

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2024

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____



TANDY LEATHER FACTORY, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

75-2543540

(I.R.S. Employer Identification No.)

1900 Southeast Loop 820, Fort Worth, Texas 76140

(Address of principal executive offices) (Zip code)

(817) 872-3200

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Title of each class

Common Stock, par value \$0.0024

Trading Symbol

TLF

Name of each exchange on which registered

The Nasdaq Capital Market

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (\$232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of August 7, 2024, the registrant had 8,422,546 shares of Common Stock, par value \$0.0024 per share, outstanding.

TANDY LEATHER FACTORY, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED June 30, 2024

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Cautionary Statement Regarding Forward-Looking Statements and Information

The following discussion, as well as other portions of this Form 10-Q, 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 Tandy Leather Factory, Inc. ("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 in conjunction with our Condensed Consolidated Financial Statements and related notes contained elsewhere in this report. These forward-looking statements are made based upon management's current plans, expectations, estimates, assumptions and beliefs concerning future events impacting us and should be read carefully because they involve risks and uncertainties. We assume no obligation to update or otherwise revise these forward-looking statements, except as required by law. Specific examples of forward-looking statements include, but are not limited to, statements regarding our forecasts of financial performance, share repurchases, store openings or store closings, capital expenditures and working capital requirements. Our actual results could materially differ from those discussed in such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and particularly in "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2023. Unless the context otherwise indicates, references in this Form 10-Q to "TLF," "we," "our," "us," "the Company," "Tandy," or "Tandy Leather" mean Tandy Leather Factory, Inc., together with its subsidiaries.

PART I. FINANCIAL INFORMATION**Item 1. Condensed Consolidated Financial Statements.****Tandy Leather Factory, Inc.****Condensed Consolidated Balance Sheets**

(amounts in thousands, except share data and per share data)

	June 30, 2024	December 31, 2023
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 11,531	\$ 12,159
Accounts receivable-trade, net of allowance for credit losses of \$ 31 at June 30, 2024 and December 31, 2023.	394	264
Inventory	37,191	37,993
Income tax receivable	682	248
Prepaid expenses	910	475
Other current assets	84	113
Total current assets	50,792	51,252
Property and equipment, at cost	30,069	28,678
Less accumulated depreciation	(18,730)	(18,131)
Property and equipment, net	11,339	10,547
Operating lease assets	9,453	8,995
Financing lease assets	-	23
Deferred income taxes	770	880
Other assets	440	438
TOTAL ASSETS	\$ 72,794	\$ 72,135
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable-trade	\$ 2,397	\$ 2,333
Accrued expenses and other liabilities	2,388	3,140
Income taxes payable	-	288
Current portion of operating lease liabilities	3,132	3,172
Total current liabilities	7,917	8,933
Deferred income taxes	9	9
Uncertain tax positions	388	388
Other non-current liabilities	210	205
Operating lease liabilities, non-current	6,734	6,253
Finance lease liabilities, non-current	-	1
COMMITMENTS AND CONTINGENCIES (Note 6)		
STOCKHOLDERS' EQUITY:		
Common stock, \$ 0.0024 par value; 25,000,000 shares authorized; 9,846,670 and 9,823,621 shares issued at June 30, 2024 and December 31, 2023, respectively; 8,422,546 and 8,399,245 shares outstanding at June 30, 2024 and December 31, 2023, respectively	23	23
Paid-in capital	4,335	3,981
Retained earnings	64,285	63,659
Treasury stock at cost (1,424,376 shares at June 30, 2024 and December 31, 2023)	(9,773)	(9,773)
Accumulated other comprehensive loss, net of tax	(1,334)	(1,544)
Total stockholders' equity	57,536	56,346
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 72,794	\$ 72,135

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Tandy Leather Factory, Inc.**Condensed Consolidated Statements of Operations and Comprehensive Income**

(amounts in thousands, except share and per share data)

(Unaudited)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Net sales	\$ 17,286	\$ 17,482	\$ 36,561	\$ 37,842
Cost of sales	7,268	6,561	15,623	15,102
Gross profit	<u>10,018</u>	<u>10,921</u>	<u>20,938</u>	<u>22,740</u>
Operating expenses	9,955	10,131	20,226	20,969
Income from operations	63	790	712	1,771
Other (income) expense:				
Interest income	(97)	-	(181)	-
Other, net	<u>10</u>	<u>(2)</u>	<u>36</u>	<u>37</u>
Total other (income) expense	<u>(87)</u>	<u>(2)</u>	<u>(145)</u>	<u>37</u>
Income before income taxes	150	792	857	1,734
Income tax provision	<u>49</u>	<u>261</u>	<u>231</u>	<u>539</u>
Net income	<u>\$ 101</u>	<u>\$ 531</u>	<u>\$ 626</u>	<u>\$ 1,195</u>
Foreign currency translation adjustments, net of tax	<u>40</u>	<u>(70)</u>	<u>210</u>	<u>(109)</u>
Comprehensive income	<u>\$ 141</u>	<u>\$ 461</u>	<u>\$ 836</u>	<u>\$ 1,086</u>
Net income per common share:				
Basic	\$ 0.01	\$ 0.06	\$ 0.07	\$ 0.14
Diluted	\$ 0.01	\$ 0.06	\$ 0.07	\$ 0.14
Weighted average number of shares outstanding:				
Basic	8,415,795	8,327,178	8,406,156	8,315,214
Diluted	8,505,068	8,366,904	8,467,156	8,329,969

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Tandy Leather Factory, Inc.
Condensed Consolidated Statements of Cash Flows
(amounts in thousands)
(Uunaudited)

	For the Six Months Ended June 30,	
	2024	2023
Cash flows from operating activities:		
Net income	\$ 626	\$ 1,195
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	631	590
Operating lease asset amortization	1,799	1,670
Stock-based compensation	354	447
Deferred income taxes	110	(31)
Changes in operating assets and liabilities:		
Accounts receivable-trade	(133)	(51)
Inventory	775	714
Prepaid expenses	(435)	(103)
Other current assets	29	33
Accounts payable-trade	68	(747)
Accrued expenses and other liabilities	(738)	(22)
Income taxes, net	(718)	414
Other assets	(2)	(63)
Operating lease liabilities	(1,794)	(1,717)
Total adjustments	(54)	1,134
Net cash provided by operating activities	572	2,329
Cash flows from investing activities:		
Purchase of property and equipment	(1,428)	(174)
Net cash used in investing activities	(1,428)	(174)
Cash flows from financing activities:		
Payment of finance lease obligations	(1)	(3)
Net cash used in financing activities	(1)	(3)
Effect of exchange rate changes on cash and cash equivalents	229	(94)
Net (decrease) increase in cash and cash equivalents	(628)	2,058
Cash and cash equivalents, beginning of period	12,159	7,975
Cash and cash equivalents, end of period	\$ 11,531	\$ 10,033

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Tandy Leather Factory, Inc.

Condensed Consolidated Statements of Stockholders' Equity

(amounts in thousands, except share data)

(Unaudited)

	Number of Shares						Accumulated Other Comprehensive Income (Loss)		
	Common Stock Outstanding	Par Value	Paid-in Capital	Treasury Stock	Retained Earnings		Comprehensive Income (Loss)	Total	
Balance, December 31, 2023	8,399,245	\$ 23	\$ 3,981	\$ (9,773)	\$ 63,659	\$ (1,544)	\$ 56,346		
Stock-based compensation expense	-	-	197	-	-	-	-	197	
Vesting of restricted stock units	2,727	-	-	-	-	-	-	-	
Repurchase of common stock	-	-	-	-	-	-	-	-	
Net income	-	-	-	-	525	-	-	525	
Foreign currency translation adjustments, net of tax	-	-	-	-	-	170	170		
Balance, March 31, 2024	8,401,972	\$ 23	\$ 4,178	\$ (9,773)	\$ 64,184	\$ (1,374)	\$ 57,238		
Stock-based compensation expense	-	-	157	-	-	-	-	157	
Vesting of restricted stock units	20,574	-	-	-	-	-	-	-	
Repurchase of common stock	-	-	-	-	-	-	-	-	
Net income	-	-	-	-	101	-	-	101	
Foreign currency translation adjustments, net of tax	-	-	-	-	-	40	40		
Balance, June 30, 2024	8,422,546	23	4,335	(9,773)	64,285	(1,334)	57,536		
Balance, December 31, 2022	8,293,149	\$ 23	\$ 3,222	\$ (9,773)	\$ 59,891	\$ (1,900)	\$ 51,463		
Stock-based compensation expense	-	-	228	-	-	-	-	228	
Vesting of restricted stock units	17,518	-	-	-	-	-	-	-	
Net income	-	-	-	-	664	-	-	664	
Foreign currency translation adjustments, net of tax	-	-	-	-	-	(39)	(39)		
Balance, March 31, 2023	8,310,667	\$ 23	\$ 3,450	\$ (9,773)	\$ 60,555	\$ (1,939)	\$ 52,316		
Stock-based compensation expense	-	-	219	-	-	-	-	219	
Vesting of restricted stock units	21,681	-	-	-	-	-	-	-	
Shares withheld for taxes and cancelled	-	-	-	-	-	-	-	-	
Purchase of treasury stock	-	-	-	-	-	-	-	-	
Net income	-	-	-	-	531	-	-	531	
Foreign currency translation adjustments, net of tax	-	-	-	-	-	(70)	(70)		
Balance, June 30, 2023	8,332,348	23	3,669	(9,773)	61,086	(2,009)	52,996		

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

TANDY LEATHER FACTORY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION AND CERTAIN SIGNIFICANT ACCOUNTING POLICIES

Tandy Leather Factory, Inc. ("TLF," "we," "our," "us," "the Company," "Tandy," or "Tandy Leather" mean Tandy Leather Factory, Inc., together with its subsidiaries) is one of the world's largest specialty retailers of leather and leathercraft-related items. Founded in 1919 in Fort Worth, Texas, the Company introduced leathercrafting to millions of American and later Canadian and other international customers and has built a track record as the trusted source of quality leather, tools, hardware, supplies, kits and teaching materials for leatherworkers everywhere. Today, our mission remains to build on our legacy of inspiring the timeless art and trade of leatherworking.

What differentiates Tandy from the competition is our high brand awareness and strong brand equity and loyalty, our network of retail stores that provides convenience, a high-touch customer service experience, a hub for the local leathercrafting community, and our 100-year heritage. We believe that this combination of qualities is unique to Tandy and gives the brand competitive advantages that are difficult for others to replicate.

We sell our products primarily through company-owned stores, through orders generated from our global websites, and through direct account representatives in our commercial division. We also manufacture leather lace, cut leather pieces and most of the do-it-yourself kits that are sold in our stores and on our websites. We also offer production services to our business customers such as cutting ("clicking"), splitting, and some assembly. We maintain our principal offices at 1900 Southeast Loop 820, Fort Worth, Texas 76140.

The Company currently operates a total of 101 retail stores. There are 90 stores in the United States ("U.S."), ten stores in Canada and one store in Spain.

The Company's common shares currently trade on the Nasdaq Capital Market under the symbol "TLF."

We operate as a single segment and report on a consolidated basis.

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for annual audited financial statements. In the opinion of management, the accompanying unaudited Condensed Consolidated Financial Statements for Tandy Leather Factory, Inc. and its consolidated subsidiaries contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly our financial position as of June 30, 2024 and December 31, 2023, our results of operations and our cash flows for the six months ended June 30, 2024 and 2023, and our statements of stockholders' equity as of and for the six months ended June 30, 2024 and 2023. The preparation of financial statements in accordance with GAAP requires the use of estimates that affect the reported value of assets, liabilities, revenues and expenses. These estimates are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for the Company's conclusions. The Company continually evaluates the information used to make these estimates as the business and the economic environment changes. Actual results may differ from these estimates, and estimates are subject to change due to modifications in the underlying conditions or assumptions. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and accompanying notes included in our Form 10-K for the year ended December 31, 2023.

Significant Accounting Policies

Cash and cash equivalents. The Company considers investments with a maturity when purchased of three months or less to be cash equivalents. All credit card, debit card and electronic transfer transactions that process in less than seven days are classified as cash and cash equivalents.

Foreign currency translation and transactions. Foreign currency translation adjustments arise from activities of our foreign subsidiaries. Results of operations are translated into U.S. dollars using the average exchange rates during the period, while assets and liabilities are translated using period-end exchange rates. Foreign currency translation adjustments of assets and liabilities are recorded in stockholders' equity and presented net of tax. Gains and losses resulting from foreign currency translations are reported in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) under the caption "Foreign currency translation adjustments, net of tax" for all periods presented.

Revenue Recognition. Our revenue is earned from sales of merchandise and generally occurs via three methods: (1) at the store counter, (2) via web sales, and (3) sales of product directly to commercial customers. We recognize revenue when we satisfy the performance obligation of transferring control of product merchandise over to a customer. At the store counter, our performance obligation is met and revenue is recognized when a sales transaction occurs with a customer. When merchandise is shipped to a customer, our performance obligation is met, and revenue is recognized when control passes to the customer. Shipping terms are normally free on board ("FOB") shipping point, and control passes when the merchandise is shipped to the customer. Sales tax and comparable foreign tax are excluded from net sales, while shipping charged to our customers is included in net sales. Net sales are based on the amount of consideration that we expect to receive, reduced by estimates for future merchandise returns.

The sales return allowance is based each year on historical customer return behavior and other known factors and reduces net sales and cost of sales, accordingly. The sales return allowance included in accrued expense and other liabilities was \$ 0.1 million, \$ 0.1 million, and \$ 0.2 million as of June 30, 2024, December 31, 2023, and January 1, 2023. The estimated value of merchandise expected to be returned included in other current assets was less than \$ 0.1 million as of June 30, 2024, December 31, 2023, and January 1, 2023.

We record a gift card liability for the unfulfilled performance obligation on the date we issue a gift card to a customer. We record revenue and reduce the gift card liability as the customer redeems the gift card. In addition, for gift card breakage, we recognize a proportionate amount for the expected unredeemed gift cards over the expected customer redemption period, which is one year. As of June 30, 2024, December 31, 2023 and January 1, 2023, our gift card liability, included in accrued expenses and other liabilities, was \$ 0.1 million, \$ 0.3 million and \$ 0.3 million, respectively. We recognized gift card revenue of \$ 0.2 million for the six months ended June 30, 2024 and 2023.

For the three months ended June 30, 2024 and 2023, we recognized \$ 0.1 million and \$ 0.2 million respectively in net sales associated with gift cards.

For the six months ended June 30, 2024 and 2023, we recognized \$ 0.2 million and \$ 0.3 million respectively in net sales associated with gift cards.

Disaggregated Revenue. In the following table, revenue for the three and six months ended June 30, 2024 and 2023 is disaggregated by geographic areas as follows:

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
United States	\$ 15,300	\$ 15,566	\$ 32,386	\$ 33,665
Canada	1,737	1,591	3,633	3,498
Other	249	325	542	679
Net sales	\$ 17,286	\$ 17,482	\$ 36,561	\$ 37,842

Geographic sales information is based on the location of the customer. As a percentage of our consolidated net sales, excluding Canada, our other international net sales were less than 2.0 % for the three and six months ended June 30, 2024, and 2023 respectively.

Discounts. We offer six classes of customer discounts: 1) Retail, 2) Military/First Responder, 3) Business, 4) Commercial, 5) Commercial Pro, and 6) Employees. There are no other classes of discounts, and any discounts given will fall into one of these six categories. Such discounts are not deemed to be variable consideration nor convey a material right to these customers since the discounted pricing they receive in a discount class is not incremental to others within the same class and there is no retrospective impact of such discounts. As a result, sales are reported after deduction of discounts at the point of sale. We do not pay slotting fees or make other payments to resellers.

Operating expenses. Operating expenses include all selling, general and administrative costs, including wages and benefits, rent and occupancy costs, depreciation, advertising, store operating expenses, outbound freight charges (to ship merchandise to customers), and corporate office costs.

Property and equipment, net of accumulated depreciation. Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which are three to ten years for equipment and machinery, seven to fifteen years for furniture and fixtures, five years for vehicles, and forty years for buildings and related improvements. Leasehold improvements are amortized over the lesser of the life of the lease or the useful life of the asset. Repairs and maintenance costs are expensed as incurred but are capitalized if extend the life of the assets.

Inventory. Inventory is stated at the lower of first-in, first-out ("FIFO") cost or net realizable value, and FIFO layers are maintained at the location level. Finished goods held for sale include the cost of merchandise purchases, the costs to bring the merchandise to our Texas distribution center, warehousing and handling expenditures, and distributing and delivering merchandise to our stores. These costs include depreciation of long-lived assets utilized in acquiring, warehousing and distributing inventory. Manufacturing inventory including raw materials and work-in-process is valued on a first in, first out basis using full absorption accounting which includes material, labor, and other applicable manufacturing overhead. Carrying values of inventory are analyzed and, to the extent that the cost of inventory exceeds the net realizable value, provisions are made to reduce the carrying amount of the inventory.

We regularly review all inventory items to determine if there are (i) damaged goods (e.g., for leather, excessive scars or damage from ultra-violet ("UV") light), (ii) items that need to be removed from our product line (e.g., slow-moving items, inability of a supplier to provide items of acceptable quality or quantity, and to maintain freshness in the product line) and (iii) pricing actions that need to be taken to adequately value our inventory at the lower of cost or net realizable value.

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Since the determination of net realizable value of inventory involves both estimation and judgement with regard to market values and reasonable costs to sell, differences in these estimates could result in ultimate valuations that differ from the recorded asset.

The majority of inventory purchases and commitments are made in U.S. dollars in order to limit the Company's exposure to foreign currency fluctuations. Goods shipped to us are recorded as inventory owned by us when the risk of loss shifts to us from the supplier.

Inventory is physically counted partially during each quarter and fully at year-end in the Texas distribution center. At the store level, inventory is partially counted each quarter for high value items and fully at year-end. Inventory is then adjusted in our accounting system to reflect actual count results.

<i>(in thousands)</i>	<u>June 30, 2024</u>	<u>December 31, 2023</u>
On hand:		
Finished goods held for sale	\$ 32,640	\$ 33,350
Raw materials and work in process	1,358	1,774
Inventory in transit	3,193	2,869
TOTAL	\$ 37,191	\$ 37,993

Leases. We lease real estate for our retail store locations and may lease warehouse equipment for our Texas distribution center under long-term lease agreements; however, as of the end of June 30, 2023, we acquired the warehouse equipment and it is now a part of our fixed assets. We determine if an arrangement is a lease at inception and recognize right-of-use ("ROU") assets and lease liabilities at commencement date based on the present value of the lease payments over the lease term. We elected not to record leases with an initial term of 12 months or less on the balance sheet for all our asset classes.

For operating leases, the present value of our lease liabilities may include: (1) rental payments adjusted for inflation or market rates, and (2) lease terms with options to renew the lease or options to purchase leased equipment, when it is reasonably certain we will exercise such an option. The exercise of lease renewal or purchase option is generally at our discretion. Payments based on a change in an index or market rate are not considered in the determination of lease payments for purposes of measuring the related lease liability. We discount lease payments using our incremental borrowing rate based on information available as of the measurement date.

We recognize rent expense related to our operating leases assets on a straight-line basis over the lease term. Rent expense is recorded in operating expenses.

For finance leases, our right-of-use assets are amortized on a straight-line basis over the earlier of the useful life of the right-of-use asset or the end of the lease term with rent expense recorded to operating expenses. We adjust the lease liability to reflect lease payments made during the period and interest incurred on the lease liability using the effective interest method. The interest expense incurred is recorded in interest expense on the Condensed Consolidated Statements of Operations and Comprehensive Income.

The depreciable life of related leasehold improvements is based on the shorter of the useful life or the lease term. We also perform interim reviews of our lease assets for impairment when evidence exists that the carrying value of an asset group, including a lease asset, may not be recoverable. None of our lease agreements contain contingent rental payments, material residual value guarantees or material restrictive covenants. We have no sublease agreements and no lease agreements in which we are named as a lessor.

Impairment of Long-Lived Assets. We evaluate long-lived assets on a quarterly basis to identify events or changes in circumstances (“triggering events”) that indicate the carrying value of certain assets may not be recoverable. Upon the occurrence of a triggering event, ROU lease assets, property and equipment and definite-lived intangible assets are reviewed for impairment and an impairment loss is recorded in the period in which it is determined that the carrying amount of the assets is not recoverable. The determination of recoverability is made based upon the estimated undiscounted future net cash flows of assets grouped at the lowest level for which there are identifiable cash flows independent of the cash flows of other groups of assets with such cash flows to be realized over the estimated remaining useful life of the primary asset within the asset group. The Company determined the lowest level of identifiable cash flows that are independent of other asset groups to be primarily at the individual store level. If the estimated undiscounted future net cash flows for a given store are less than the carrying amount of the related store assets, an impairment loss is determined by comparing the estimated fair value with the carrying value of the related assets. The impairment loss is then allocated across the asset group's major classifications which in this case are operating lease assets and property and equipment. Triggering events at the store level could include material declines in operational and financial performance or planned changes in the use of assets, such as store relocation or store closure. This evaluation requires management to make judgements relating to future cash flows, growth rates and economic and market conditions. The fair value of an asset group is estimated using a discounted cash flow valuation method.

Fair Value of Financial Instruments. We measure fair value as an exit price, which is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As a basis for considering such assumptions, accounting standards establish a three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

- Level 1 – observable inputs that reflect quoted prices in active markets for identical assets or liabilities.
- Level 2 – significant observable inputs other than quoted prices in active markets for similar assets and liabilities, such as quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – significant unobservable inputs reflecting our own assumptions, consistent with reasonably available assumptions made by other market participants.

Classification of the financial asset or liability within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Our principal financial instruments held consist of T-Bills as of June 30, 2024 and December 31, 2023 which fall under level 1 of the fair value hierarchy; accounts receivable - trade, accounts payable - trade, as of June 30, 2024 and December 31, 2023, all of which fall under Level 3 of the fair value hierarchy. As of June 30, 2024 and December 31, 2023, the carrying values of our financial instruments included in our Consolidated Balance Sheets approximated their fair values. There were no transfers into or out of Levels 1, 2 and 3 during the six months ended June 30, 2024 and 2023.

Income Taxes. Income taxes are estimated for each jurisdiction in which we operate. This involves assessing current tax exposure together with temporary differences resulting from differing treatment of items for tax and financial statement accounting purposes. Any resulting deferred tax assets are evaluated for recoverability based on estimated future taxable income. To the extent it is more-likely-than-not that all or a portion of a deferred tax asset will not be realized, a valuation allowance is recorded. Our evaluation regarding whether a valuation allowance is required or should be adjusted also considers, among other things, the nature, frequency, and severity of recent losses, forecasts of future profitability and the duration of statutory carryforward periods.

Deferred tax assets and liabilities are measured using the enacted tax rates in effect in the years when those temporary differences are expected to reverse. The effect on deferred taxes from a change in tax rate is recognized through continuing operations in the period that includes the enactment date of the change. Changes in tax laws and rates could affect recorded deferred tax assets and liabilities in the future.

A tax benefit from an uncertain tax position may be recognized when it is more-likely-than-not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Income tax positions must meet a more-likely-than-not recognition threshold to be recognized.

We recognize tax liabilities for uncertain tax positions and adjust these liabilities when our judgement changes as a result of the evaluation of new information not previously available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from the current estimate of the tax liabilities. These differences will be reflected as increases or decreases to income tax expense and the effective tax rate in the period in which new information becomes available. We recognize interest and/or penalties related to all tax positions in income tax expense. To the extent that accrued interest and penalties do not ultimately become payable, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision in the period that such determination is made.

We may be subject to periodic audits by the Internal Revenue Service and other taxing authorities. These audits may challenge certain of our tax positions, such as the timing and amount of deductions and allocation of taxable income to the various jurisdictions.

Stock-based compensation. The Company's stock-based compensation relates primarily to restricted stock unit ("RSU") awards. Accounting guidance requires measurement and recognition of compensation expense at an amount equal to the grant date fair value. Compensation expense is recognized for service-based stock awards on a straight-line basis or ratably over the requisite service period, based on the closing price of the Company's stock on the date of grant. The service-based awards typically vest ratably over the requisite service period, provided that the participant is employed on the vesting date. Compensation expense is reduced by actual forfeitures as they occur over the requisite service period of the awards.

Performance-based RSUs vest, if at all, upon the Company satisfying certain performance targets. The Company records compensation expense for awards with a performance condition when it is probable that the condition will be achieved. If the Company determines it is not probable a performance condition will be achieved, no compensation expense is recognized. If the Company changes its assessment in a subsequent period and concludes it is probable a performance condition will be achieved, the Company will recognize compensation expense ratably between the period of the change in assessment through the expected date of satisfying the performance condition for vesting. If the Company subsequently assesses that it is no longer probable that a performance condition will be achieved, the accumulated expense that has been previously recognized will be reversed. The compensation expense ultimately recognized, if any, related to performance-based awards will equal the grant date fair value based on the number of shares for which the performance condition has been satisfied. We issue shares from authorized shares upon the lapsing of vesting restrictions on RSUs. We do not use cash to settle equity instruments issued under stock-based compensation awards. The payments of the employees' tax liability for a portion of the vested shares are satisfied by withholding shares with a fair value equal to the tax liability.

Accounts Receivable - Trade and Expected Credit Losses. Our receivables primarily arise from the sale of merchandise to customers that have applied for and been granted credit. Accounts receivable are stated at amounts due, net of an allowance. Accounts receivable are generally due within 30 days of invoicing. We estimate expected credit losses based on factors such as the composition of accounts receivable, the age of the accounts, historical bad debt experience, and our evaluation of the financial condition and past collection history of each customer. Management believes that the historical loss information it has compiled is a reasonable base on which to determine expected credit losses for trade receivables held at June 30, 2024, because the composition of the trade receivables at that date is consistent with that used in developing the historical credit-loss percentages (i.e., the similar risk characteristics of its customers and its credit practices have not changed significantly over time). Accordingly, the allowance for expected credit losses at June 30, 2024, December 31, 2023, and January 1, 2023 each totaled less than \$ 0.1 million.

Other Intangible Assets. Our intangible assets and related accumulated amortization relate to trademarks and copyrights that are definite-lived intangibles and are subject to amortization. The weighted average amortization period is 15 years for trademarks and copyrights. Amortization expense related to other intangible assets was less than \$ 0.01 million during each of the six months ended June 30, 2024 and 2023. Based on the current amount of intangible assets subject to amortization, we estimate amortization expense to be less than \$ 0.01 million annually over the next five years. Our "Other intangible assets" is fully amortized as of June 30 2024.

Comprehensive Income. Comprehensive income includes net income and certain other items that are recorded directly to stockholders' equity. The Company's only source of other comprehensive income is foreign currency translation adjustments, and those adjustments are presented net of tax.

2. NOTES PAYABLE AND LONG-TERM DEBT

On January 3, 2023, the Company entered into a credit agreement (the "Credit Agreement") with JPMorgan Chase Bank, N.A. Under the Credit Agreement, the bank will provide the Company a credit facility of up to \$ 5,000,000 on standard terms and conditions, including affirmative and negative covenants set forth in the Credit Agreement. As security for the credit facility, the Company has pledged as collateral certain of its assets, including the Company's cash in deposit accounts, inventory and equipment. As of the date of this filing, no funds had been borrowed under this facility.

3. INCOME TAX

Our effective tax rate for the three months ended June 30, 2024 and 2023 was 32.9 % and 32.9 %, respectively. Our effective tax rate for the six months ended June 30, 2023 and 2022 was 26.9 % and 31.1 %, respectively. Our effective tax rate differs from the federal statutory rate primarily due to U.S. state income tax expense, expenses that are nondeductible for tax purposes, the change in our valuation allowance associated with our deferred tax assets, and differences in tax rates in foreign jurisdictions.

4. STOCK-BASED COMPENSATION

The Tandy Leather Factory, Inc. 2013 Restricted Stock Plan (the "2013 Plan") was adopted by our Board of Directors in January 2013 and approved by our stockholders in June 2013. The 2013 Plan initially reserved up to 300,000 shares for restricted stock and restricted stock unit ("RSU") awards to our executive officers, non-employee directors and other key employees. In June 2020, our stockholders approved an increase to the plan reserve to 800,000 shares of our common stock and extended the 2013 Plan to June 2023. Awards granted under the 2013 Plan may be service-based awards or performance-based awards, and may be subject to a graded vesting schedule with a minimum vesting period of four years, unless otherwise determined by the Compensation Committee of the Board of Directors that administers the plan. All shares remaining ungranted under the 2013 Plan were cancelled upon the adoption of the 2023 Plan described below.

The Tandy Leather Factory, Inc. 2023 Incentive Stock Plan (the "2023 Plan" and, together with the 2013 Plan, the "Plans") was adopted by our Board of Directors in April 2023 and approved by our stockholders in June 2023. The 2023 Plan initially reserved up to 800,000 shares of our common stock for a variety of equity awards (including, but not limited to, RSUs, the only type of awards that have been granted to date) to our executive officers, non-employee directors and other key employees. In June 2023, as part of their annual director compensation, certain of our non-employee directors were granted a total of 12,993 service-based RSUs under the 2023 Plan, which will vest ratably over the next four years, subject to each participant's continued service on the board as of each vesting date. In October 2023, the Company granted to Ms. Carr a total of 276,000 service-based RSUs under the 2023 Plan, which will vest ratably over the next three years, subject to Ms. Carr's continued employment as of each vesting date. In March 2024, the Company granted to certain employees other than Ms. Carr a total of 59,649 RSUs under the 2023 Plan, which will vest ratably over the next three years, subject to the recipients' continued employment as of each vesting date. In June 2024, the Company granted 14,000 shares to various members of the Board of Directors, which will vest ratably over the next four years.

A summary of the activity for non-vested restricted stock and RSU awards as of June 30, 2024 is presented below:

	<u>Shares (in thousands)</u>	<u>Weighted Average Share Price</u>
Balance, January 1, 2024	623	\$ 5.12
Granted	74	0.85
Forfeited	(6)	5.00
Vested	23	4.73
Balance, June 30, 2024	714	\$ 4.38

The Company's stock-based compensation relates primarily to RSU awards. For these service-based awards, our stock-based compensation expense, included in operating expenses, was \$ 0.2 million and \$ 0.2 million for the three months and \$ 0.4 million and \$ 0.4 million for the six months ended June 30, 2024 and 2023, respectively.

As of June 30, 2024, the Company has concluded it is not probable that the performance conditions related to performance-based RSUs granted to our CEO in October 2018 will be achieved, and as a result no compensation expense related to performance-based RSUs has been recorded.

As of June 30, 2024, there was unrecognized compensation cost related to non-vested, service-based RSU awards of \$ 1.4 million, which will be recognized in each of the following years (dollars in thousands):

Unrecognized Expense	\$ 324
2024	564
2025	419
2026	37
2027	6
2028	\$ 1,350

We issue shares from authorized shares upon the lapsing of vesting restrictions on restricted stock and RSUs. For the six months ended June 30, 2024 and 2023, we issued 23,301 and 39,199 shares, respectively, resulting from the vesting of RSUs. We do not use cash to settle equity instruments issued under stock-based compensation awards. The payment of the employees' tax liability for a portion of the vested shares may be satisfied by withholding shares with a fair value equal to the tax liability.

5. EARNINGS PER SHARE

Basic earnings per share ("EPS") are computed based on the weighted average number of common shares outstanding during the period. Diluted EPS includes additional common shares that would have been outstanding if potential common shares with a dilutive effect, such as stock awards from the Company's restricted stock plan, had been issued. Anti-dilutive securities represent potentially dilutive securities which are excluded from the computation of diluted EPS as their impact would be anti-dilutive. Diluted EPS is computed using the treasury stock method.

The following table sets forth the computation of basic and diluted EPS for the three and six months ended June 30, 2024 and 2023:

<i>(in thousands, except share data)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Numerator:				
Net income	\$ 101	\$ 531	\$ 626	\$ 1,195
Denominator:				
Basic weighted-average common shares outstanding	8,415,795	8,327,178	8,406,156	8,315,214
Dilutive effect of service-based restricted stock awards granted to Board of Directors under the Plan	8,330	7,156	596	367
Dilutive effect of service-based restricted stock awards granted to employees under the Plan	80,943	32,570	60,404	14,388
Diluted weighted-average common shares outstanding	8,505,068	8,366,904	8,467,156	8,329,969
Basic earnings per share	0.01	0.06	0.07	0.14
Diluted earnings per share	0.01	0.06	0.07	0.14

6. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

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

7. SHARE REPURCHASE PROGRAM AND SHARE REPURCHASES

On August 8, 2022, the Board of Directors approved a new program to repurchase up to \$ 5.0 million of the Company's common stock between that date and August 31, 2024. As of June 30, 2024, \$ 5.0 million remained available for repurchase under this new program.

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

The Business and Strategy

Tandy Leather Factory, Inc. is one of the world's largest specialty retailers of leather and leathercraft-related items. Founded in 1919 in Fort Worth, Texas, and organized in 2005 as a Delaware corporation, the Company introduced leathercrafting to millions of American and later Canadian and other international customers and has built a track record as the trusted source of quality leather, tools, hardware, supplies, kits and teaching materials for leatherworkers everywhere. Today, our mission remains to build on our legacy of inspiring the timeless art and trade of leatherworking.

What differentiates Tandy from the competition is our high brand awareness and strong brand equity and loyalty, our network of retail stores that provides convenience, a high-touch customer service experience, and a hub for the local leathercrafting community, and our 100-year heritage. We believe that this combination of qualities is unique to Tandy and gives the brand competitive advantages that are difficult for others to replicate.

We sell our products primarily through company-owned stores and through orders generated from our global websites, and through direct account representatives in our commercial division. We also manufacture leather lace, cut leather pieces and most of the do-it-yourself kits that are sold in our stores and on our websites. We also offer production services to our business customers such as cutting ("clicking"), splitting, and some assembly. We maintain our principal offices at 1900 Southeast Loop 820, Fort Worth, Texas 76140.

Currently, the Company operates a total of 101 retail stores. There are 91 stores in the United States ("U.S."), ten stores in Canada and one store in Spain.

Tandy Leather has been introducing people to leatherworking for over 100 years. Our stores have been and continue to be our competitive advantage: where our consumers learn the craft in classes, open table, and from the expertise of our store staff, where they can touch, feel and test the product, and where they can connect and commune with others passionate about leather. Our websites provide inspiration, detailed product descriptions and specifications, educational information and videos, and a convenient place to also purchase product – especially for those who are far from our retail stores, including a growing international customer base. For many of our retail and web customers, leatherworking evolves from a passion to a trade. Our Commercial Division is tailored to the needs of those customers who build businesses around leather. With dedicated direct account representatives, a direct-from-our-warehouse shipping model, bulk and volume-based competitive pricing, customized product development, and production and pre-production services, we are building long-term, strategic relationships with our largest customers.

In 2019, with the arrival of a new management team, we began the process of assessing and reinvigorating the business. We focused in three broad strategic initiative areas: 1) improving our brand proposition, 2) rebuilding our foundation: the talent, processes, tools and systems needed to modernize and efficiently operate the business, and 3) creating a vision and road map for long-term growth. We had significant achievements in all of these areas including significantly improving the product quality, breadth of assortment and value, dramatically improving the website and web operations, rebuilding the team, people policies and culture, and replacing all of the key systems, among many other accomplishments.

We made this steady progress to transform and reinvigorate our business even in the face of two very significant obstacles: a financial restatement and COVID-19. With those obstacles behind us, we have been focused on improving our financial sustainability and profitability. In the short-term, we are managing operating expenses and gross margin to deliver free operating cash and operating income even in the face of possible continued economic headwinds. We will also continue to selectively invest in profitable sales growth where it makes sense, but rebuilding a durable, profitable business model is the highest priority.

Critical Accounting Policies

A description of our critical accounting policies appears in Item 7 "Management's Discussions and Analysis of Financial Condition and Results of Operations" in our annual report on Form 10-K for the year ended December 31, 2023.

Revenue Recognition. Our revenue is earned from sales of merchandise and generally occurs via three methods: (1) at the store counter, (2) via web sales, and (3) sales of product directly to commercial customers. We recognize revenue when we satisfy the performance obligation of transferring control of product merchandise over to a customer. At the store counter, our performance obligation is met, and revenue is recognized when a sales transaction occurs with a customer. When merchandise is shipped to a customer, our performance obligation is met, and revenue is recognized when control passes to the customer. Shipping terms are normally free on board ("FOB") shipping point and control passes when the merchandise is shipped to the customer. Sales tax and comparable foreign tax are excluded from net sales, while shipping charged to our customers is included in net sales. Net sales are based on the amount of consideration that we expect to receive, reduced by estimates for future merchandise returns.

The sales return allowance is based each year on historical customer return behavior and other known factors and reduces net sales and cost of sales, accordingly. The sales return allowance included in accrued expense and other liabilities was \$0.2 million, \$0.1 million, and \$0.2 million as of June 30, 2024, December 31, 2023, and January 1, 2023. The estimated value of merchandise expected to be returned included in other current assets was less than \$0.1 million as of June 30, 2024, December 31, 2023, and January 1, 2023.

We record a gift card liability for the unfulfilled performance obligation on the date we issue a gift card to a customer. We record revenue and reduce the gift card liability as the customer redeems the gift card. In addition, for gift card breakage, we recognize a proportionate amount for the expected unredeemed gift cards over the expected customer redemption period, which is one year. As of June 30, 2024, December 31, 2023 and January 1, 2023, our gift card liability, included in accrued expenses and other liabilities, was \$0.1 million, \$0.3 million and \$0.3 million, respectively. We recognized gift card revenue of \$0.2 million for the six months ended June 30, 2024 and 2023.

For the three months ended June 30, 2024 and 2023, we recognized \$0.1 million and \$0.2 million respectively in net sales associated with gift cards.

For the six months ended June 30, 2024 and 2023, we recognized \$0.2 million and \$0.3 million respectively in net sales associated with gift cards.

Inventory. Inventory is stated at the lower of first-in, first-out ("FIFO") cost or net realizable value, and FIFO layers are maintained at the location level. Finished goods held for sale includes the cost of merchandise purchases, the costs to bring the merchandise to our Texas distribution center, warehousing and handling expenditures, and distributing and delivering merchandise to our stores. These costs include depreciation of long-lived assets utilized in acquiring, warehousing and distributing inventory. Manufacturing inventory including raw materials and work-in-process is valued on a FIFO basis using full absorption accounting which includes material, labor, and other applicable manufacturing overhead. Carrying values of inventory are analyzed and, to the extent that the cost of inventory exceeds the net realizable value, provisions are made to reduce the carrying amount of the inventory.

We regularly review all inventory items to determine if there are (i) damaged goods (e.g., for leather, excessive scars or damage from ultra-violet ("UV") light), (ii) items that need to be removed from our product line (e.g., slow-moving items, inability of a supplier to provide items of acceptable quality or quantity, and to maintain freshness in the product line) and (iii) pricing actions that need to be taken to adequately value our inventory at the lower of FIFO cost or net realizable value.

Since the determination of net realizable value of inventory involves both estimation and judgement with regard to market values and reasonable costs to sell, differences in these estimates could result in ultimate valuations that differ from the recorded asset.

The majority of inventory purchases and commitments are made in U.S. dollars in order to limit the Company's exposure to foreign currency fluctuations. Goods shipped to us are recorded as inventory owned by us when the risk of loss shifts to us from the supplier. Inventory is physically counted twice annually in the Texas distribution center. At the store level, inventory is physically counted each quarter. Inventory is then adjusted in our accounting system to reflect actual count results.

Leases. We lease real estate for our retail store locations and may lease warehouse equipment for our Texas distribution center under long-term lease agreements; however, as of the end of June 30, 2024, we did not have any warehouse equipment leases. We determine if an arrangement is a lease at inception and recognize right-of-use ("ROU") assets and lease liabilities at commencement date based on the present value of the lease payments over the lease term. We elected not to record leases with an initial term of 12 months or less on the balance sheet for all our asset classes.

For operating leases, the present value of our lease liabilities may include: (1) rental payments adjusted for inflation or market rates, and (2) lease terms with options to renew the lease or options to purchase leased equipment, when it is reasonably certain we will exercise such an option. The exercise of lease renewal or purchase option is generally at our discretion. Payments based on a change in an index or market rate are not considered in the determination of lease payments for purposes of measuring the related lease liability. We discount lease payments using our incremental borrowing rate based on information available as of the measurement date.

We recognize rent expense related to our operating leases assets on a straight-line basis over the lease term. Rent expense is recorded in operating expenses.

For finance leases, our right-of-use assets are amortized on a straight-line basis over the earlier of the useful life of the right-of-use asset or the end of the lease term with rent expense recorded to operating expenses. We adjust the lease liability to reflect lease payments made during the period and interest incurred on the lease liability using the effective interest method. The interest expense incurred is recorded in interest expense on the Condensed Consolidated Statements of Operations and Comprehensive Income.

The depreciable life of related leasehold improvements is based on the shorter of the useful life or the lease term. We also perform interim reviews of our lease assets for impairment when evidence exists that the carrying value of an asset group, including a lease asset, may not be recoverable.

None of our lease agreements contain contingent rental payments, material residual value guarantees or material restrictive covenants. We have no sublease agreements and no lease agreements in which we are named as a lessor.

Impairment of Long-Lived Assets. We evaluate long-lived assets on a quarterly basis to identify events or changes in circumstances ("triggering events") that indicate the carrying value of certain assets may not be recoverable. Upon the occurrence of a triggering event, right-of-use ("ROU") lease assets, property and equipment and definite-lived intangible assets are reviewed for impairment and an impairment loss is recorded in the period in which it is determined that the carrying amount of the assets is not recoverable. The determination of recoverability is made based upon the estimated undiscounted future net cash flows of assets grouped at the lowest level for which there are identifiable cash flows independent of the cash flows of other groups of assets with such cash flows to be realized over the estimated remaining useful life of the primary asset within the asset group. The Company determined the lowest level of identifiable cash flows that are independent of other asset groups to be primarily at the individual store level. If the estimated undiscounted future net cash flows for a given store are less than the carrying amount of the related store assets, an impairment loss is determined by comparing the estimated fair value with the carrying value of the related assets. The impairment loss is then allocated across the asset group's major classifications which in this case are operating lease assets and property and equipment. Triggering events at the store level could include material declines in operational and financial performance or planned changes in the use of assets, such as store relocation or store closure. This evaluation requires management to make judgements relating to future cash flows, growth rates and economic and market conditions. The fair value of an asset group is estimated using a discounted cash flow valuation method.

Stock-based Compensation. The Company's stock-based compensation relates primarily to restricted stock unit ("RSU") awards. Accounting guidance requires measurement and recognition of compensation expense at an amount equal to the grant date fair value. Compensation expense is recognized for service-based stock awards on a straight-line basis or ratably over the requisite service period, based on the closing price of the Company's stock on the date of grant. The service-based awards typically vest ratably over the requisite service period, provided that the participant is employed on the vesting date. The total compensation expense is reduced by actual forfeitures as they occur over the requisite service period of the awards. Performance-based RSUs vest, if at all, upon the Company satisfying certain performance targets. The Company records compensation expense for awards with a performance condition when it is probable that the condition will be achieved. If the Company determines it is not probable a performance condition will be achieved, no compensation expense is recognized. If the Company changes its assessment in a subsequent period and concludes it is probable a performance condition will be achieved, the Company will recognize compensation expense ratably between the period of the change in assessment through the expected date of satisfying the performance condition for vesting. If the Company subsequently assesses that it is no longer probable that a performance condition will be achieved, the accumulated expense that has been previously recognized will be reversed. The compensation expense ultimately recognized, if any, related to performance-based awards will equal the grant date fair value based on the number of shares for which the performance condition has been satisfied. We issue shares from authorized shares upon the lapsing of vesting restrictions on RSUs. We do not use cash to settle equity instruments issued under stock-based compensation awards.

Income Taxes. Income taxes are estimated for each jurisdiction in which we operate. This involves assessing current tax exposure together with temporary differences resulting from differing treatment of items for tax and financial statement accounting purposes. Any resulting deferred tax assets are evaluated for recoverability based on estimated future taxable income. To the extent it is more-likely-than-not that all or a portion of a deferred tax asset will not be realized, a valuation allowance is recorded. Our evaluation regarding whether a valuation allowance is required or should be adjusted also considers, among other things, the nature, frequency, and severity of recent losses, forecasts of future profitability and the duration of statutory carryforward periods. Deferred tax assets and liabilities are measured using the enacted tax rates in effect in the years when those temporary differences are expected to reverse. The effect on deferred taxes from a change in tax rate is recognized through continuing operations in the period that includes the enactment date of the change. Changes in tax laws and rates could affect recorded deferred tax assets and liabilities in the future. A tax benefit from an uncertain tax position may be recognized when it is more-likely-than-not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Income tax positions must meet a more-likely-than-not recognition threshold to be recognized. We recognize tax liabilities for uncertain tax positions and adjust these liabilities when our judgement changes as a result of the evaluation of new information not previously available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from the current estimate of the tax liabilities. These differences will be reflected as increases or decreases to income tax expense and the effective tax rate in the period in which new information becomes available. We recognize interest and/or penalties related to all tax positions in income tax expense. To the extent that accrued interest and penalties do not ultimately become payable, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision in the period that such determination is made.

We may be subject to periodic audits by the Internal Revenue Service and other taxing authorities. These audits may challenge certain of our tax positions, such as the timing and amount of deductions and allocation of taxable income to the various jurisdictions.

Results of Operations

Three Months Ended June 30, 2024 and 2023

The following table presents selected financial data:

(in thousands)	Three Months Ended June 30,			
	2024	2023	\$ Change	% Change
Sales	\$ 17,286	\$ 17,482	\$ (196)	(1.1)%
Gross profit	10,018	10,921	(903)	(8.3)%
Gross margin percentage	58.0%	62.5%		(4.5)%
Operating expenses	9,955	10,131	(176)	(1.7)%
Income from operations	\$ 63	\$ 790	\$ (727)	(92.0)%

Net Sales

Consolidated net sales for the quarter ended June 30, 2024 decreased \$0.2 million, or 1.1%, compared to the corresponding prior year period. We believe the decrease in sales was due to ongoing weak consumer demand compared to a year ago resulting from ongoing uncertainty related to global political, economic and other uncontrollable factors.

Our store footprint consisted of 101 and 103 stores at June 30, 2024 and June 30, 2023, respectively.

We opened one store and closed one store in the second quarter. We evaluate a number of factors when determining whether to close existing stores, including the 4-wall cash flow trend and longer-term projection for the store, the long-term sales trend, ongoing cost of store operations, date of lease expiration, quality of the store and location, and the size and potential of the trade area including proximity to other existing stores, among other variables. We use similar factors to determine whether to open new stores.

Gross Profit

Gross profit for the quarter decreased by \$0.9 million, or 8.3%, compared to the same period in 2023, and our gross margin percentage for the quarter ended June 30, 2024, decreased year over year by 450 basis points due to a one-time accounting adjustment in cost of sales as reported in our 2023 second quarter 10-Q.

Operating expenses

Operating expenses for the quarter decreased \$0.2 million or 1.7% compared to the corresponding prior year period, primarily as a result of a decrease in employment costs of \$0.4 million and a decrease in office supplies of \$0.1 million partially offset by an increase in medical group insurance of about \$0.1 million, increase in other outside services of \$0.1 million, and an increase in marketing of \$0.1 million.

Income Taxes

Our effective tax rate for the three months ended June 30, 2024 and June 30 2023 was 32.9% respectively. Our effective tax rate differs from the federal statutory rate primarily due to U.S. state income tax expense, expenses that are nondeductible for tax purposes, and the change in our valuation allowance associated with our deferred tax assets.

Six Months Ended June 30, 2024 and 2023

The following table presents selected financial data:

(in thousands)	Six Months Ended June 30,			
	2024	2023	\$ Change	% Change
Sales	\$ 36,561	\$ 37,842	\$ (1,281)	(3.4)%
Gross profit	20,938	22,740	(1,802)	(7.9)%
Gross margin percentage	57.3%	60.1%		(2.8)%
Operating expenses	20,226	20,969	(743)	(3.5)%
Income from operations	\$ 712	\$ 1,771	\$ (1,059)	(59.8)%

Net Sales

Consolidated net sales for the six months ended June 30, 2024 decreased \$1.3 million, or 3.4%, compared to the corresponding prior year period. We believe the decrease in sales was due to ongoing weak consumer demand compared to a year ago due to continued weaker consumer demand resulting from ongoing uncertainty related to global political, economic and other uncontrollable factors, and a decline in consumer response to our promotional activities.

Our store footprint consisted of 101 and 103 stores at June 30, 2024 and June 30, 2023, respectively.

We opened one store and closed one store in the six months ending June 30, 2024. We evaluate a number of factors when determining whether to close existing stores, including the 4-wall cash flow trend and longer-term projection for the store, the long-term sales trend, ongoing cost of store operations, date of lease expiration, quality of the store and location, and the size and potential of the trade area including proximity to other existing stores, among other variables. We use similar factors to determine whether to open new stores.

Gross Profit

Gross profit decreased by \$1.8 million, or 7.9%, compared to the same period in 2023, and our gross margin percentage for the six months ended June 30, 2024, decreased year over year by 280 basis points due to a one-time accounting adjustment in cost of sales as reported in our 2023 second quarter 10-Q.

Operating expenses

Operating expenses decreased \$0.7 million or 3.5% compared to the corresponding prior year period, primarily as a result of a decrease in employment costs of \$1.0 million, partially offset by an increase in medical insurance of \$0.2 million and an increase in marketing expense of \$0.1 million.

Income Taxes

Our effective tax rate for the six months ended June 30, 2024 was 26.9% compared to 31.1% for the same period in 2023. Our effective tax rate differs from the federal statutory rate primarily due to U.S. state income tax expense, expenses that are nondeductible for tax purposes, and the change in our valuation allowance associated with our deferred tax assets.

Capital Resources, Liquidity and Financial Condition

We require cash principally for day-to-day operations, to purchase inventory and to finance capital investments. We expect to fund our operating and liquidity needs primarily from a combination of current cash balances and cash generated from operating activities. Any excess cash will be invested as determined by our Board of Directors in accordance with its approved investment policy. Our cash balances as of June 30, 2024 totaled \$11.5 million.

On January 3, 2023, the Company entered into a credit agreement (the "Credit Agreement") with JPMorgan Chase Bank, N.A. Under the Credit Agreement, the bank will provide the Company a credit facility of up to \$5,000,000 on standard terms and conditions, including affirmative and negative covenants set forth in the Credit Agreement. As security for the credit facility, the Company has pledged as collateral certain of its assets, including the Company's cash in deposit accounts, inventory and equipment. As of the date of this filing, no funds had been borrowed under this facility.

Share Repurchase Program and Share Repurchase

On August 8, 2022, the Board of Directors approved a new program to repurchase up to \$5.0 million of the Company's common stock between that date and August 31, 2024. As of June 30, 2024, \$5.0 million remained available for repurchase under this new program.

Cash Flows (six months)

(amounts in thousands)	2024	2023
Net cash provided by operating activities	\$ 572	\$ 2,329
Net cash used in investing activities	(1,428)	(174)
Net cash used in financing activities	(1)	(3)
Effect of exchange rate changes on cash and cash equivalents	229	(94)
Net (decrease) increase in cash and cash equivalents	\$ (628)	\$ 2,058

For the six months ended June 30, 2024, cash from operations generated \$0.6 million driven by a net income of \$0.6 million, non-cash expense of \$2.8 million, including depreciation, amortization, and stock-based compensation, a net reduction in inventory of \$0.8 million partially offset by a reduction in lease liability payments of \$1.8 million, decrease in accrued expense and other liabilities of \$0.7 million, an increase in prepaid expense of \$0.4 million, and an increase in accounts receivable of \$0.1 million. We invested \$1.4 million in capital expenditure primarily related to replacing a new roof at our corporate headquarters and other new capital investments due to new store openings and store relocations. The activities above, in addition to the effect of exchange rate changes, resulted in a net decrease in cash of \$0.6 million.

For the six months ended June 30, 2023, cash from operations generated \$2.3 million driven by a net income of \$1.2 million, non-cash expense of \$2.7 million, including depreciation, amortization, and stock-based compensation, a net reduction in inventory of \$0.7 million, offset by a change in other assets of \$0.1 million, income tax payable of \$0.4 million, and a reduction in lease liability payments of \$1.7 million. We invested \$0.1 million in capital expenditures primarily related to system modifications and improvements. The activities above, in addition to the effect of exchange rate changes, resulted in a net increase in cash of \$2.0 million.

Item 4. Controls and Procedures.***Evaluation of Disclosure Controls and Procedures***

Our management team, under the supervision and with the participation of our Chief Executive Officer (who serves as our principal executive officer and principal financial officer) , evaluated the effectiveness of the design and operation of our disclosure controls and procedures as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of the last day of the fiscal period covered by this report, June 30, 2024. The term disclosure controls and procedures means our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to management, including our principal executive and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, our management, with the participation of our Chief Executive Officer, concluded that, as of June 30, 2024, our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the fiscal quarter ended June 30, 2024 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

The information contained in Note 6, *Commitments and Contingencies* to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Report is hereby incorporated into this Item 1 by reference.

Item 1A. Risk Factors.

Our Risk Factors are discussed fully in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023 and incorporated herein by reference. We have not identified any new risk factors as of June 30, 2024.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table provides information about purchases we have made of our common stock during the quarter ended June 30, 2024:

Period	ISSUER PURCHASES OF EQUITY SECURITIES			
	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Maximum value of shares that may yet be purchased under the plans or programs
April 1 – April 30, 2024	—	—	—	\$ 4,997,000
May 1 – May 31, 2024	—	—	—	\$ 4,997,000
June 1 – June 30, 2024	—	—	—	\$ 4,997,000
Total	—	—	—	

Item 6. Exhibits.

Exhibit Number	Description
3.1	Certificate of Incorporation of The Leather Factory, Inc., and Certificate of Amendment to Certificate of Incorporation of The Leather Factory, Inc. filed as Exhibit 3.1 to Tandy Leather Factory, Inc.'s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 12, 2005 and incorporated by reference herein.
3.2	Bylaws of Tandy Leather Factory, Inc., filed as Exhibit 3.1 to Tandy Leather Factory, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 8, 2021 and incorporated by reference herein.
3.3	Certificate of Designations of Series A Junior Participating Preferred Stock of Tandy Leather Factory, Inc. filed as Exhibit 3.1 to Tandy Leather Factory's Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on June 10, 2013 and incorporated by reference herein.
3.4	Certificate of Amendment of Certificate of Incorporation, dated March 1, 2023.
4.1	Description of Securities filed as Exhibit 4.1 to Tandy Leather Factory, Inc.'s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on June 22, 2021 and incorporated by reference herein.
10.1	Tandy Leather Factory, Inc. 2013 Restricted Stock Plan, filed as Exhibit 10.1 to Tandy Leather Factory's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2013 and incorporated by reference herein.
10.2	Amendment #1 to Tandy Leather Factory, Inc. 2013 Restricted Stock Plan filed as Exhibit 10.5 to Tandy Leather Factory, Inc.'s Quarterly Report on Form 10-Q filed with the Securities and Exchange on June 22, 2021 and incorporated by reference herein.
10.3	Form of Non-Employee Director Restricted Stock Agreement under Tandy Leather Factory, Inc.'s 2013 Restricted Stock Plan, filed as Exhibit 10.1 to Tandy Leather Factory, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on February 14, 2014 and incorporated by reference herein.
10.4	Form of Employee Restricted Stock Award Agreement under Tandy Leather Factory, Inc.'s 2013 Restricted Stock Plan, filed as Exhibit 10.7 to Tandy Leather Factory, Inc.'s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on June 22, 2021 and incorporated by reference herein.
10.5	Form of Employment Agreement dated October 2, 2018 between the Company and Janet Carr, filed as Exhibit 10.1 to Tandy Leather Factory Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 5, 2018 and incorporated by reference herein.

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10.6	Form of Stand-Alone Restricted Stock Unit Agreement dated October 2, 2018 between the Company and Janet Carr, filed as Exhibit 10.2 to Tandy Leather Factor's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 5, 2018 and incorporated by reference herein.
10.7	Tandy Leather Factory, Inc. 2023 Incentive Stock Plan, filed as Exhibit 10.10 to Tandy Leather Factory, Inc.'s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 14, 2023
10.8	Form of Restricted Stock Unit Agreement dated October 23, 2023 between the Company and Janet Carr, filed as Exhibit 10.11 to Tandy Leather Factory, Inc.'s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 8, 2023
14.1	Code of Business Conduct and Ethics of Tandy Leather Factory, Inc., adopted by the Board of Directors in May, 2021, filed as Exhibit 14.1 to Tandy Leather Factory, Inc.'s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on June 22, 2021 and incorporated by reference herein.
21.1	Subsidiaries of Tandy Leather Factory, Inc., filed as Exhibit 21.1 to Tandy Leather Factory, Inc.'s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 22, 2024 and incorporated by reference herein.
<u>*31.1</u>	13a-14(a) or 15d-14(a) Certification by the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended.
<u>*32.1</u>	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*101.INS	XBRL Instance Document.
*101.SCH	XBRL Taxonomy Extension Schema Document.
*101.CAL	XBRL Taxonomy Extension Calculation Document.
*101.DEF	XBRL Taxonomy Extension Definition Document.
*101.LAB	XBRL Taxonomy Extension Labels Document.
*101.PRE	XBRL Taxonomy Extension Presentation Document.

*Filed
herewith.

SIGNATURES

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

TANDY LEATHER FACTORY, INC.
(Registrant)

Date: August 7, 2024

By: /s/ Janet Carr
Janet Carr
Chief Executive Officer

EXHIBIT 31.1**RULE 13a-14(a) CERTIFICATION**

I, **Janet Carr**, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tandy Leather Factory, Inc.; Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
2. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
3. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's first fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
4. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: August 7, 2024

By: /s/ Janet Carr
Janet Carr
Chief Executive Officer
(Principal Executive Officer and Principal Financial Officer)

EXHIBIT 32.1

**Certification Pursuant to 18 U.S.C. Section 1350,
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Tandy Leather Factory, Inc. (the "Company") for the quarter ended March 31, 2024 as filed with the United States Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- i. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- ii. The information contained in the Report fully presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Date: August 7, 2024

By: /s/ Janet Carr
Janet Carr
Chief Executive Officer
(Principal Executive Officer and Principal Financial Officer)
