes	(525,192)	84,216	186,940
Other current assets	18,546	107,742	(264,317)
Accounts payable-trade	(10,070)	374,876	62,788
Accrued expenses and other liabilities	1,287,607	(252,045)	905,092
Total adjustments	(3,682,275)	1,819,710	(1,413,497)
Net cash provided by continuing operating activities	1,913,795	6,573,679	2,744,994
Cash provided used by discontinued operating activities	-	(1,067)	(23,751)
Net cash provided by operating activities	1,913,795	6,572,612	2,721,243
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(2,686,221)	(1,100,523)	(1,553,339)
Purchases of certificates of deposit	-	(87,893)	(2,572,593)
Proceeds from maturities of certificates of deposit	423,893	1,285,593	5,968,000
Proceeds from sale of assets	1,230	26,263	7,570
Decrease (increase) in other assets	4,545	(21,707)	(4,612)
Net cash provided by (used in) continuing investing activities	(2,256,553)	101,733	1,845,026
Net cash provided by (used in) investing activities	(2,256,553)	101,733	1,845,026
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments on notes payable and long-term debt	(202,500)	(202,500)	(202,500)
Payment of cash dividend	(2,536,131)	-	(7,690,832)
Repurchase of common stock (treasury stock)	-	-	(441,419)

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Proceeds from issuance of common stock	20,980	-	170,266
Net cash used in continuing financing activities	(2,717,651)	(202,500)	(8,164,485)
Net cash used in financing activities	(2,717,651)	(202,500)	(8,164,485)
NET INCREASE (DECREASE) IN CASH	(3,060,409)	6,471,845	(3,598,216)