REFINITIV

DELTA REPORT

10-Q

TLF - TANDY LEATHER FACTORY INC

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	749
CHANGES	105
DELETIONS	446
ADDITIONS	198

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 September 30, 2023 March 31, 2024

or

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

Commission File Number 1-12368

graphic

TANDY LEATHER FACTORY, INC.

(Exact name of registrant as specified in its charter)

Delaware	**75-2543540**
(State or other jurisdiction of incorporation or organization)	(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	Trading Symbol	Name of each exchange on which registered
Common Stock, par value $0.0024	TLF	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 November 3, 2023 May 10, 2024, the registrant had 8,399,245 8,401,972 shares of Common Stock, par value $0.0024 per share, outstanding.

TANDY LEATHER FACTORY, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED September 30, 2023 MARCH 31, 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, 2022 December 31, 2023. Unless the context otherwise indicates, references in this Form 10-Q to "TLF,"TLF," "we," "our," "us," "the Company," "Tandy," or "Tandy Leather" mean Tandy Leather Factory, Inc., together with its subsidiaries.

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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)

	September 30, 2023 (Unaudited)	December 31, 2022	March 31, 2024 (Unaudited)	December 31, 2023
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 8,623	$ 7,975	$ 12,315	$ 12,159
Accounts receivable-trade, net of allowance for doubtful accounts of $31 and $56 at September 30, 2023 and December 31, 2022, respectively	295	370		
Accounts receivable-trade, net of allowance of $31 at March 31, 2024 and December 31, 2023, respectively			420	264
Inventory	38,585	38,227	36,675	37,993
Income tax receivable	392	302	248	248

Prepaid expenses	206	272	403	475
Other current assets	71	106	99	113
Total current assets	48,172	47,252	50,160	51,252
Property and equipment, at cost	28,399	28,124	29,875	28,678
Less accumulated depreciation	(17,790)	(16,962)	(18,426)	(18,131)
Property and equipment, net	10,609	11,162	11,449	10,547
Operating lease assets	9,406	9,742	9,503	8,995
Financing lease assets	25	31	-	23
Other intangibles, net of accumulated amortization of $549 at September 30, 2023 and December 31, 2022	5	5		
Deferred income taxes			880	880
Other assets	458	387	440	438
TOTAL ASSETS	**$ 68,675**	**$ 68,579**	**$ 72,432**	**$ 72,135**
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Accounts payable-trade	$ 1,415	$ 3,082	$ 2,215	$ 2,333
Accrued expenses and other liabilities	2,617	2,681	1,986	3,140
Income taxes payable	357	211	449	288
Current portion of operating lease liabilities	3,248	2,881	3,194	3,172
Current portion of finance lease liabilities	3	15		
Total current liabilities	7,640	8,870	7,844	8,933
Deferred income taxes			9	9
Uncertain tax positions	450	450	388	388
Other non-current liabilities	326	326	210	205
Operating lease liabilities, non-current	6,613	7,469	6,743	6,253
Finance lease liabilities, non-current	1	1	-	1
COMMITMENTS AND CONTINGENCIES (Note 6)				
STOCKHOLDERS' EQUITY:				
Common stock, $0.0024 par value; 25,000,000 shares authorized; 9,754,023 and 9,717,525 shares issued at September 30, 2023 and December 31, 2022, respectively; 8,329,647 and 8,293,149 shares outstanding at September 30, 2023 and December 31, 2022, respectively	23	23		
Common stock, $0.0024 par value; 25,000,000 shares authorized; 9,826,348 and 9,823,621 shares issued at March 31, 2024 and December 31, 2023, respectively; 8,401,972 and 8,399,245 shares outstanding at March 31, 2024 and December 31, 2023, respectively			23	23
Paid-in capital	3,867	3,222	4,178	3,981
Retained earnings	61,722	59,891	64,184	63,659
Treasury stock at cost (1,424,376 shares at September 30, 2023 and December 31, 2022)	(9,773)	(9,773)		
Treasury stock at cost (1,424,376 shares at March 31, 2024 and December 31, 2023 respectively)			(9,773)	(9,773)
Accumulated other comprehensive loss, net of tax	(2,194)	(1,900)	(1,374)	(1,544)
Total stockholders' equity	53,645	51,463	57,238	56,346
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 68,675**	**$ 68,579**	**$ 72,432**	**$ 72,135**

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

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Tandy Leather Factory, Inc.
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
(amounts in thousands, except share and per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended March 31,	
	2023	**2022**	**2023**	**2022**	**2024**	**2023**

Net sales	$ 17,542	$ 19,057	$ 55,384	$ 57,967	$ 19,275	$ 20,360
Cost of sales	6,604	7,461	21,707	23,939	8,355	8,541
Gross profit	10,938	11,596	33,677	34,028	10,920	11,819
Operating expenses	10,058	10,620	31,027	32,959	10,271	10,838
Income from operations	880	976	2,650	1,069	649	981
Other (income) expense:						
Interest expense	-	1	-	11		
Interest income					(84)	-
Other, net	43	(6)	80	1	26	39
Total other expense (income)	43	(5)	80	12		
Total other (income) expense					(58)	39
Income before income taxes	837	981	2,570	1,057	707	942
Provision for income taxes	201	258	739	278		
Income tax provision					182	278
Net Income	$ 636	$ 723	$ 1,831	$ 779		
Net income					$ 525	$ 664
Foreign currency translation adjustments, net of tax	(185)	(441)	(294)	(629)	170	(39)
Comprehensive income	$ 451	$ 282	$ 1,537	$ 150	$ 695	$ 625
Net income per common share:						
Basic	$ 0.08	$ 0.09	$ 0.22	$ 0.09	$ 0.06	$ 0.08
Diluted	$ 0.08	$ 0.09	$ 0.22	$ 0.09	$ 0.06	$ 0.08
Weighted average number of shares outstanding:						
Basic	8,329,676	8,235,610	8,318,257	8,361,959	8,400,354	8,303,117
Diluted	8,404,741	8,272,557	8,353,447	8,383,558	8,500,354	8,350,166

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

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

	For the Nine Months Ended September 30,		For the Three Months Ended March 31,	
	2023	2022	2024	2023
Cash flows from operating activities:				
Net income	$ 1,831	$ 779	$ 525	$ 664
Adjustments to reconcile net loss to net cash provided by operating activities:				
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	889	899	321	285
Operating lease asset amortization	2,547	2,420	919	834
Loss on disposal of assets	-	8	-	27
Stock-based compensation	656	813	197	228
Deferred income taxes	(30)	(9)		
Changes in operating assets and liabilities				
Accounts receivable-trade	74	231	(158)	(104)
Inventory	(444)	(4,097)	1,184	2,356
Prepaid expenses	67	(340)	72	(130)

Other current assets	30	(255)	14	(13)
Accounts payable-trade	(1,668)	(1,227)	(115)	(2,053)
Accrued expenses and other liabilities	(59)	(910)	(1,142)	(694)
Income taxes, net	73	291	163	278
Other assets	(66)	(33)	(2)	(30)
Operating lease liabilities	(2,696)	(2,527)	(892)	(851)
Total adjustments	(627)	(4,736)	561	133
Net cash provided by (used in) operating activities	1,204	(3,957)		
Net cash provided by operating activities			1,086	797
Cash flows from investing activities:				
Purchase of property and equipment	(334)	(825)	(1,227)	(87)
Net cash used in investing activities	(334)	(825)	(1,227)	(87)
Cash flows from financing activities:				
Payments on long-term debt	-	(388)		
Payment of finance lease obligations	(12)	(10)	(1)	-
Repurchase of common stock	(11)	(1,800)		
Net cash used in financing activities	(23)	(2,198)	(1)	-
Effect of exchange rate changes on cash and cash equivalents	(199)	(125)	298	(39)
Net increase (decrease) in cash and cash equivalents	648	(7,105)		
Net increase in cash and cash equivalents			156	671
Cash and cash equivalents, beginning of period	7,975	10,155	12,159	7,975
Cash and cash equivalents, end of period	$ 8,623	$ 3,050	$ 12,315	$ 8,646

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

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Tandy Leather Factory, Inc.
Condensed Consolidated Statements of Stockholders' Equity
(amounts in thousands, except share data)
(Unaudited)

	Number of Shares Common Stock Outstanding	Par Value	Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
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	-	-	-	-	-	-
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**
Stock-based compensation expense	-	-	209	-	-	-	209
Vesting of restricted stock units	-	-	-	-	-	-	-
Repurchase of common stock	(2,701)	-	(11)	-	-	-	(11)
Net income	-	-	-	-	636	-	636

Foreign currency translation adjustments, net of tax	-	-	-	-	-	(185)	(185)
Balance, September 30, 2023	**8,329,647**	**$ 23**	**$ 3,867**	**$ (9,773)**	**$ 61,722**	**$ (2,194)**	**$ 53,645**
Balance, December 31, 2021	**8,547,335**	**$ 24**	**$ 3,959**	**$ (9,773)**	**$ 58,664**	**$ (1,373)**	**$ 51,501**
Stock-based compensation expense	-	-	340	-	-	-	340
Vesting of restricted stock units	47,423	-	-	-	-	-	-
Net income	-	-	-	-	645	-	645
Foreign currency translation adjustments, net of tax	-	-	-	-	-	65	65
Balance, March 31, 2022	**8,594,758**	**$ 24**	**$ 4,299**	**$ (9,773)**	**$ 59,309**	**$ (1,308)**	**$ 52,551**
Stock-based compensation expense	-	-	225	-	-	-	225
Vesting of restricted stock units	854	-	-	-	-	-	-
Repurchase of common stock	(359,500)	(1)	(1,797)	-	-	-	(1,798)
Net income	-	-	-	-	(589)	-	(589)
Foreign currency translation adjustments, net of tax	-	-	-	-	-	(253)	(253)
Balance, June 30, 2022	**8,236,112**	**$ 23**	**$ 2,727**	**$ (9,773)**	**$ 58,720**	**$ (1,561)**	**$ 50,136**
Stock-based compensation expense	-	-	248	-	-	-	**248**
Vesting of restricted stock units	-	-	-	-	-	-	**-**
Repurchase of common stock	(600)	-	(3)	-	-	-	**(3)**
Net income	-	-	-	-	723	-	**723**
Foreign currency translation adjustments, net of tax	-	-	-	-	-	(441)	**(441)**
Balance, September 30, 2022	**8,235,512**	**$ 23**	**$ 2,972**	**$ (9,773)**	**$ 59,443**	**$ (2,002)**	**$ 50,663**

	Number of Shares Common Stock Outstanding	**Par Value**	**Paid-in Capital**	**Treasury Stock**	**Retained Earnings**	**Accumulated Other 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**
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**

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

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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 "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, 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. division. We also assemble 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 103 102 retail stores. There are 92 91 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 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 notes 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 September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, our results of operations for three and the nine months ended September 30, 2023 and 2022, and our cash flows for the nine three months ended September 30, 2023 March 31, 2024 and 2022 2023, and our statements of stockholders' equity as of and for the three and nine months ended September 30, 2023 March 31, 2024 and 2022. 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, 2022 December 31, 2023.

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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 ninety seven days including our T-Bills 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 transactions 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. 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) via sales representatives. 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 $0.3 million $0.1 million, $0.1 million, and $0.1 million $0.2 million as of September 30, 2023 March 31, 2024, December 31, 2022 December 31, 2023, and January 1, 2022 January 1, 2023. The estimated value of merchandise expected to be returned included in other current assets was $0.1 million as of September 30, 2023 March 31, 2024, December 31, 2022 December 31, 2023, and January 1, 2022 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 September 30, 2023 March 31, 2024, December 31, 2022 December 31, 2023 and January 1, 2022, January1, 2023, our gift card liability, included in accrued expenses and other liabilities, was $0.2 million, $0.3 million and $0.4 million $0.3 million, respectively. We recognized gift card revenue of $0.4

million $0.2 million for the nine three months ended September 30, 2023 March 31, 2024 and $0.3 million for the nine months ended September 30, 2022 from the December 31, 2021 deferred revenue balance.
2023.

For the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, we recognized $0.1 million and $0.2 million respectively in net sales associated with gift cards. For the nine months ended September 30, 2023 and 2022, we recognized $0.4 million in net sales associated with gift cards.

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Disaggregated Revenue. In the following table, revenue for the three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 is disaggregated by geographic areas as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended March 31,	
(in thousands)	2023	2022	2023	2022	2024	2023
United States	$ 15,613	$ 17,123	$ 49,278	$ 51,683	$ 17,085	$ 18,099
Canada	1,675	1,663	5,173	5,339	1,897	1,907
Other	254	271	933	945	293	354
Net sales	**$ 17,542**	**$ 19,057**	**$ 55,384**	**$ 57,967**	**$ 19,275**	**$ 20,360**

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 excluding Canada, were less than 2.0% for the three and nine months ended September 30, 2023 March 31, 2024, and 2022 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 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. Assembled 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 factory 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.

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

(in thousands)	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
On hand:				

Finished goods held for sale	$ 34,222	$ 35,234	$ 33,625	$ 33,350
Raw materials and work in process	1,758	925	1,248	1,774
Inventory in transit	2,605	2,068	1,802	2,869
TOTAL	**$ 38,585**	**$ 38,227**	**$ 36,675**	**$ 37,993**

Leases. We lease certain real estate for our retail store locations and may lease warehouse equipment for our Texas distribution center under long-term lease agreements. agreements; however, as of the end of December 31, 2023, we acquired the warehouse equipment and 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. The net adjustment between rent expense and the actual cash paid during the fiscal year has been recorded as accrued expenses and other liabilities in the accompanying consolidated balance.

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 (Loss).

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.

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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 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 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.
  - 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 September 30, 2023 March 31, 2024 and December 31, 2023 which falls fall under level 1 of the fair value hierarchy; accounts receivable - trade, accounts payable - trade, as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, all of which fall under Level 3 of the fair value hierarchy. hierarchy. As of September 30, 2023 March 31, 2024 and December 31, 2022 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 three and nine months ended September 30, 2023 March 31, 2024 and 2022.

2023.

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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. liability.

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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 for doubtful accounts. 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 September 30, 2023 March 31, 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 September 30, 2023 March 31, 2024, December 31, 2022 December 31, 2023, and January 1, 2022 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 three and nine months ended September 30, 2023 March 31, 2024 and 2022 2023 was recorded in operating expenses. 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" will be fully amortized as of June 30 2024 but is now included in "Other assets" on the face of the balance sheet.

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

Reclassifications. Certain amounts that were identified in the fourth quarter of 2022 as an out-of-period adjustment for unreconciled inventory receipts for in-transit inventory in our 2022 Form 10-K, which have been adjusted in our presentation of the first quarter 2022 inventory and accounts payable in the operating activities section of the consolidated statement of cash flows. The first quarter of 2022 adjustment is accounted for in our year-to-date balances for these cash flows items. The impact of this reclassification was approximately $0.4 million.

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 has provided 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 have had been borrowed under this facility.

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3. INCOME TAX

Our effective tax rate for the three months ended September 30, 2023 March 31, 2024 and 2022 2023 was 24.0% 25.7% and 26.3% 29.5%, respectively. Our effective tax rate for the nine months ended September 30, 2023 and 2022 was 28.8% and 26.3%, 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 Plam, the "Plans") was adopted by our Board of Directors in April 2023 and approved by our stockholders in June 2023. The 2023 Plan replaced the 2013 Plan; awards that were outstanding under the 2013 Plan as of June 6, 2023, remained outstanding, but no further awards will be granted under the 2013 Plan after that date. The 2023 Plan initially reserved up to 800,000 shares of the Company's our common stock plus undelivered or withheld shares pursuant for a variety of equity awards (including, but not limited to, outstanding RSUs, the only type of awards under the 2013 Plan, for awards that have been granted to date) to our executive officers, non-employee directors and other key employees. Awards 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, may be service-based awards or performance-based awards and may be which will vest ratably over the next four years, subject to a graded each participant's continues service on the board as of each vesting schedule with a minimum vesting period of four years unless otherwise determined by date. In October 2023, the Compensation committee of the Board of directors that administers the plan.

In April 2022, we Company granted to Ms. Carr a total of 120,231 276,000 service-based RSUs to certain key employees 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 three-year service period. In June total of 59,649 RSUs under the 2023 and 2022, we granted totals of 14,000 RSUs and 14,000 RSUs, respectively, to the Company's Board of Directors Plan, which will vest ratably over a four-year service period.

In addition to grants under the Company's 2013 and 2023 Plans, in October 2018, we granted a total of 644,000 RSUs next three years, subject to the Company's CEO, of which (i) 460,000 are service-based RSUs that vest ratably over a period of five years from the grant date based on our CEO's recipients' continued employment in her role, (ii) 92,000 are performance-based RSUs that will vest if the Company's operating income exceeds $12 million dollars two fiscal years in a row, and (iii) 92,000 are performance-based RSUs that will vest if the Company's operating income exceeds $14 million dollars in one fiscal year. as of each vesting date.

A summary of the activity for non-vested restricted stock and RSU awards as of September 30, 2023 March 31, 2024 is presented below:

	Shares (in thousands)	Weighted Average Share Price	Shares (in thousands)	Weighted Average Share Price
Balance, January 1, 2023	441	$ 6.46		
Balance, January 1, 2024			623	$ 4.37

Granted	14	4.31	60	4.47
Forfeited	(3)	5.0	(6)	5.00
Vested	(39)	4.84	(3)	3.85
Balance, September 30, 2023	**413**	**$ 6.40**		
Balance, March 31, 2024			**674**	**$ 4.40**

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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 ended March 31, 2024 and $0.6 million and $0.8 million for the nine months ended September 30, 2023 and 2022, 2023, respectively.

As of September 30, 2023 March 31, 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 September 30, 2023 March 31, 2024, there was unrecognized compensation cost related to non-vested, service-based RSU awards of $0.3 million $1.4 million, which will be recognized in each of the following years (dollars in thousands):

Unrecognized Expense		
2023	$ 45	
2024	180	$ 475
2025	77	548
2026	21	403
2027	6	21
	$ 329	**$ 1,447**

We issue shares from authorized shares upon the lapsing of vesting restrictions on restricted stock and RSUs. For the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, we issued 39,199 2,727 and 48,277 17,518 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 nine months ended September 30, 2023 March 31, 2024 and 2022: 2023:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except share data)	**2023**	**2022**	**2023**	**2022**
Numerator:				
Net income	$ 636	$ 723	$ 1,831	$ 779
Denominator:				
Basic weighted-average common shares outstanding	8,329,676	8,235,610	8,318,257	8,361,959
Dilutive effect of service-based restricted stock awards granted to Board of Directors under the Plan	3,015	8,858	1,935	7,208
Dilutive effect of service-based restricted stock awards granted to employees under the Plan	72,050	28,089	33,255	14,391
Diluted weighted-average common shares outstanding	8,404,741	8,272,557	8,353,447	8,383,558

	Three Months Ended March 31,	
(in thousands, except share data)	**2024**	**2023**

Numerator:		
Net income	$ 525	$ 664
Denominator:		
Basic weighted-average common shares outstanding	8,400,354	8,303,117
Dilutive effect of service-based restricted stock awards granted to Board of Directors under the Plans	5,108	47,050
Dilutive effect of service-based restricted stock awards granted to employees under the Plans	94,892	-
Diluted weighted-average common shares outstanding	8,500,354	8,350,166
Basic earnings per share	$ 0.06	$ 0.08
Diluted earnings per share	$ 0.06	$ 0.08

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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 9, 2020, the Board of Directors approved a new program to repurchase up to $5.0 million of the Company's common stock between August 9, 2020 and July 31, 2022. This program expired in July 2022. 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 September 30, 2023 March 31, 2024, approximately $4.9 million $5.0 million remained available for repurchase under this new program.

On April 11, 2022, we entered into an agreement with two institutional shareholders of the Company to repurchase 359,500 shares of our common stock, par value $0.0024 in a private transaction. The purchase price was $5.00 per share for a total of $1.8 million. The closing of the repurchases took place on April 22, 2022, and these shares were subsequently cancelled. Prior to the repurchase, the shares represented approximately 4.2% of our outstanding common stock. The direct share repurchase transactions were separately authorized by our Board of Directors and did not reduce the remaining amount authorized to be repurchased under the plans described above.

8. SUBSEQUENT EVENTS

On October 23, 2023, the Board of Directors approved a grant to Janet Carr, CEO, of 276,000 restricted stock units ("RSUs"). Each RSU will convert upon vesting into one share of common stock in three equal installments on October 2, 2024, 2025 and 2026, subject to Ms. Carr's continued employment with the Company on each of the vesting dates. A copy of the agreement for the RSUs is filed as Exhibit 10.11 to this report.

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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 103 102 retail stores. There are 92 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. In 2019, as part of the assessment of the business, we discovered errors in accounting that required obstacles: a financial restatement of our financials. This work was costly and time-consuming, but we successfully completed the restatement in 2021 along with implementation of new accounting systems, redesign of processes and controls, and a significant upgrade in the team. In 2020, while making progress against our transformation and still working through our restatement, we temporarily closed all of our retail stores as a result of the COVID-19 pandemic.
COVID-19. With COVID-19 related store closing and the restatement those obstacles behind us, and with many of our initiatives taking hold, we are now 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.

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Critical Accounting Policies

A description of our critical accounting policies appears in Item 7 "Management's "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, 2022 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) via sales representatives. 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.

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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. Under our The sales returns policy, return allowance included in accrued expense and other liabilities was $0.1 million, $0.1 million, and $0.2 million as of March 31, 2024, December 31, 2023, and January 1, 2023. The estimated value of merchandise may expected to be returned under most circumstances, up to 60 days after the date included in other current assets was $0.1 million as of purchase. As merchandise is returned, the company records the sales return against the sales return allowance. March 31, 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 March 31, 2024, December 31, 2023 and January1, 2023, our gift card liability, included in accrued expenses and other liabilities, was $0.2 million, $0.3 million and $0.3 million, respectively. We recognized gift card revenue of $0.2 million for the three months ended March 31, 2024 and 2023.
For the three months ended March 31, 2024 and 2023, we recognized $0.1 million and $0.2 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 include 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 certain real estate for our retail store locations and may lease warehouse equipment for our Texas distribution center both under long-term lease agreements. Starting in 2019, with agreements; however, as of the adoption end of Accounting Standards Update ("ASU") 2016-02, *Leases* (Topic 842) December 31, 2024, once we did not have determined any warehouse equipment lease. We determine if an arrangement is a lease at inception we and recognize a lease asset right-of-use ("ROU") assets and lease liability 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 our operating leases, the present value of our lease payments 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 options 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. The net adjustment between rent expense and the actual cash paid during the fiscal year has been recorded as accrued expenses and other liabilities in the accompanying consolidated balance sheets. balance.

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 incurred interest expense incurred is recorded in interest expense on the consolidated statements Condensed Consolidated Statements of operations Operations and comprehensive income (loss). 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 operating 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. As of September 30, 2023, we We have no sublease agreements and no lease agreements in which we are named as a lessor. We do not have any contingent rental payment agreements. On September 8, 2022, we entered into a concession agreement for our store on the Fort Bragg military base in which the concession payment is based on a sliding scale percentage of sales.

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.

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Results of Operations

Three Months Ended September 30, 2023 March 31, 2024 and 2022 2023

The following table presents selected financial data:

	Three Months Ended September 30,				Three Months Ended March 31,			
(in thousands)	2023	2022	$ Change	% Change	2024	2023	$ Change	% Change
Net sales	$ 17,542	$ 19,057	$ (1,515)	(8.0)%				
Sales					$ 19,275	$ 20,360	$ (1,085)	(5.3)%
Gross profit	10,938	11,596	(658)	(5.7)%	10,920	11,819	(899)	(7.6)%
Gross margin percentage	62.4%	60.8%	-	1.6%	56.7%	58.1%		(1.4)%
Operating expenses	10,058	10,620	(562)	(5.3)%	10,271	10,838	(567)	(5.2)%
Income (loss) from operations	$ 880	$ 976	$ (96)	(9.8)%				
Income from operations					$ 649	$ 981	$ (332)	(33.9)%

Net Sales

Consolidated net sales for the quarter ended September 30, 2023 March 31, 2024 decreased $1.5 million $1.1 million, or 8.0% 5.3%, compared to the corresponding prior year period. We believe the decrease in sales was due to continued weaker ongoing weak consumer demand resulting from ongoing uncertainty related compared to global political, economic and other uncontrollable factors, and a decline in consumer response to our promotional activities. year ago.

Our store footprint consisted of 103 102 and 104 102 stores at September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023, respectively.

During the third quarter of 2023, Since January 1, 2023, we did not close any existing stores, nor did we open new stores. closed one store in Baldwin Park, CA in March 2023. 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. Management will be closing store 202 located in Fort Liberty, North Carolina on November 30, 2023.

Gross Profit

Gross profit decreased by $0.7 million $0.9 million, or 5.7% 7.6%, compared to the same period in 2022, 2023, and our gross margin percentage for the quarter ended September 30, 2023 increased 160 March 31, 2024, decreased year over year by 140 basis points due to 62.4%. We believe this increase in gross margin percentage was a result of both increased promotional activity to compensate for weaker consumer responsiveness to our promotional activities and therefore a higher percentage of our product sold at full price, and improvements in warehouse handling and freight costs that are included as cost of sales. demand.

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Operating expenses

Operating expenses decreased $0.6 million or 5.3% 5.2% compared to the corresponding prior year period, primarily as a result of a decrease in salaries retail store salary of $0.7 million, contract labor $0.2 million combined, $0.1 million temporary reduction in corporate salary, RSU and bonus expenses of $0.3 million $0.6 million, and digital marketing a decrease in freight to customers of $0.1 million, offset by an increase in bonus accruals occupancy expense, marketing expense and supplies of $0.2 million, increase in employee group insurance of $0.2 million, and traditional marketing of $0.1 million $0.3 million. Adjusted operating expenses excluding non-routine items as shown above is a non-GAAP measure, included here to provide additional information regarding the Company's financial performance on a recurring basis.

Income Taxes

Our effective tax rate for the three months ended September 30, 2023 March 31, 2024 was 24.0% 25.7% compared to 26.3% 29.5% for the same period in 2022. 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, and differences in tax rates in foreign jurisdictions.

Nine Months Ended September 30, 2023 and 2022

The following table presents selected financial data:

	Nine Months Ended September 30,			
(in thousands)	**2023**	**2022**	**$ Change**	**% Change**
Net sales	$ 55,384	$ 57,967	$ (2,583)	(4.5)%
Gross profit	33,677	34,028	(351)	(1.0)%
Gross margin percentage	60.8 %	58.7 %	-	2.1 %
Operating expenses	31,027	32,959	(1,932)	(5.9)%
Income from operations	$ 2,650	$ 1,069	$ 1,581	147.9 %

Net Sales

Consolidated net sales for the nine months ended September 30, 2023 decreased $2.6 million, or 4.5%, compared to the corresponding prior year period. We believe the decrease in sales was 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.

Since January 1, 2023, we closed one store in Baldwin Park, California in March 2023 and opened one new store during the first nine months of the year. 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 $0.4 million, or 1.0%, compared to the same period in 2022, and our gross margin percentage for the nine months ended September 30, 2023 increased by 210 basis points to 60.8%. We believe this increase in gross margin percentage was a result of both weaker consumer responsiveness to our promotional activities and therefore a higher percentage of our product sold at full price, and modest improvements in warehouse handling and freight costs that are included as cost of sales.

Operating expenses

	Nine Months Ended September 30,			
(in thousands)	**2023**	**2022**	**$ Change**	**% Change**
Operating expenses	$ 31,027	$ 32,959	$ (1,932)	$ (5.9 %)
Non-routine items related to restatement	-	(246)	246	100.0 %
Adjusted operating expenses	$ 31,027	$ 32,713	$ (1,686)	$ (5.2 %)
Operating expenses % of sales	56.0 %	56.9 %		
Adjusted operating expenses % of sales	56.0 %	56.4 %		

Operating expenses decreased by $1.9 million or 5.9% compared to the corresponding prior year period, primarily as a result of a decrease in contract labor of $0.9 million, salaries of $0.8 million, meeting and conference of $0.2 million, office supplies of $0.2 million, utilities and telephone of $0.2 million and outside services of $0.1 million, offset by an increase in bonus accruals of $0.5 million. Adjusted operating expenses including non-routine items as shown above is a non-GAAP measure, included here to provide additional information regarding the Company's financial performance on a recurring basis. Non-routine items are primarily 2022 legal and accounting costs associated with the restatement.

Income Taxes

Our effective tax rate for the nine months ended September 30, 2023 was 28.8% compared to 26.3% for the same period in 2022. 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. 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 September 30, 2023 March 31, 2024 totaled $8.6 million $12.3 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 provides 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 have had been borrowed under this facility.

Debt Agreements

During the second quarter of 2020, the Company borrowed $0.4 million from Banco Santander S.A. under the Institute of Official Credit Guarantee for Small and Medium-sized Enterprises in order to facilitate the continuation of employment and to attenuate the economic effects of the COVID-19 virus. This loan was provided for by the Spanish government as part of a COVID-19 relief program. During the second quarter of 2022, we repaid this loan in full.

Share Repurchase Program and Share Repurchase

On August 9, 2020, the Board of Directors approved a new program to repurchase up to $5.0 million of the Company's common stock between August 9, 2020 and July 31, 2022. This program expired in July 2022. 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 September 30, 2023 March 31, 2024, approximately $4.9 million $5.0 million remained available for repurchase under this new program.

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On April 11, 2022, we entered into an agreement with two institutional shareholders of the Company to repurchase 359,500 shares of our common stock, par value $0.0024 in a private transaction. The purchase price was $5.00 per share for a total of $1.8 million. The closing of the repurchases took place on April 22, 2022, and these shares were subsequently cancelled. Prior to the repurchase, the shares represented approximately 4.2% of our outstanding common stock. The direct share repurchase transactions were separately authorized by our Board of Directors and did not reduce the remaining amount authorized to be repurchased under the plans described above.

Cash Flows

	Nine Months Ended June 30,			
(amounts in thousands)	**2023**	**2022**	**2024**	**2023**
Net cash provided by (used in) operating activities	$ 1,193	$ (3,957)		
Net cash provided by operating activities			$ 1,086	$ 797
Net cash used in investing activities	(334)	(825)	(1,227)	(87)
Net cash used in financing activities	(12)	(2,198)	(1)	-
Effect of exchange rate changes on cash and cash equivalents	(199)	(125)	298	(39)
Net increase (decrease) in cash and cash equivalents	**$ 648**	**$ (7,105)**		
Net increase in cash and cash equivalents			**$ 156**	**$ 671**

For the nine three months ended September 30, 2023 March 31, 2024, cash from operations generated $1.2 million $1.1 million driven by a net income of $1.7 million $0.5 million, non-cash expense of $4.1 million $1.4 million, including depreciation, amortization, and stock-based compensation, accounts receivable a net reduction in inventory of $0.1 million, $1.2 million and a decrease in prepaid expense of $0.1 million, partially offset by a reduction to working capital including a net $1.1 million decrease in accrued expense and other liabilities, a reduction in lease liability payments of $2.7 million $0.9 million, and a decrease in accounts payable trade of $0.1 million. We invested $1.2 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 increase in cash of $0.2 million.

For the three months ended March 31, 2023, cash from operations generated $0.8 million driven by a net income of $0.7 million, non-cash expense of $1.4 million, including depreciation, amortization, and stock-based compensation, a net reduction in inventory of $2.4 million that includes adjustments, offset by a reduction to working capital including a net $2.8 million decrease in accounts payable and accrued liabilities mostly due to bonus accrual and contract liabilities, and a reduction in accounts payable lease liability payments of $1.7 million, and an increase in inventory of $0.4 million $0.9 million. We invested $0.3 million $0.1 million in capital expenditures expenditure 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 $0.6 million $0.7 million.

For the nine months ended September 30, 2022, cash from operations used $4.0 million driven by a net investment in inventory of $4.5 million, a net reduction in lease liabilities of $2.5 million, and net change in income tax expense of $0.3 million and net decrease in prepaid expenses of $0.3 million, partially offset by net income of $0.8 million, noncash expense of $4.1 million, including depreciation, amortization, and stock-based compensation, a net decrease of $2.0 million in accounts payable and accrued expenses, a net decrease of $0.2 million in accounts receivable and other changes in operating assets and liabilities. We invested $0.8 million in capital expenditure primarily related to system implementations. Cash used in financing activities was primarily due to the purchase of 359,500 shares of our common stock for $5.00 per share, or $1.8 million, from two institutional shareholders of the Company in a private transaction. We also paid off our loan with Banco Santander S.A. in Spain for $0.4 million during the second quarter. The activities above, in addition to the effect of exchange rate changes, resulted in a net decrease in cash of $7.1 million.

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Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As previously disclosed in our Form 10-K Our management team, under the supervision and Form 10-Q filings dating back to the period ended December 31, 2019, our management, with the participation of our Chief Executive Officer ("CEO") (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 in Rules under Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act") as of the last day of the fiscal period covered by this report, March 31, 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 March 31, 2024, our disclosure controls and procedures were not effective due to material weaknesses, which were described in detail in previous filings. As of September 30, 2023, we have remediated all of the factors that contributed to past material weaknesses. While we have successfully tested our controls and procedures in the third quarter of 2023, we are not prepared to say at this time that our controls are effective without another consecutive quarter of successful testing. We expect to report that our controls and procedures are fully effective at the end of the fourth quarter of 2023.

Management's Annual Report on Internal Control over Financial Reporting

Our management, including our CEO, is responsible for establishing and maintaining adequate internal control over our financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Management's establishing and maintaining adequate internal control over financial reporting is based upon the criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Framework"). A system of internal control over financial reporting should be designed to provide a reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Remediation of Previously reported "Material Weakness"

In 2019, we reported material misstatements in our financial statements that resulted from material weaknesses in our internal controls. Since then, we have filed restated financial statements and timely filed all subsequent Forms 10-Q and 10-K. We have also taken a number of measures to remediate the control weaknesses that we have been describing in our filings as they were implemented. These include, among others:

- Replaced critical roles within our accounting team with full-time employees with expertise in GAAP accounting, SEC reporting and disclosure, internal audit and internal controls;
- Replaced our legacy accounting systems with an integrated enterprise resource planning ("ERP") solution which includes general ledger, warehouse management and factory production modules designed to calculate inventory on a FIFO basis;
- Implemented a new point-of-sale system for most of our stores that is fully integrated with our new ERP system. The remaining one store will be converted in the fourth quarter 2023;
- Implemented new accounting processes and procedures aligned with our new ERP system that incorporate best practices to minimize errors and putting into action control activities that will prevent misstatements and that address appropriate segregation of duties;
- Updated process narrative documentation in the following areas: (i) fixed assets and lease accounting, (ii) information technology (IT) governance, and (iii) HR and payroll;
- Created a risk controls matrix which includes, among other things, a comprehensive list of key and mitigating controls, a description of the risk the control is designed to mitigate, the individual responsible for each control, the frequency in which the control is performed, and a mapping of each control to the five COSO Framework components (control environment, risk assessment, control activities, information and communication, or monitoring activities);

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- Established a greater sense of accountability by requiring sub-certifications below the CEO level for certain key accounting, finance and operations personnel.
- Improved the accounting close process, including periodic review and update of our accounting close checklists for completeness of duties, accuracy of owners and deadlines to maintain accountability, timely review of account reconciliations and calculations involving judgement, and timely reporting of financial results;

In the last quarter ended September 30, 2023, we completed the final steps in our remediation plan, specifically:

- Completed implementation of new accounting procedures and activities aligned with our new ERP system that improve upon the reliability of financial reporting and the preparation of financial statements in accordance with GAAP;
- Completed all narrative documentation in particular in the following areas: (i) financial reporting, (ii) inventory, (iii) purchasing and accounts payable, (iv) revenue, (v) general accounting, treasury, and financial planning & analysis, and (vi) tax;
- Began the periodic review of our risk controls matrix and process narrative documentation to ensure changes such as personnel, information sources, processes, systems, and frequency in performing the control are properly reflected in a timely manner;
- Reported the progress and results of our remediation plan to the Audit Committee including the identification, status, and resolution of internal control deficiencies, and created a schedule for regular reporting; and
- Finalized a comprehensive approach to regularly evaluate the operating effectiveness of our disclosure controls and procedures and our internal control over financial reporting using the COSO Framework as a guide.

Control Environment

Our management, including our CEO, our Audit Committee and our Board of Directors have taken certain steps to set the proper tone-at-the-top in support of the Company's values and climate to develop and maintain an effective internal control environment. These actions include:

- Recurring meetings with leadership, finance and accounting and other key functional areas to train staff on processes for oversight and emphasize each individual's accountability for internal control compliance, and to create a pattern of regular discussion of such controls.

- Regular periodic communications from the CEO and other key senior leaders on the Company's mission, core values, Code of Business Conduct and Ethics, whistleblower policies, and each employee's individual responsibility for internal control compliance.
- Reorganization of the finance and accounting team to address segregation of duties issues, oversight, and review of work, and recruiting and hiring qualified, competent employees with relevant experience for the roles.
- Regular performance evaluations to include position-specific criteria for functional competence, including performance of internal control responsibilities.

Risk Oversight Measures

We continue to identify risks and enhance risk oversight measures. In late 2019, we developed an annual strategic planning process designed to identify specific operating objectives for the organization and to conduct an assessment across the organization of the risks to meeting those objectives, including the risk of fraud. Furthermore, on a quarterly basis, management will review our periodic filings to ensure that identified risks have been appropriately disclosed. In the areas of reporting and compliance objectives, we have developed a process to conduct monthly business reviews by functional area that would include risk assessments of reporting accuracy based on complexity and transaction levels. We have also created a disclosure committee to ensure accurate review of the financial statements as well as compliance with GAAP and other regulatory requirements. and to appropriately mitigate any risks identified during the period.

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Control Activities

We conducted detailed working sessions to document our current and prior finance and accounting policies, procedures, and step-by-step activities. As aforementioned, management:

- Completed the implementation of our new point-of-sale system, which is fully integrated with our ERP system.
- Completed all relevant functionality in our ERP system to improve our internal controls over financial reporting.
- Implemented newly-designed processes, structures, delegation of authority and controls, in accordance with the COSO Framework, including:
    - Quarterly updates for our Controller regarding upcoming accounting pronouncement and proposed changes to GAAP accounting standards, tax regulations, and other requirements that may impact the Company's financial reporting;
    - Timely reviews each quarter of the most significant accounting estimates and judgment;
    - Validation of results through detailed variance analyses and reconciliation of account balances performed on a timely basis;
    - Monthly business review of actual financial performance compared to forecasts with participation from leadership across the organization; and
    - Establishing a disclosure committee comprised of key management throughout the different areas of the organization to evaluate the appropriateness of disclosures in the Company's periodic filings on Forms 10-K and 10-Q and to support the CEO with the certification process.

Information Processing and Communication

The implementation of our new ERP system eliminated the need for the topside adjustment calculations that had to be performed because our legacy systems were not integrated and many of our accounting processes were manual. This new ERP system allows us to automate certain accounting processes, reducing the risk of management override, and eliminating the need for topside adjustments outside of the system. In addition, management developed detailed policies, procedures and internal controls related to our financial reporting and working to develop regular reporting from our new systems that can validate the quality of our data and provide accurate information to support internal and external reporting and audit requirements. These updated controls will continue to be tested by management and results to be submitted to the Audit Committee.

Monitoring Activities

In addition to the items noted above, as we continue to evaluate, remediate, and improve our internal control over financial reporting, our management expects to continue to implement additional measures to address control deficiencies and further refine and improve the remediation efforts described above. Specifically, we have developed a checklist of activities based on the criteria established in the COSO Framework against which we will continue to assess the design of entity-level and activity-level controls, and the operational effectiveness of such controls. Deficiencies identified in this process will be addressed by management, including our CEO. This assessment, any deficiencies and any remedial actions will be shared and discussed with our Audit Committee and our independent auditors on a quarterly basis.

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Cybersecurity

We utilize information technology for internal and external communications with vendors, customers, and banks as well as systems technology for reporting and managing our operations. Loss, disruption, or compromise of these systems could significantly impact operations and results. Other than temporary disruption to operations that may be caused by a cybersecurity breach, we believe cash transactions to be the primary risk for potential loss. We work with our financial institutions to take steps to minimize the risk by requiring multiple levels of authorization, encryption, and other controls. The Company utilizes third party intrusion prevention and detection systems and performs periodic penetration testing to monitor its cybersecurity environment. However, the Company has not performed a formalized risk assessment to address cybersecurity risks or documented internal controls that assist in alleviating such risks. level.

Changes in Internal Control Over Financial Reporting

As discussed

Over the last three years, we have put a full program of both preventative and detective procedures in the remediation section above, we implemented the warehouse management, factory production system and general ledger systems modules as part place to address all of our new ERP system implementation, previously reported material weaknesses and we implemented our new point-of-sale system, which is fully integrated with our ERP system, significant deficiencies in most of our U.S. stores with the remaining one store internal controls over financial reporting and disclosure controls. This program has now been tested over multiple periods and found by management to be converted in Q4, 2023. We redesigned the controls, updated narratives of our processes and procedures and will continue to test these controls and report the results to our Audit Committee and remediate any discrepancies identified. While we expect our new ERP system to strengthen our internal financial controls by automating certain manual processes and standardizing business processes and reporting across our organization, management will continue to evaluate and monitor our internal controls as each of the affected areas evolves. effective.

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, 2022 December 31, 2023 and incorporated herein by reference.

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 September 30, 2023 March 31, 2024:

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ISSUER PURCHASES OF EQUITY SECURITIES

Period	(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 s
July 1 – July 31, 2023	—	—	—	$
August 1 – August 31, 2023	—	—	—	$
September 1 – September 30, 2023	—	—	—	$
Total	—	—	—	

Period	(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 sh
January 1 – January 31, 2024	—	—	—	$
February 1 – February 29, 2024	—	—	—	$
March 1 – March 31, 2024	—	—	—	$
Total	—	—	—	

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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, filed as Exhibit 3.4 to Tandy Leather Factory, Inc.'s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 15, 2023 and incorporated by reference herein. .
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.

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	Form of Stand-Alone Restricted Tandy Leather Factory, Inc. 2023 Incentive Stock Unit Agreement dated October 2, 2018 between the Company and Janet Carr, Plan, filed as Exhibit 10.3 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.
10.8	Form of Stock Purchase Agreement dated January 28, 2021 between the Company and Central Square Management, filed as Exhibit 10.14 10.10 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. August 14, 2023
*10.11 10.8	Form of Restricted Stock Unit Agreement dated October 23, 2023 between the Company and Janet Carr. 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.
*31.1	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.
*32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2022.

*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.
*104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

*Filed herewith.

* Filed herewith.

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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: November 9, 2023 May 10, 2024

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

Exhibit 10.11

TANDY LEATHER FACTORY, INC.

RESTRICTED STOCK UNIT AGREEMENT

THIS RESTRICTED STOCK UNIT AGREEMENT (the “***Agreement***”) is made as of October 23, 2023 (the “***Date of Grant***”), by and between Tandy Leather Factory, Inc., a Delaware corporation (the “***Company***”) and Janet Carr, an individual (“***Grantee***”).

W I T N E S E T H:

WHEREAS, the Company desires to provide Grantee with the opportunity to acquire a further proprietary interest in the Company by granting Grantee hypothetical units (“***Restricted Stock Units***”) of the Company’s common stock that will be earned through Grantee’s continuing employment with the Company.

NOW, THEREFORE, in consideration of the covenants and agreements herein contained, the parties hereto hereby agree as follows:

1.**Grant of Restricted Stock Units**. Subject to the terms, conditions and restrictions set forth in this Agreement, the Company hereby grants to Grantee 276,000 Restricted Stock Units. These Restricted Sock Units are granted pursuant to and in accordance with the Company’s 2023 Incentive Stock Plan. Each Restricted Stock Unit represents a right to receive one share of the Company’s common stock, par value $0.0024 per share (“***Common Stock***”), upon vesting of the Restricted Stock Unit as provided in Section 2 below. Vested Restricted Stock Units will be settled as provided in Section 3 below. The Company shall establish and maintain an account (the “***Restricted Stock Unit Account***”) for Grantee and will credit the Restricted Stock Unit Account with the number of Restricted Stock Units granted to Grantee under this Agreement. The Restricted Stock Units granted hereunder are a matter of separate inducement and are not in lieu of salary or other compensation for the services of Grantee to the Company or any of its affiliates.

2.**Vesting and Forfeiture Conditions**. The Restricted Stock Units will vest, if at all, in accordance with this Section 2. For purposes of this Section 2, each date on which any Restricted Unit becomes vested in accordance with Section 2(a), (b) or (c) is a “***Vesting Date***.”

(a)**General**. Subject to the terms and conditions set forth in this Agreement and except as otherwise set forth in this Section 2, the Restricted Stock Units will vest in three equal annual installments of 33-1/3% of the Restricted Stock Units on each of October 2, 2024, 2025 and 2026 (each such date a "***Vesting Date***"); provided that Grantee is employed by the Company or one of its affiliate on such Vesting Date.

(b)**Death or Disability**. If Grantee's employment with the Company and its affiliates is terminated as a result of Grantee's death or Disability (as defined in Grantee's employment agreement with the Company dated October 2, 2018, as may be amended from time to time (the "***Employment Agreement***")) before all Restricted Stock Units have vested, then a pro rata portion of the Restricted Stock Units otherwise scheduled to vest on the Vesting Date next following the date of such termination shall become vested on the date of such termination. The pro rata portion to be vested shall be calculated by multiplying the number of Restricted Stock Units otherwise scheduled to vest on that Vesting Date by a fraction, the numerator of which is the number of days following the immediately preceding Vesting Date (or the Date of Grant, if before the first Vesting Date) through the date of the termination of Grantee's employment and the denominator of which is 365.

(c)**Termination of Employment by the Company without Cause or by the Executive for Good Reason.** If Grantee's employment with the Company and its affiliates is terminated by the Company without Cause (as defined in the Employment Agreement) or by Grantee with Good Reason (as defined in the Employment Agreement) before all Restricted Stock Units have vested, then a pro rata portion of the Restricted Stock Units otherwise scheduled to vest on the Vesting Date next following the date of such termination shall become vested on the date of such termination. The pro rata portion to be vested shall be calculated by multiplying the number of Restricted Stock Units otherwise scheduled to vest on that Vesting Date by a fraction, the numerator of which is the number of days following the immediately preceding Vesting Date (or the Date of Grant, if before the first Vesting Date) through the date of the termination of Grantee's employment and the denominator of which is 365.

(d)**Termination of Employment for Other Reasons**. Notwithstanding anything in this Agreement to the contrary, if Grantee's employment with the Company and its affiliates is terminated for any reason other than those described in Sections 2(b) and (c) above, all Restricted Stock Units held by Grantee that have not vested as of the date of such termination shall automatically and immediately be forfeited by Grantee without any consideration therefor.

3.**Settlement**. The Company will settle Restricted Stock Units that vest on or before the 10th business day following their Vesting Date by issuing to Grantee one share of Common Stock for each Restricted Stock Unit that has satisfied all vesting requirements on that Vesting Date. On settlement, the Restricted Stock Units will cease to be credited to the Restricted Stock Unit Account. Subject to the satisfaction of the tax withholding provisions in Section 5 below, the Company will cause shares of Common Stock to be issued to Grantee following the applicable Vesting Date either by an appropriate entry in the books of the Company or of the Company's transfer agent or by delivery of a stock certificate, free of all restrictions except for applicable securities laws restrictions, and will enter Grantee's name as holder of record with respect to such shares of Common Stock on the books of the Company. Grantee acknowledges and agrees that shares of Common Stock may be issued in electronic form as a book entry with the Company's transfer agent and no physical certificates need be issued.

4.**No Transfer**. No portion of the Restricted Stock Units may be sold, assigned, transferred, encumbered, hypothecated or pledged by Grantee other than to the Company as a result of forfeiture of the Restricted Stock Units as provided herein, unless and until settlement is made in respect of vested Restricted Stock Units in accordance with the provisions hereof.

5.**Tax Withholding**. The settlement of any Restricted Stock Units under this Agreement shall be net of any amounts required to be withheld pursuant to applicable federal, state and local tax withholding requirements, and the Company may require Grantee to remit to the Company an amount sufficient to satisfy such tax withholding requirements prior to the issuance of shares of Common Stock. In lieu thereof, the Company shall have the right to withhold the amount of such taxes from any other sums due or to become due from the Company to Grantee as determined by the board of directors of the Company (the "***Board***"). The Company shall permit Grantee to pay all or a portion of the federal, state and local withholding taxes arising in connection with the Restricted Stock Units consisting of shares of Common Stock by electing to have the Company withhold shares of Common Stock having a Fair Market Value equal to the amount of tax to be withheld, such tax calculated at rates required by statute or regulation.

For purposes of this Agreement, "***Fair Market Value***" means, on a given date, the closing price of a share of Common Stock on the Nasdaq Stock Market or such other public trading market on which shares of Common Stock are listed or quoted on that date. If there is no regular public trading market for the Common Stock, then the Fair Market Value shall be determined by the Board in good faith.

6.**Compliance with Laws and Regulations**. The issuance, transfer, vesting and ownership of shares of Common Stock shall be subject to compliance by the Company and Grantee with all applicable requirements of federal and state securities laws and with all applicable requirements of any stock exchange on which the Common Stock may be listed at the time of such issuance or transfer. Grantee agrees to cooperate with the Company to ensure compliance with such laws and requirements.

7.**Changes in Capital Structure and Similar Events**. In the event of (i) any dividend or other distribution (whether in the form of cash, shares of Common Stock, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, amalgamation, consolidation, split-up, split-off, combination, repurchase or exchange of shares of Common Stock or other securities of the Company, issuance of warrants or other rights to acquire shares of Common Stock or other securities of the Company, or other similar corporate transaction or event that affects the Common Stock, or (ii) unusual or nonrecurring events affecting the Company, any of its affiliates, or the financial statements of the Company or any of its affiliates, or changes in applicable rules, rulings, regulations or other requirements of any governmental body or securities exchange or inter-dealer quotation system, accounting principles or law, such that in either case an adjustment is determined by the Board in its sole discretion to be necessary or appropriate (in order to avoid a “modification” for accounting purposes), then the Board shall make any such adjustments in such manner as it may deem equitable, including without limitation any or all of the following:

(a) adjusting the number of shares of Common Stock or other securities of the Company (or number and kind of other securities or other property) that may be delivered in respect of the Restricted Stock Units;

(b) providing for a substitution or assumption of the Restricted Stock Units, accelerating the vesting, or termination, of the Restricted Stock Units; and

(c) cancelling the Restricted Stock Units and causing to be paid to Grantee, in cash, shares of Common Stock, other securities or other property, or any combination thereof, the value of such Restricted Stock Units, if any, as determined by the Board (which if applicable may be based upon the price per share of Common Stock received or to be received by other stockholders of the Company in such event);

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provided, however, that in the case of any “equity restructuring” (within the meaning of the Financial Accounting Standards Board Accounting Standards Codification Topic 718 (or any successor pronouncement thereto)), the Board shall make an equitable or proportionate adjustment to the Restricted Stock Units to reflect such equity restructuring. Any adjustments under this Section 7 shall be made in a manner that does not adversely affect the exemption provided pursuant to Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the “***Exchange Act***”), to the extent applicable. The Company shall give Grantee notice of an adjustment hereunder and, upon notice, such adjustment shall be conclusive and binding for all purposes.

8.**Interpretation**. Subject to applicable law, the Board shall have the sole authority to interpret, administer, reconcile any inconsistency in, correct any defect in or supply any omission in this Agreement, and to make any other determination and take any other action that the Board deems necessary or desirable for the administration of this Agreement. All determinations, interpretations and other decisions under or with respect to this Agreement shall be within the sole discretion of the Board, may be made at any time and shall be final, conclusive and binding on all persons or entities, including, without limitation, the Company, its affiliates, Grantee, any holder or beneficiary of the Restricted Stock Units and any stockholder of the Company.

9.**Notices**. Every notice or other communication relating to this Agreement shall be in writing, and shall be mailed to or delivered to the party for whom it is intended at such address as may from time to time be designated by it in a notice mailed or delivered to the other party as herein provided; provided that, unless and until some other address be so designated, all notices or communications by Grantee to the Company shall be mailed or delivered to the Company at its principal executive office, and all notices or communications by the Company to Grantee may be given to Grantee personally or may be mailed to Grantee at the address as recorded in the records of the Company.

10.**Successors and Assigns**. The Company may assign any of its rights under this Agreement. This Agreement shall be binding upon and inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer set forth herein, this Agreement shall be binding upon Grantee and Grantee’s heirs, executors, administrators, legal representatives, successors and assigns.

11.**No Third-Party Beneficiaries**. This Agreement shall be binding upon and inure solely to the benefit of the parties hereto and their permitted assigns and nothing herein, express or implied, is intended to or shall confer upon any other person any legal or equitable right, benefit or remedy of any nature whatsoever, under or by reason of this Agreement, and any reference to a party shall also be a reference to the successors and permitted assigns thereof.

12.**Governing Law**. This Agreement shall be governed by and construed in accordance with the substantive laws of the State of Delaware without regard to its conflict of laws principles. If any provision of this Agreement is determined by a court of law to be illegal or unenforceable, then such provision will be enforced to the maximum extent possible and the other provisions will remain fully effective and enforceable.

13.**Lock-up and Other Agreements**. The Board may require, as a condition to receipt of shares of Common Stock on settlement of Restricted Stock Units hereunder, that Grantee execute lock-up, voting proxy or other agreements, as the Board may determine in its sole and absolute discretion should be applicable to all Executive Officers and Non-Employee Directors of the Company. Grantee agrees to execute all such agreements.

14.**Entire Agreement; Amendment or Termination**. This Agreement contains the entire agreement and understanding of the parties hereto with respect to the Restricted Stock Units and supersedes and cancels any and all prior or contemporaneous agreements or understandings. This Agreement may be modified, amended or terminated by the Company at any time and for any reason; provided, however, that Grantee’s prior consent shall be required for any modification, amendment or termination that adversely changes the terms of the Restricted Stock Units.

15.**No Right to Continued Employment**. Nothing in this Agreement shall be deemed by implication or otherwise to impose any limitation on any right of the Company or its affiliates to terminate Grantee's employment or service at any time for any reason whatsoever.

16.**Severability**. Any provision hereof that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. To the extent permitted by law, each party hereto hereby waives any provision of law that renders any such provision prohibited or unenforceable in any respect.

17.**Section 409A**. This Agreement is intended to comply with, or be exempt from, the provisions of Section 409A of the Internal Revenue Code of 1986, as amended ("***Section 409A***") and shall be construed and interpreted in accordance with such intent. The Company reserves the right to amend this Agreement to the extent it reasonably determines is necessary in order to avoid any adverse tax consequences under Section 409A. Notwithstanding anything to the contrary, none of the Company, its officers, directors, employees, agents or representatives guarantees that this Agreement complies with, or is exempt from, the provisions of Section 409A and none of the foregoing shall have any liability for the failure of this Agreement to comply with, or be exempt from, the provisions of Section 409A.

18.**No Secured Rights**. Grantee's right to payments under this Agreement shall not constitute nor be treated as property or as a trust fund of any kind. Grantee's rights are limited exclusively to the right to receive shares of Common Stock as provided in the Agreement. Grantee shall not have any rights as an owner of the Company with respect to any Restricted Stock Units granted to Grantee. All benefits payable to Grantee shall be payable solely from the general assets of the Company and no separate or special funds shall be established and no segregation of assets shall be made to assure the payment of benefits to Grantee. Grantee's rights shall be limited to those rights which are specifically enumerated in the Agreement, and such rights shall be for all purposes, unsecured contractual creditors' rights against the Company only, being on a parity with the rights of all other unsecured general creditors of the Company.

19.**Clawback**. The Restricted Stock Units, any Common Stock issued on settlement of the Restricted Stock Units and any proceeds of any shares of Common Stock that previously have been sold, transferred or otherwise disposed of, to the extent required under any clawback policy adopted or maintained by the Company, now or in the future, pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Sarbanes–Oxley Act of 2002, each as amended, and rules, regulations, and binding, published guidance thereunder. If the Company would not be eligible for continued listing, if applicable, under Section 10D(a) of the Exchange Act, unless it adopted policies consistent with Section 10D(b) of the Exchange Act, then, in accordance with those policies that are so required, the Restricted Stock Units and the Common Stock will be subject to clawback in the circumstances, to the extent, and in the manner, required by Section 10D(b)(2) of the Exchange Act, as interpreted by rules of the Securities Exchange Commission. By accepting the restricted stock units under this Agreement, Grantee hereby consents to any such clawback.

20.**Headings**. The headings of the Sections hereof are provided for convenience only and are not to serve as a basis for interpretation of construction, and shall not constitute a part of this Agreement.

21.**Counterparts, Copies**. This Agreement may be signed in counterparts, each of which when executed shall be deemed an original but all of which taken together shall constitute one and the same agreement. Fax or PDF copies of the parties' signatures shall have the same force and effect as original signatures.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first set forth above.

Tandy Leather Factory, Inc.

By: /s/ Leann Day
Name: Leann Day
Title: VP, Human Resources

Grantee

/s/ Janet Carr
Name: Janet Carr

Signature Page to Restricted Stock Agreement

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 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 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 registrant’s internal control over financial reporting that occurred during the registrant's registrant’s first fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's 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: November 9, 2023 May 10, 2024

By: /s/ Janet Carr
Janet Carr
Chief Executive Officer
(principal executive officer Principal Executive Officer and principal financial officer) 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 September 30, 2023 March 31, 2024 as filed with the United States Securities and Exchange Commission on the date hereof (the "Report" “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: November 9, 2023 May 10, 2024

By: /s/ Janet Carr

Janet Carr
Chief Executive Officer
(principal executive officer Principal Executive Officer and principal financial officer) Principal Financial Officer)

DISCLAIMER

THE INFORMATION CONTAINED IN THE REFINITIV CORPORATE DISCLOSURES DELTA REPORT™ IS A COMPARISON OF TWO FINANCIALS PERIODIC REPORTS. THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORT INCLUDING THE TEXT AND THE COMPARISON DATA AND TABLES. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED IN THIS REPORT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S ACTUAL SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.