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LEATHER FACTORY INC  
Form 8-K  
March 09, 2004

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C.

FORM 8-K

CURRENT REPORT PURSUANT  
TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported): March 2, 2004  
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The Leather Factory, Inc.  
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(Exact Name of Registrant as Specified in Its Charter)

Delaware  
-----

(State or Other Jurisdiction of Incorporation)

1-12368  
-----

75-2543540  
-----

(Commission File Number)

(IRS Employer Identification Number)

3847 East Loop 820 South, Fort Worth, Texas 76119  
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(Address of Principal Executive Offices) (Zip Code)

(817) 496-4414  
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(Registrant's Telephone Number, Including Area Code)

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(Former Name or Former Address, if Changed Since Last Report)

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibits.

99.1 Press release dated March 2, 2004.

ITEM 12. RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The Registrant is furnishing the press release attached as Exhibit 99.1 announcing the Registrant's 2003 financial results. This press release was issued on March 2, 2004.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the

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Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

THE LEATHER FACTORY, INC.

Date: March 2, 2004

BY: /s/ Wray Thompson  
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Wray Thompson, Chairman of the Board  
and Chief Executive Officer

EXHIBIT 99.1  
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FOR IMMEDIATE RELEASE

MARCH 2, 2004

THE LEATHER FACTORY, INC. REPORTS 2003 FINANCIAL RESULTS -  
REVENUE OF \$41.7 MILLION AND EPS OF \$0.27

FORT WORTH, TEXAS - The Leather Factory, Inc. (AMEX: TLF), the world's largest specialty retailer and wholesale distributor of leather and leathercraft products, today reported results for the year ended December 31, 2003. Consolidated net sales for the year were up 5.0% to \$41.7 million over 2002 sales of \$39.7 million. Net income for 2003 was \$2.7 million compared to a net loss of \$1.4 million for 2002, or basic earnings per share for 2003 of \$0.27 versus \$(0.14) for 2002. Diluted earnings per share was \$0.25 for 2003 and \$(0.13) for 2002. The 2002 results included a \$4.0 million charge, net of tax, for the cumulative effect of a previously reported accounting change. Net income for 2002 before the cumulative effect of the accounting change was \$2.6 million or \$0.26 per share (basic) and \$0.24 per share (diluted).

### 2003 Accomplishments:

- Addition of 12 new Tandy Leather retail stores
- Tandy Leather retail store sales up 144% over 2002, a result of both new store openings and increasing store sales
- Improved gross profit margin to 54.4% in 2003 from 53.7% as a result of increased retail sales and efficient purchasing
- Improved net income to \$2.7 million in 2003 from a loss of \$1.4 million in 2002 (after accounting charge of \$4.0 million)
- Bank debt reduced from \$4.2 million to \$1.8 million
- Increased operating cash flow by 133% to \$3.3 million in 2003 from \$1.4 million in 2002
- Secured a \$5 million, two-year line of credit with Wells Fargo Bank Texas, N.A. with reduced fees and interest rates (below prime) from the previous credit arrangement
- Addition of an experienced institutional investor to Board of Directors

### Divisional analysis:

The Tandy Leather division reported sales for the year were up \$1.8 million, or 24.8%, to \$9.2 million in 2003 from \$7.4 million in 2002. The Company opened 12 new Tandy Leather retail stores in 2003, increasing the total number of retail stores from 14 at year-end 2002 to 26 at December 31, 2003. The 2002 sales consisted of \$3.6 million from Tandy's central mail order facility, which closed on September 1, 2002, combined with the retail stores contributing sales of \$3.8 million. The resulting sales increase at the stores from 2002 to 2003 was \$5.4 million.

The Leather Factory warehouse distribution center sales were up \$371,000, or

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1.2%, from \$30.3 million in 2002 to \$30.7 million in 2003, as a result of an increase in retail sales for the year. This increase was partially offset by a decrease in sales to national accounts. The Company believes that this decrease arose from planned and expected periodic adjustments to purchasing programs and therefore assumes the decline is temporary.

Robert, Cushman's sales for 2003 decreased \$216,000, or 10.6%, due to the continued slowdown in the overall hat industry during the last half of the year.

Consolidated gross profit margins for the year increased from 53.7% in 2002 to 54.4% in 2003. Operating expenses for 2003 were \$18.6 million, or 44.6% of sales, compared to \$17.2 million, or 43.3% of sales, in 2002. The increase in operating expenses in 2003 is predominantly associated with an increase in advertising efforts and investor relations activities.

Wray Thompson, Chairman and Chief Executive Officer, commented, "We are pleased with the continued sales growth, particularly in the Tandy Leather retail operation. The Leather Factory warehouse distribution centers and Tandy Leather stores are performing well and our Tandy store openings are on schedule. We were able to improve our gross margins slightly for the year and held our fourth quarter operating expenses to match the same percentage of sales in last year's fourth quarter. In 2004, we plan to continue to create shareholder value by focusing on three goals - increasing sales and earnings from existing locations, opening 10-15 new Tandy Leather stores and improving our operating margins."

### Financial Outlook:

The following statements are based on TLF's current expectations as of March 2, 2004. These statements are forward-looking statements and should be read in conjunction with the cautionary information about these statements that appears below.

The Company plans to open 10-15 new Tandy Leather stores in 2004 and estimates consolidated net sales for 2004 will be in the range of \$46 to \$47 million. Basic and diluted EPS for 2004 are expected to be in the range of \$0.34 to \$0.37 and \$0.32 to \$0.34, respectively. Average basic and diluted shares outstanding in 2004 are estimated to be approximately 10.5 million and 11 million shares, respectively. The Company assumes an effective tax rate for the year between 35% and 37%.

The Leather Factory, Inc., (<http://www.leatherfactory.com>), headquartered in Fort Worth, Texas, is a specialty retailer and wholesale distributor of a broad product line including leather, leatherworking tools, buckles and adornments for belts, leather dyes and finishes, shoe repair supplies, saddle and tack hardware, and do-it-yourself leathercraft kits. The Company distributes its products worldwide through its Leather Factory stores, Tandy Leather retail stores and mail/telephone/website orders (<http://www.tandyleather.com>). Its common stock trades on the American Stock Exchange with the symbol "TLF".

Contact: Wray Thompson, The Leather Factory, Inc. (817) 496-4414  
Shannon L. Greene, The Leather Factory, Inc. [sgreene@leatherfactory.com](mailto:sgreene@leatherfactory.com)

This news release contains forward-looking statements. All forward-looking statements made here or in other news releases issued by The Leather Factory, Inc. are based on current expectations as of the date of the release. These forward-looking statements involve risks and uncertainties that could cause the results of The Leather Factory, Inc. to differ materially from management's current expectations. Many of these risks and uncertainties are detailed from time to time in TLF's reports filed with the Securities and Exchange Commission, including its most recent annual report on Form 10-K and the most recent quarterly report on Form 10-Q. Additional risks and uncertainties will be described in TLF's annual report on Form 10-K for 2003 to be filed with the SEC.

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Investors are reminded that past performance may not be predictive of future results.

Selected financial data:

	FOR THE YEAR ENDED	
NET SALES:	12/31/03	12/31/02
	-----	-----
Leather Factory	\$30,684,092	\$30,313,478
Tandy Leather	9,216,838	7,387,874
Cushman	1,811,261	2,027,263
	-----	-----
Total	\$41,712,191	\$39,728,615
	=====	=====

	FOR THE YEAR ENDED	
TANDY LEATHER SALES DETAIL:	12/31/03	12/31/02
	-----	-----
Retail stores (26 in 2003; 14 in 2002)	\$9,216,838	\$3,782,787
Centralized mail order facility (closed 9/1/02)	-	3,605,087
	-----	-----
Total	\$9,216,838	\$7,387,874
	=====	=====

THE LEATHER FACTORY, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
	-----	-----
NET SALES	\$41,712,191	\$39,728,615
COST OF SALES	19,020,292	18,393,914
	-----	-----
Gross Profit	22,691,899	21,334,701
OPERATING EXPENSES	18,594,240	17,202,927
	-----	-----
INCOME FROM OPERATIONS	4,097,658	4,131,774
OTHER (INCOME) EXPENSE:		
Interest expense	206,942	246,878
Other, net	(81,774)	65,039
	-----	-----
Total other expense	125,168	311,917
	-----	-----
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	3,972,490	3,819,857

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PROVISION FOR INCOME TAXES	1,232,116	1,224,868
	-----	-----
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	2,740,374	2,594,989
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF INCOME TAXES	-	(4,008,831)
	-----	-----
NET INCOME (LOSS)	\$ 2,740,374	\$ (1,413,842)
	=====	=====
NET INCOME (LOSS) PER COMMON SHARE - BASIC:		
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCTG PRINCIPLE . . . . .	\$ 0.27	\$ 0.26
CUMULATIVE EFFECT OF CHANGE IN ACCTG PRINCIPLE, NET OF TAX . . . . .	-	(0.40)
	-----	-----
	\$ 0.27	\$ (0.14)
	=====	=====
NET INCOME (LOSS) PER COMMON SHARE - BASIC:		
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCTG PRINCIPLE . . . . .	\$ 0.25	\$ 0.24
CUMULATIVE EFFECT OF CHANGE IN ACCTG PRINCIPLE, NET OF TAX . . . . .	-	(0.37)
	-----	-----
	\$ 0.25	\$ (0.14)
	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:		
Basic. . . . .	10,323,549	10,063,581
Diluted. . . . .	10,861,305	10,761,670

THE LEATHER FACTORY, INC.  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2003 AND 2002

ASSETS	DECEMBER 31, 2003	DECEMBER 31, 2002
CURRENT ASSETS:		
Cash	\$ 1,728,344	\$ -
Cash restricted for payment on revolving credit facility	-	-
Accounts receivable-trade, net of allowance for doubtful accounts of \$31,000 and \$78,000 in 2003 and 2002, respectively	1,828,738	11,079,893
Inventory	11,079,893	206,023
Prepaid income taxes	206,023	134,312
Deferred income taxes	134,312	702,236
Other current assets	702,236	-
	-----	-----
Total current assets	15,679,546	-
	-----	-----
PROPERTY AND EQUIPMENT, at cost	5,574,992	-
Less accumulated depreciation and amortization	(3,669,099)	-
	-----	-----
	1,905,893	-
	-----	-----
GOODWILL, net of accumulated amortization of \$758,000 and 734,000 in 2003 and 2002, respectively	704,235	-
OTHER INTANGIBLES, net of accumulated amortization of 164,000 and \$113,000 in 2003 and 2002, respectively	432,549	-

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OTHER assets	336,183	
	-----	-----
	\$ 19,058,406	\$
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable-trade	\$ 1,545,079	\$
Accrued expenses and other liabilities	1,000,427	
Notes payable and current maturities of long-term debt	1,134	
	-----	-----
Total current liabilities	2,546,640	
	-----	-----
DEFERRED INCOME TAXES	209,289	
NOTES PAYABLE AND LONG-TERM DEBT, net of current maturities	1,792,984	
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, 10,487,961 and 10,149,961 shares issued and outstanding at 2003 and 2002, respectively	25,171	
Paid-in capital	4,673,158	
Retained earnings	9,804,719	
Less: Notes receivable-secured by common stock	(20,000)	
Accumulated other comprehensive loss	26,445	
	-----	-----
Total stockholders' equity	14,509,493	
	-----	-----
	\$ 19,058,406	\$
	=====	=====

THE LEATHER FACTORY, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOW  
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 2,740,374	\$ (1,413,842)
Adjustments to reconcile net income (loss) to net cash provided by operating activities -		
Depreciation and amortization	529,262	491,312
Loss on disposal of assets	(9,103)	-
Amortization of deferred financing costs	-	37,038
Deferred income taxes	47,086	(30,184)
Other	48,140	(2,502)
Cumulative effect of change in accounting principle.	-	4,008,831
Net changes in assets and liabilities, net of effect of business acquisitions:		
Accounts receivable-trade, net	109,960	359,255
Inventory	1,615,451	(3,463,866)
Income taxes	(150,380)	16,124
Other current assets	(30,120)	(192,726)
Accounts payable-trade	(49,831)	291,311

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Accrued expenses and other liabilities	(1,502,903)	1,332,179
Total adjustments	607,562	2,846,772
Net cash provided by operating activities	3,347,936	1,432,930
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(360,202)	(1,073,515)
Payments in connection with businesses acquired	-	(435,747)
Proceeds from sale of assets	6,217	-
(Increase) decrease in other assets	(27,970)	(14,754)
Other intangible costs	-	(1,625)
Net cash used in investing activities	(381,955)	(1,525,641)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in revolving credit loans	(2,420,550)	(286,889)
Payments on notes payable and long-term debt	(6,557)	(27,482)
Decrease (increase) in cash restricted for payment on revolver	553,839	(62,110)
Payments received on notes secured by common stock	24,003	27,936
Proceeds from issuance of common stock and warrants	510,068	133,774
Net cash used in financing activities	(1,339,195)	(214,772)
NET INCREASE (DECREASE) IN CASH	1,626,786	(307,483)
CASH, beginning of period	101,557	409,040
CASH, end of period	\$ 1,728,343	\$ 101,557
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid during the period	\$ 216,275	\$ 213,791
Income tax paid during the period, net of (refunds)	1,138,799	1,254,679