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LEATHER FACTORY INC  
Form DEF 14A  
April 16, 2004

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant  [ X ]  
Filed by a Party other than the Registrant  [ ]  
Check the appropriate box:  
 [ ] Preliminary Proxy Statement  
 [ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))  
 [ X ] Definitive Proxy Statement  
 [ ] Definitive Additional Materials  
 [ ] Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

THE LEATHER FACTORY, INC.

-----  
(Name of Registrant as Specified in Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box)  
 [ X ] No fee required.  
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- 2) Aggregate number of securities to which transaction applies:
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- 1) Amount Previously Paid:
- 2) Form, Schedule or Registration Statement No.:
- 3) Filing Party:
- 4) Date Filed:

THE LEATHER FACTORY, INC.  
3847 EAST LOOP 820 SOUTH  
FORT WORTH, TEXAS 76119

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TIME AND DATE 10:00 a.m. local time on Wednesday, May 26, 2004

PLACE Wyndham Hotel, Hall of Fame Room  
1500 Convention Center Drive, Arlington, TX

ITEMS OF BUSINESS (1) To elect directors  
(2) To consider such other business as may properly come before the meeting

ADJOURNMENTS AND POSTPONEMENTS Any action on the items of business described above may be considered at the time and on the date specified above or at any time and date to which the annual meeting may be properly adjourned or postponed.

RECORD DATE You are entitled to vote only if you were a shareholder of common stock at the close of business on April 20, 2004.

VOTING YOUR VOTE IS VERY IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, WE ENCOURAGE YOU TO READ THIS PROXY STATEMENT AND SUBMIT YOUR PROXY OR VOTING INSTRUCTIONS FOR THE ANNUAL MEETING BY COMLETING, SIGNING, DATING AND RETURNING YOUR PROXY OR VOTING INSTRUCTION CARD IN THE PRE-ADDRESSED ENVLEOPE PROVIDED. FOR SPECIFIC INSTRUCTIONS ON HOW TO VOTE YOUR SHARES, PLEASE REFER TO THE SECTION TITLED "QUESTIONS AND ANSWERS" IN THIS PROXY STATEMENT AND THE INSTRUCTIONS ON THE PROXY OR VOTING INSTRUCTION CARD.

Please advise the Company's transfer agent, Securities Transfer Corporation, 2591 Dallas Parkway, Suite 102, Frisco, Texas 75034, of any change in your address.

By Order of the Board of Directors,  
  
/s/ William M. Warren  
  
William M. Warren  
General Counsel and Secretary

This notice of annual meeting and proxy statement and proxy card are being distributed on or about April 23, 2004.

THE LEATHER FACTORY, INC.  
3847 EAST LOOP 820 SOUTH  
FORT WORTH, TEXAS 76119

PROXY STATEMENT  
ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON MAY 26, 2004

To our Stockholders:

I am pleased to invite you to attend the annual meeting of stockholders of The Leather Factory, Inc. to be held on Wednesday, May 26, 2004 at 10:00 a.m., local

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time, at the Wyndham Hotel, Hall of Fame Room, 1500 Convention Center Drive, Arlington, Texas.

At the annual meeting, after we vote on the proposals described in this proxy statement, we will present a brief report on the past year for the company, as well as an overview of our plans for the upcoming year and beyond. As always, we will conclude the meeting by inviting you to ask questions and make comments.

Your vote is important. Whether or not you plan to attend the annual meeting, I hope you will vote as soon as possible. Voting now by written proxy will ensure your representation at the annual meeting regardless of whether you attend in person.

On behalf of the board of directors, I would like to express our appreciation for your continued support of The Leather Factory, Inc. We look forward to greeting as many of our stockholders as possible at this year's meeting.

Sincerely,

/s/ Wray Thompson

Wray Thompson  
Chairman and Chief Executive Officer

### QUESTIONS AND ANSWERS

#### WHY DID I RECEIVE THIS PROXY STATEMENT?

We are mailing this proxy statement to everyone who was a stockholder of record of our company on April 20, 2004. Only stockholders of record on the close of business on this date are entitled to vote at the meeting. The purposes of this proxy statement are:

- To let our stockholders know when and where we will hold our annual stockholders' meeting;
- To provide detailed information about the directors who will be voted on for re-election; and
- To provide updated information about our company you should consider in order to make an informed decision at the meeting.

At the close of business on the record date, there were 10,555,661 shares of our common stock outstanding and entitled to vote. There were approximately 630 holders of record. Each holder of record is entitled to one vote per share. To achieve a quorum at the meeting, a majority of our outstanding shares must be present either in person or by proxy.

#### WHAT WILL OCCUR AT THE ANNUAL MEETING?

First, we will determine whether enough stockholders are present at the meeting to conduct business. A stockholder will be deemed to be "present" at the meeting if the stockholder is:

- Present in person, or
- Not present in person but has voted by proxy prior to the meeting.

According to our bylaws, holders of at least a majority of our outstanding shares must be present at this year's meeting in order to conduct the meeting. If holders of fewer than a majority of our outstanding shares are present at the

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meeting, we will reschedule the meeting. A new meeting date will be announced at the meeting.

After each proposal has been voted on at the meeting, we will discuss and take action on any other matter that is properly brought before the meeting. Also, some of our officers will report on our recent financial results and our current operations.

If enough stockholders are present at the meeting to conduct business, then we will vote on the proposal to re-elect the director nominees as members of our board of directors for the upcoming year. Our board of directors has approved this proposal and is now soliciting your vote on the proposal and recommends that you vote FOR the re-election of each of the director nominees.

HOW DO I VOTE IF I DO NOT PLAN TO ATTEND THE ANNUAL MEETING?

In addition to voting in person at the meeting, you may mark your selections on the enclosed proxy card, date and sign the card, and return the card in the envelope also enclosed. We encourage you to vote now even if you plan to attend the meeting in person. If your shares are in a brokerage account, you may receive different voting instructions from your broker.

With respect to the election of directors, votes may be cast in favor or withheld. Votes that are withheld will be excluded in determining if nominee(s) have received a plurality of votes, but will be counted in determining if a quorum is present.

Please understand that voting by any means other than voting in person at the meeting has the effect of appointing Robin L. Morgan, our Vice-President of Administration, and William M. Warren, our Secretary, as your proxies. They will be required to vote exactly as you have instructed on the election of directors described in this proxy statement. However, if any other matter requiring a stockholder vote is properly raised at the meeting, then Ms. Morgan and Mr. Warren will be authorized to use their discretion to vote on this issue on your behalf.

All shares of common stock represented at the annual meeting by properly executed proxies received prior to or at the meeting and not revoked will be voted at the meeting in accordance with the instructions indicated in such proxies. If no instructions are indicated on a proxy, it will be voted FOR the election of each of the nominees for director.

WHAT IS THE DIFFERENCE BETWEEN HOLDING SHARES AS A STOCKHOLDER OF RECORD AND AS A BENEFICIAL OWNER?

Many Leather Factory ("TLF") stockholders hold their shares through a broker or other nominee rather than directly in their own name. There are some distinctions between shares held of record and those owned beneficially.

**Stockholder of Record.** If your shares are registered directly in your name with TLF's transfer agent, Securities Transfer Corporation, you are considered, with respect to those shares, the stockholder of record, and these proxy materials are being sent directly to you by us. As the stockholder of record, you have the right to grant your voting proxy directly to TLF or to vote in person at the meeting. We have enclosed or sent a proxy card for you to use.

**Beneficial Owner.** If your shares are held in a brokerage account or by another nominee, you are considered the beneficial owner of shares held in street name, and these proxy materials are being forwarded to you together with a voting instruction card. As the beneficial owner, you have the right to direct your broker or nominee how to vote and are also invited to attend the annual meeting.

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Since a beneficial owner is not the stockholder of record, you may not vote these shares in person at the meeting unless you obtain a "legal proxy" from the broker, trustee or nominee that holds your shares, giving you the right to vote the shares at the meeting. Your broker, trustee or nominee has enclosed or provided voting instructions for you to use in directing the broker, trustee or nominee how to vote your shares.

WHAT IF I HOLD MY SHARES IN "STREET NAME," AND I DO NOT GIVE INSTRUCTIONS TO MY BROKER OR NOMINEE?

In general, the broker or nominee would have the discretion to vote these shares. Should there be any "broker non-votes," they will be counted as shares that are present determining the presence of a quorum. At present, we are not aware of anything that will come before the meeting involving matters where American Stock Exchange rules bar brokers and nominees from voting if the beneficial owner fails to execute and return a proxy.

HOW MANY VOTES ARE NECESSARY TO RE-ELECT THE NOMINEES FOR DIRECTOR?

Each nominee must receive the affirmative vote of a plurality of shares either present at the meeting or represented by proxy to be elected. The affirmative vote of holders of a majority of the shares either present at the meeting or represented by proxy is required on any other action that may properly be presented at the meeting. Cumulative voting is not allowed.

You should note that certain officers and directors of the Company own approximately three-fifths of the outstanding shares of common stock that will be entitled to vote at the meeting (see "Security Ownership of Certain Beneficial Owners and Management"). We anticipate that these shares will be voted in favor of the nominees for director. Thus, approval of the nominees for director is likely.

WHAT IF A NOMINEE IS UNWILLING OR UNABLE TO STAND FOR ELECTION?

Each of the persons nominated for election has agreed to stand for election. We are not aware of any intention of any nominee not to stand for election or any circumstances that would cause any nominee not to stand for election. However, if unexpected events arise which cause one or more of the nominees to be unable to stand for election, then one of the following would occur:

- Our board of directors can vote at the meeting to reduce the size of the board of directors;
- The nominating committee of our board of directors may, during the meeting, nominate another person for director; or
- Pursuant to our bylaws, the board of directors could leave the vacancy open until the board appoints a new director at a later time.

Your vote is completely confidential.

It is important for you to understand that if our board of directors nominates someone at the meeting, the person to whom you have given your proxy will be able to use his or her discretion to vote on your behalf for the candidate of his or her choice.

WHO COUNTS THE VOTES AND HOW ARE THE VOTES TREATED?

We will appoint two persons as inspectors of election for the meeting who will count the votes cast. They will treat shares represented by proxies that withhold authority as shares that are present and entitled to vote when determining if a quorum exists for any matter voted upon by the stockholders.

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WHAT IF I WANT TO CHANGE MY VOTE?

You can change your vote on a proposal at any time before the meeting for any reason by revoking your proxy. Proxies may be revoked by:

- Filing a written notice of revocation, which includes a later date than the proxy date, with our secretary at or before the meeting;
- Properly executing a later proxy relating to the same shares; or
- Attending the meeting and voting in person; however, attendance at the meeting will not in and of itself constitute a revocation of a proxy.

Any written notice revoking a proxy should be sent to: Secretary, The Leather Factory, Inc., 3847 East Loop 820 South, Fort Worth, Texas 76119.

WHO PAYS FOR THIS SOLICITATION?

We, the company, will pay for the cost of soliciting proxies. Our directors, officers and employees may solicit proxies. They will not be paid for soliciting the proxies but may be reimbursed for out-of-pocket expenses related to the proxy solicitation. Proxies may be solicited in person, by mail, by telephone, by telegram or other means of communication. We will make arrangements with custodians, nominees and fiduciaries in order to forward proxy solicitation materials to beneficial owners of common stock.

WHO IS OUR INDEPENDENT PUBLIC ACCOUNTANT?

Our Audit Committee selected Weaver & Tidwell, LLP ("Weaver & Tidwell") to serve as our independent public accountant for the year ended December 31, 2003. A representative of Weaver & Tidwell is expected to attend the meeting. The representative will have the opportunity to make a statement at the meeting and respond to appropriate questions from you, our stockholders. Our Audit Committee has not named the independent public accounting firm that will serve as outside auditor for 2004.

WHAT FEES DID WE PAY TO OUR INDEPENDENT PUBLIC ACCOUNTANT DURING THE PRECEDING TWO FISCAL YEARS?

Audit Fees. Hein + Associates LLP ("Hein") performed the audit of our 2002 financial statements and the reviews of our Forms 10-Q for 2002 and the first two quarters of 2003. Weaver & Tidwell performed the audit of our 2003 financial statements and the review of our third quarter 2003 Form 10-Q. The amounts shown below are the aggregate amounts paid to these firms during 2002 and 2003 for services in the categories indicated.

TYPES OF FEES	HEIN	WEAVER & TIDWELL
-----	-----	-----
Audit fees	\$73,388	\$43,250
Audit-related fees	-	-
Tax fees	-	-
All other fees	-	-
	-----	-----
TOTAL FOR 2002 and 2003	\$73,388	\$43,250
	=====	=====

Pursuant to the charter of our Audit Committee as in effect at the relevant times and the rules of the SEC, the Audit Committee approved all of the fees indicated above before the services were provided.

WHEN DID THE COMPANY CHANGE ITS INDEPENDENT PUBLIC ACCOUNTANT?

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Effective August 18, 2003, the Audit Committee unanimously recommended and directed (a) the dismissal of Hein as the Company's independent accountants and (b) the engagement of Weaver & Tidwell as the Company's independent accountants to audit the Company's consolidated financial statements for the fiscal year ending December 31, 2003.

The reports of Hein on the Company's consolidated financial statements for either of the past two fiscal years did not contain an adverse opinion or a disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope, or accounting principles. In connection with the audits of the Company's financial statements for each of the two fiscal years ended December 31, 2002, and in the subsequent interim period, there were no disagreements between the Company and Hein on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedures that, if not resolved to the satisfaction of Hein, would have caused Hein to make reference to the subject matter of the disagreement(s) in its reports. During the two fiscal years ended December 31, 2002 and through August 18, 2003, there have been no reportable events (as defined in Securities and Exchange Commission Regulation S-K Item 304(a)(1)(iv)).

No consultations occurred between the Company and Weaver & Tidwell during the two fiscal years and any interim period preceding the appointment of Weaver & Tidwell regarding the application of accounting principles to a specific transaction (either completed or proposed), the type of audit opinion that might be rendered on the Company's consolidated financial statements or any other accounting, auditing or financial reporting matter required to be disclosed here pursuant to Regulation S-K Item 304(a)(2).

### HOW DO I RAISE AN ISSUE FOR DISCUSSION OR VOTE AT THE ANNUAL MEETING?

If you wish to present a proposal for consideration at an annual meeting, you must send written notice of the proposal to our corporate secretary. We have not received notice of any stockholder proposals to be presented at this year's meeting.

If you would like your proposal to be included in next year's proxy statement, you must submit it to our corporate secretary by no later than December 24, 2004. We will include your proposal in our next annual proxy statement if it is a proposal that we would be required to include pursuant to the rules of the Securities and Exchange Commission.

You may write to our corporate secretary at 3847 East Loop 820 South, Fort Worth, Texas 76119 to present a proposal for consideration.

If a stockholder raises a matter at the meeting that requires a stockholder vote, the person to whom you have given your proxy will use his or her discretion to vote on the matter on your behalf.

According to our by-laws, any proposal properly raised at the meeting by a stockholder will require the affirmative vote of a majority of the shares deemed present at the meeting, whether in person or by proxy.

### HOW CAN I RECEIVE A COPY OF THE ANNUAL REPORT?

We provide a free copy of our Annual Report on Form 10-K that includes the financial statements and schedules, but does not include the exhibits. If you would also like the report's exhibits, we will provide copies of the exhibits. We may charge a reasonable fee for providing these exhibits.

In order to receive this report, you must request a report in writing and mail the request to The Leather Factory, Inc., PO Box 50429, Fort Worth, Texas

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76105-0429, Attention: Shannon L. Greene, Chief Financial Officer.

In addition, information concerning obtaining our complete Form 10-K with exhibits and other securities filings from the Securities and Exchange Commission and our website is contained in Item 1 of the enclosed Form 10-K.

WHAT IS OUR POLICY REGARDING DIRECTOR ATTENDANCE AT THE ANNUAL MEETING?

While we do not have a formal policy regarding attendance at our Annual Meeting, all directors are strongly urged to attend. Last year, all directors nominated for election to the Board of Directors attended the Annual Meeting.

HOW DO I COMMUNICATE WITH THE DIRECTORS OF THE LEATHER FACTORY, INC.?

Stockholders who wish to communicate with the Chairman or with the independent directors as a group may do so by writing to the Corporate Secretary at The Leather Factory, Inc., PO Box 50429, Fort Worth, Texas 76105-0429. The Secretary will forward your communication to the independent directors or Chairman as requested by the stockholder. All appropriate communications addressed to directors will be reviewed by the Corporate Secretary. Because other appropriate avenues of communication exist for matters that are not of stockholder interest, such as general business complaints or employee grievances, communications that do not relate to matters of stockholder interest will not be forwarded to the Board. The Corporate Secretary has the option, but not the obligation, to forward these other communications to appropriate channels within the Company.

### BOARD STRUCTURE AND COMPOSITION

As of the date of this proxy statement, our Board has eight directors and the following five committees: (1) Audit, (2) Compensation, (3) Nominating, (4) 1995 Director Non-Qualified Stock Option Plan committee, and (5) 1995 Stock Option Plan Committee. The membership during the last fiscal year and the function of each committee are described below. During fiscal 2003, the Board held five meetings. H.W. Markwardt attended less than 75% of all board and committee meetings on which he served during 2003.

Name of Director	Audit	Compensation	Nominating	Director Non- Qualified Stock Option Plan	St Op P
<b>Non-Employee Directors:</b>					
T. Field Lange	X	X	X		
Joseph R. Mannes	X*	X	X		
H.W. Markwardt	X	X	X		
Michael A. Markwardt	X	X*	X		
Michael A. Nery	X	X	X		
<b>Employee Directors:</b>					
Wray Thompson				X*	
Shannon L. Greene				X	
Ronald C. Morgan				X	
Number of Meetings in Fiscal 2003	4	0	0	1	