

TANDY LEATHER FACTORY INC
Form 10-K
March 27, 2017

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

Form 10-K

(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, 2016

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 or organization)

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
Preferred Share Purchase Rights	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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark 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 \$49,870,948 at June 30, 2016 (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 22, 2017, there were 9,193,162 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, 2017, are incorporated by reference in Part III of this report.

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PART I

ITEM 1. BUSINESS

The following discussion, as well as other portions of this Annual Report on Form 10-K (or statements otherwise made by the Company or on the Company's behalf from time to time in other reports, filings with the Securities and Exchange Commission ("SEC"), news releases, conferences, World Wide Web postings or otherwise), contains forward-looking statements that reflect our plans, estimates and beliefs. Any such forward-looking statements (including, but not limited to, statements to the effect that TLF or its management "anticipates", "plans", "estimates", "expects", "believes", "intends", and other similar expressions) that are not statements of historical fact should be considered forward-looking statements and should be read carefully because they and involve risks and uncertainties. Any forward-looking statement speaks only as of the date on which such statement is made. We do not undertake any obligation to update or revise any forward-looking statements. Specific examples of forward-looking statements include, but are not limited to, statements regarding our forecasts of financial performance, share repurchases, store openings, capital expenditures and working capital requirements. Our actual results could materially differ from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this Annual Report on Form 10-K and particularly in "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations". Unless the context otherwise indicates, references in this Annual Report on Form 10-K to "we", "our", "us", "our Company", "the Company", "TLF", mean Tandy Leather Factory, Inc, together with its subsidiaries.

General

With \$82.9 million of sales in 2016, of which 15% were export sales, we are the leading specialty leathercraft retailer with a wide product breadth and a long history of leathercraft expertise. Our broad line of leather and related products include 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. 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, which focused on the distribution of leathercraft tools. In addition, the founders of Midas entered into a agreement with Brown Group, Inc., a major footwear retailer, to develop a 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. We 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. In 1996, we expanded into Canada by acquiring our Canadian distributor, The Leather Factory of Canada, Ltd.

Our retail operations began in 2000, when we acquired the operating assets of two subsidiaries of Tandycrafts, Inc. to form Tandy Leather Company. In 2002, we opened our first retail store under the "Tandy Leather" name. Since 2002, we have acquired or opened 89 retail locations and closed five retail stores, for a net of 84 retail stores.

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We began expanding outside of North America by opening a store in the United Kingdom in 2008, then Australia in 2011 and Spain in 2012. We opened another store in the United Kingdom in 2015.

At December 31, 2016, we operated 27 stores located in North America operating under the Leather Factory name and 84 stores located in North America operating under the Tandy Leather name, and four combination wholesale and retail stores operating under the Tandy Leather Factory name in the United Kingdom, Australia and Spain.

Tandy Leather Factory, Inc. and our subsidiaries operate in three operating segments as follows:

Segment	
Wholesale Leathercraft	24 US stores and 3 Canadian stores
Retail Leathercraft	77 US stores and 7 Canadian stores
International Leathercraft	2 UK stores, 1 Australian store and 1 Spanish store

Store Count and Expansion

The following tables provide store count and expansion information by segment for the last five years:

Year Ended	Wholesale Leathercraft			Retail Leathercraft			International Leathercraft		
	Opened	Closed	Total	Opened	Closed	Total	Opened	Closed	Total
2012	-	-	29	1	-	78	1	-	3
2013	-	-	29	3	2	79	-	-	3
2014	-	1	28	3	-	82	-	-	3
2015	-	-	28	-	-	82	1	-	4
2016	-	1*	27	4	2	84	-	-	4

*temporarily closed; reopened in January 2017

Customers

Our stores serve customers through various means including walk-in traffic, phone, mail order, as well as orders generated from our website, www.tandy-leather.com. The location of our 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. We also employ a distinctive marketing tactic in that we maintain an internally-developed target customer mailing list for use in our 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, combined with our marketing programs, including print, digital, direct mail, community events and trade shows.

No single customer's purchases represented more than 1/2% of our total sales in 2016. Sales to our five largest customers represent 1.4%, 1.3% and 1.7% of consolidated sales in 2016, 2015, and 2014, respectively. Management does not believe the loss of one of these customers would have a significant negative impact on our consolidated operations.

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.

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 trends in the market.

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Sales by product category were as follows:

Product Category	2016 Sales Mix	2015 Sales Mix	2014 Sales Mix
Belts strips and straps	4%	4%	4%
Books, patterns, videos	1%	2%	2%
Buckles	3%	3%	3%
Conchos [^]	2%	2%	3%
Craft supplies	2%	2%	2%
Dyes, finishes, glues	7%	7%	7%
Hand tools	18%	16%	17%
Hardware	8%	8%	8%
Kits	6%	6%	6%
Lace	3%	3%	3%
Leather	41%	42%	40%
Stamping tools	5%	5%	5%
	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.

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. As of March 1, 2017, the Wholesale Leathercraft segment consists of 28 wholesale stores of which 25 are located in the United States and three are located in Canada. The Retail Leathercraft segment consists of 84 Tandy Leather retail stores, of which 77 are in the United States and seven are 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, 2017, we had four such stores, two 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 12, Segment Information, of our Notes to Consolidated Financial Statements.

Wholesale Leathercraft Segment

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 \$25.4 million, \$26.8 million and \$27.3 million for 2016, 2015, and 2014, respectively.

Wholesale stores range in size from 2,350 square feet to 22,000 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.

Our Wholesale Leathercraft 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 or her 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.

Wholesale Leathercraft's customer base consists 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 2% of this segment's sales in 2016.

We do not believe there is a significant and immediate opportunity for expansion of the Leather Factory wholesale store system in terms of opening additional locations.

Retail Leathercraft Segment

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 \$53.7 million in each of 2016 and 2015 and \$51.8 million in 2014.

As of March 1, 2017, the Tandy Leather retail chain has 84 stores located in 38 states and six Canadian provinces. The stores range in size from 1,200 square feet to 9,000 square feet, with the average size of a store being approximately 3,300 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. In the past several years, we have relocated some of our smaller stores into larger spaces within the same cities as lease terms expire and appropriate larger space is available at acceptable rates. In 2016, we began opening new stores with a smaller footprint (average square feet of 2,500) in upgraded retail centers. We expect to open three to four new stores in 2017, and we will evaluate the number of store relocations to ensure that the benefits gained exceed the costs of relocation.

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. We continue to broaden our customer base by opening new stores as well as working with various youth organizations and institutions where people are introduced to leathercraft, as well as hosting classes in our stores.

Individual retail customers are our largest customer group, representing approximately 60% of Tandy Leather's 2016 sales. Youth groups, summer camps, schools, and a limited number of wholesale customers complete our customer base. 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 2016.

We intend to expand the Tandy Leather retail store chain from the 84 stores open as of December 31, 2016 to between 120 and 150 stores throughout North America as it makes financial sense to do so.

International Leathercraft Segment

Our International Leathercraft segment consists of company-owned stores located outside of North America. The first store in this segment opened in the United Kingdom in 2008. As of December 31, 2016, the segment consisted of four wholesale/retail combination stores: two in the United Kingdom, (the newest one having been opened in October

2015), one in Australia, and one in Spain. The stores operate under the Tandy Leather Factory trade name. This segment had net sales of approximately \$3.9 million, \$3.7 million and \$4.3 million in 2016, 2015, and 2014, respectively. We intend to open more stores internationally, specifically in Europe, as the opportunities present themselves, but we have not determined a specific time schedule for future store openings.

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 generally located in light industrial areas.

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 or credit/debit card transactions. To a lesser extent, we also sell on net 30 terms to selected wholesale customers including dealers, manufacturers, and retailers. Like our North American stores, our international stores have an unconditional return policy. No single customer's purchases represented more than 4% of International Leathercraft's sales in 2016.

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, preferred pricing on certain products, advance notice of new products, and priority shipping and handling of orders. We currently have 6 ASC's located in Europe.

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".

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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. Our stores are closed on Sunday. The stores maintain uniform prices, except where lower prices are necessary to meet local competition.

Distribution

Our 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 typically 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, unless prohibited by local regulations.

Competition

Most of our competition comes in the form of small, independently-owned retailers who in many cases are also our customers. These small local stores generally carry only a limited line of leathercraft products. We also compete with several national chains that also carry leathercraft products on a very small scale relative to their overall product line. We also compete with internet-based retailers that provide customers the ability to search and compare products and prices without having to visit a physical store. We compete on price, availability of merchandise, depth of our product line, and delivery time. While there is competition with a number of our products, to our knowledge, there is no direct competition affecting our entire product line. Further, our store chain is the only one in existence solely specializing in leathercraft. As such, 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 in our stores, as well as hire experienced store personnel that offer product expertise and project advice.

Suppliers

We purchase merchandise and raw materials from approximately 150 vendors dispersed throughout the United States and in approximately 20 foreign countries. In 2016, our 10 largest vendors accounted for approximately 77% of our inventory purchases. Because leather is sold internationally, market conditions abroad are likely to affect the price of leather in the United States. 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.

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, 2016, we employed 614 people, 516 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.

Foreign Sales

Information regarding our revenues from the United States and abroad and our long-lived assets are found in Note 12 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".

Available Information

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 on official business days during the hours of 10 a.m. and 3 p.m. 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 www.sec.gov.

Our corporate website is located at www.tandyleather.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 24, 2017:

Name and Age	Position	Served as Executive Officer Since
Shannon L. Greene, 51	Chief Executive Officer	2000
Mark J. Angus, 56	President	2008
Tina L. Castillo, 46	Chief Financial Officer and Treasurer	2017
	Secretary and Corporate Counsel	1993

William M.
Warren, 73

Shannon L. Greene has served as Chief Executive Officer since February 2016 and a director since January 2001; Prior to her current role, Ms. Greene served as our Chief Financial Officer and Treasurer from May 2000 – February 2017. Ms. Greene, a certified public accountant, also serves on our 401(k) Plan committee.

Mark J. Angus has served as President since February 2016 and a director since June 2009; previously, Mr. Angus served as our Senior Vice President from June 2008 – February 2016 and as Vice President of Merchandising from January 1993 – June 2008.

Tina Castillo has served as Chief Financial Officer since February 2017; previously, Ms. Castillo served as Controller since February 2016 to January 2017. Ms. Castillo has served as Chief Financial Officer for several other public and private companies since 2009 and started her career at Ernst & Young in 1994. Ms. Castillo, a certified public accountant, also serves on our 401(k) Plan committee.

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 in the United States and abroad.

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, discretionary 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, maintain our earnings from operations as a percentage of net sales, or generate sufficient cash flows to fund our operational and liquidity needs. The United States and global economies have suffered from economic uncertainty for the past several years. While consumer spending in the United States has stabilized recently, it 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 (such as the proposed Border Tax which would increase the cost of our imports), economic climates, political considerations, and other unpredictable factors. Leather prices world-wide have been relatively stable for the past several years although 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, 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.

Risks Related to Our Business

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

We have experienced stable financial performance and modest growth in our store footprint while many other specialty retailers have experienced 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 consumer preferences, the strength and protection of our brand, 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 from 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.

Our growth depends on our ability to open new stores and increase comparable store sales.

One of our key business strategies is to expand our base of retail stores. If we are unable to continue this strategy, our ability to increase our sales, profitability and cash flow could be impaired. To the extent we are unable to open new stores as we anticipate, our sales growth would come only from increases in comparable store sales. Growth in profitability in that case would depend significantly on our ability to improve gross margin. We may be unable to continue our store growth strategy if we cannot identify suitable sites for additional stores, negotiate acceptable leases, or hire and train a sufficient number of qualified team members.

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 effect on us.

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.

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.

We may be subject to information technology system failures or network disruptions, or our information systems may prove inadequate, resulting in damage to our reputation, business operations and financial condition.

We depend on our information systems for many aspects of our business, including in designing, manufacturing, marketing and distributing our products, as well as processing transactions, managing inventory and accounting for and reporting our results. Therefore, it is critical that we maintain uninterrupted operation of our information systems. Even with our preventative efforts, we may be subject to information technology system failures and network disruptions. These may be caused by natural disasters, accidents, power disruptions, telecommunications failures, acts of terrorism or war, denial-of-service attacks, computer viruses, physical or electronic break-ins, or similar events or disruptions. System redundancy may be ineffective or inadequate, and the Company's disaster recovery planning may not be sufficient for all eventualities. Such failures or disruptions could prevent access to the Company's online services and preclude store transactions, as well as require a significant investment to repair or replace them. System failures and disruptions could also impede the manufacturing and shipping of products, transactions processing and financial reporting. Additionally, we may be materially adversely affected if we are unable to improve, upgrade, maintain, and expand our systems.

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A significant data security or privacy breach of our information systems could affect our business.

The protection of our customer, employee and other data is important to us, and our customers and employees expect that their personal information will be adequately protected. In addition, the regulatory environment surrounding information security and privacy is becoming increasingly demanding, with evolving requirements in the various jurisdictions in which we do business. Although we have developed and implemented systems and processes that are designed to protect personal and Company information and prevent data loss and other security breaches, such measures cannot provide absolute security. Additionally, our increased use and reliance on web-based hosted (i.e., cloud computing) applications and systems for the storage, processing and transmission of information, including customer and employee information, could expose the Company, our employees and our customers to a risk of loss or misuse of such information. The Company's efforts to protect personal and Company information may also be adversely impacted by data security or privacy breaches that occur at our third-party vendors. The Company cannot control these vendors and therefore cannot guarantee that a data security or privacy breach of their systems will not occur in the future. A significant breach of customer, employee or Company data could damage our reputation, relationships with customers, and our brand and could result in lost sales, sizable fines, significant breach-notification costs and lawsuits as well as adversely affect results of operations. The Company may also incur additional costs in the future related to the implementation of additional security measures to protect against new or enhanced data security and privacy threats, to comply with state, federal and international laws that may be enacted to address those threats or to investigate or address potential or actual data security or privacy breaches.

The loss or a prolonged disruption in the operation of the Company's centralized distribution center could adversely affect its business and operations.

The Company maintains a distribution center in Fort Worth, Texas dedicated to warehousing merchandise to handle worldwide store replenishment and process some direct-to-customer orders. Although the Company believes that it has appropriate contingency plans, unforeseen disruptions impacting our centralized distribution center for a prolonged period of time may result in delays in the delivery of merchandise to stores or in fulfilling customer orders.

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 our store locations, with the exception of our flagship store located in Fort Worth, Texas. The majority of our stores have initial lease terms of at least 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 the 22,000 square foot building that houses our flagship store. Further, 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, 2016:

State	Wholesale Leathercraft	Retail Leathercraft	International
Alabama	-	1	n/a
Alaska	-	1	n/a

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Arizona	2	3	n/a
Arkansas	-	1	n/a
California	3	8	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	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
Montana	1	-	n/a
Nebraska	-	1	n/a
Nevada	-	2	n/a
New Mexico	1	1	n/a
New York	-	2	n/a
New Jersey	-	1	n/a
North Carolina	-	2	n/a
Ohio	1	2	n/a
Oklahoma	-	2	n/a
Oregon	1	2	n/a
Pennsylvania	-	3	n/a
Rhode Island	-	1	n/a
South Carolina	-	1	n/a
South Dakota	-	1	n/a
Tennessee	-	3	n/a
Texas	5	12	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	2
Australia	n/a	n/a	1
Spain	n/a	n/a	1

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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.

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:

2016	High	Low	2015	High	Low
4th quarter	\$8.25	\$6.85	4th quarter	\$7.88	\$6.85
3rd quarter	\$7.90	\$6.96	3rd quarter	\$8.63	\$6.76
2nd quarter	\$7.69	\$6.73	2nd quarter	\$8.90	\$8.39
1st quarter	\$7.75	\$6.75	1st quarter	\$9.03	\$7.89

There were approximately 306 stockholders of record on March 22, 2017.

We did not sell any shares of our equity securities during our fiscal year ended December 31, 2016 that were not registered under the Securities Act.

We did not purchase any shares of our common stock during the fourth quarter of 2016, although we are authorized to do so through a stock purchase program permitting us to repurchase up to 2.2 million shares of our common stock at prevailing market prices. We announced the program on August 10, 2015, and it was amended on June 7, 2016 to increase the number of shares available to purchase from 1.2 million to 2.2 million and to extend the termination date from August 9, 2016 to August 9, 2017. Purchases under the program commenced on August 24, 2015 and will terminate on August 9, 2017. See Note 11 to our Financial Statements included in Item 8 of this report.

On June 9, 2014, 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 July 7, 2014. The dividend, totaling \$2.5 million, was paid to our stockholders on August 8, 2014. 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.

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."

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Income Statement Data, Years ended December 31,	2016	2015	2014	2013	2012
Net sales	\$82,923,992	\$84,161,200	\$83,430,912	\$78,284,585	\$72,720,624
Gross profit	51,713,242	52,071,060	52,124,757	49,328,024	45,905,674
Income from operations	10,300,731	10,474,700	11,958,029	11,266,790	9,144,005
Net income	\$6,402,259	\$6,402,405	\$7,706,921	\$7,265,717	\$5,596,070
Net income per share					
Basic	\$0.69	\$0.64	\$0.76	\$0.71	\$0.55
Diluted	\$0.69	\$0.63	\$0.75	\$0.71	\$0.55
Weighted average common shares outstanding for:					
Basic EPS	9,301,867	10,077,506	10,203,063	10,176,492	10,157,395
Diluted EPS	9,321,558	10,102,760	10,241,121	10,216,438	10,175,346
Cash dividend declared per common share	-	-	\$0.25	-	\$0.25
Balance Sheet Data, as of December 31,	2016	2015	2014	2013	2012
Cash and certificates of deposit	\$16,862,304	\$10,962,615	\$10,636,530	\$11,082,679	\$7,705,182
Total assets	70,652,720	64,611,076	62,873,874	56,398,566	49,087,672
Long-term debt, including current portion	7,444,416	3,863,307	5,643,125	2,598,750	3,105,000
Total Stockholders' Equity	\$53,693,201	\$50,972,176	\$49,123,012	\$44,621,542	\$37,521,017

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 and the notes accompanying those financial statements included elsewhere in this Annual Report on Form 10-K. You are also urged to consider the information under the caption "Summary of Critical Accounting Policies." In addition to historical financial information, the following management's discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our results and the timing of selected events may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed under "Item 1A. Risk Factors" and elsewhere in this Annual Report on Form 10-K.