

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2020

OR

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

Commission File Number 1-12368



Delaware  
(State or other jurisdiction of incorporation or organization)

75-2543540  
(I.R.S. Employer Identification No.)

1900 Southeast Loop 820  
Fort Worth, Texas 76140  
(Address of Principal Executive Offices)

76140  
(Zip Code)

817-872-3200

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.0024	TLFA	N/A*

\*Tandy Leather Factory, Inc.'s common stock previously traded on the NASDAQ Global Market under the symbol "TLF". On August 13, 2020, Tandy Leather Factory, Inc.'s common stock began trading on the OTC Link (previously "Pink Sheets") operated by OTC Markets Group under the symbol "TLFA". Deregistration under Section 12(b) of the Exchange Act of 1934, as amended, became effective on May 10, 2021.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 or Regulation S-T 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, 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  Accelerated filer  Non-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 Act). Yes  No

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

The aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$17,580,516 at June 30, 2020 (based on the price at which the common stock was last traded on the last business day of its most recently completed second fiscal quarter).

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. As of August 30, 2021, there were 8,663,921 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

NONE

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## PART I

### ITEM 1. BUSINESS

*The following discussion, as well as other portions of this Form 10-K 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. ("TLFA") 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 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 elsewhere in this Form 10-K and particularly in "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations." Unless the context otherwise indicates, references in this Form 10-K to "TLFA," "we," "our," "us," the "Company," "Tandy," or "Tandy Leather" mean Tandy Leather Factory, Inc., together with its subsidiaries.*

#### General

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, 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 four websites: tandyleather.com, tandyleather.ca, tandyleather.eu and tandyleather.com.au. 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.

As of August 13, 2020, Nasdaq suspended trading in the Company's stock on Nasdaq due to the Company not being current with its SEC filings. Our stock has since traded on the OTC Link (previously "Pink Sheets") operated by OTC Markets Group under the symbol "TLFA." Nasdaq denied the Company's appeal of its decision to suspend trading in the Company's stock and the Company's stock was formally delisted on February 9, 2021. We intend to reapply for Nasdaq listing after we have made our required Exchange Act filings. Any such listing would be subject to Nasdaq approval.

## **Retail Fleet**

The Company currently operates a total of 106 retail stores as of August 2021. There are 95 stores in the U.S., ten stores in Canada and one store in Spain. During the second quarter of 2020, we centralized U.S. e-commerce web order fulfillment from the stores to our Fort Worth distribution center.

All Tandy locations, other than our corporate headquarters (which includes our flagship store, corporate offices, distribution center, and manufacturing facility) are leased.

## **Business Strategy**

New management joined the Company in October 2018 and set new strategic directions for both the short and long term. The overarching goal is to invest in rebuilding a foundation for growth by: 1) improving our brand proposition, 2) reversing the sales decline with business customers, 3) building our talent, processes, tools and systems and 4) positioning us for long-term growth. A number of key initiatives to achieve these goals were begun in 2019 and continued into 2020. However, the onset of the COVID-19 pandemic in March of 2020 shifted our strategic focus to company survival and cash preservation. With a number of the retail stores temporarily closed to the public by the end of March 2020, web sales, digital marketing and centralized web fulfillment became the highest priority.

Key initiatives in 2020 and 2021 included:

- Accelerating implementation of our new web platform which supported a significantly improved consumer experience (look-and-feel, searchability, relevant content including video, and product and pricing information) integration of inventory, shipping and other systems, and substantial reduction in the time, manual effort and need for outside resources to make additions and changes;
- Accelerating centralization of our web fulfillment activities to our Fort Worth warehouse which provided significant improvement in fulfillment rates and shipping times, and supported early product testing, an increase in product breadth by offering online-only items that required limited inventory investment, and other inventory efficiencies;
- Shifting marketing resources from print and in-store activities to digital, with increased investments in SEO, SEM, email, digital advertising, social media, SMS/MMS, and affiliate links;
- Accelerating the retail employee training program in the areas of product knowledge, leathercrafting knowledge and selling tools while stores were closed;
- Continuing to drive the Commercial Program, through a dedicated team focused on the Company's largest customers with a business model that meets these customers' unique needs including dedicated sales representatives, clear and competitive volume-based pricing, personalized service and sourcing, shipping directly to customers from our distribution center, and improved product consistency, quality and availability;
- Continuing to improve the quality and assortment of the product offering to better appeal to more advanced leather-crafters and business customers; and
- Continuing to build the organization, processes, infrastructure, tools and systems to efficiently execute these strategies.

As a direct result of the COVID-19 pandemic, Tandy temporarily closed all stores by the end of March 2020, furloughed a majority of its employees, and extended payment terms on suppliers. Some landlords granted rent abatements and deferrals for the months of April, May and June 2020, which assisted with our cash position and preservation.

During the second quarter of 2020, as leases expired or early terminations were negotiated, we permanently closed nine stores where we believed we can retain a majority of customers through geographically proximate stores and/or our enhanced website platform. After these permanent closures, 106 stores remained, including ten in Canada and one in Spain. During the third quarter of 2020, all 106 of Tandy's stores had reopened to the public and the store reopenings were well received by our employees and customers. During the fourth quarter of 2020 through the present, we have continued to manage through the pandemic as we have seen periodic spikes in COVID-19 infections and have been forced to close certain stores or move certain stores to "curbside only" operations. The current surge in the virus due to the delta variant is creating more store closures due to illness and "close contact" quarantine requirements.

Tandy began 2020 with a good cash position. The sharp reduction in sales associated with COVID-related store closures, especially in the second quarter of 2020, mitigated by aggressive cost management, resulted in a decline in our cash reserve. While the stability of our operating environment has improved significantly relative to the end of March and the second quarter of 2020, the current economic environment remains very risky and highly volatile. We have retained a high degree of flexibility to react to changes in market conditions, but there is no assurance we can avoid additional detrimental impacts to our financial position, cash flows, liquidity and results of operations in 2021 and beyond. The extent of the impact of the pandemic on our business and financial results will depend largely on future developments, including the duration of the spread of the outbreak within the U.S., the effectiveness and acceptance of newly developed vaccines, in particular against new variants of the virus, the impact on capital and financial markets and the related impact on consumer confidence and spending, all of which are highly uncertain and cannot be predicted. This situation continues to evolve, and additional impacts may arise that we are not aware of currently.

## **Customers**

Prior to 2019, we defined our customers in a number of different groups, the largest two being Retail, primarily hobbyists, and Business, small and medium-sized businesses. However, through customer research over the last two years and better understanding of past practices used to categorize customers into these groups, the Company determined that there was insufficient distinction between such categories. We are continuing to assess and evolve our thinking on customer segments with a focus on levels of annual and lifetime spend.

To address the opportunity among the largest customers, in 2019 we launched a Commercial Program designed to better meet the needs of these customers. The program is comprised of dedicated outside sales representatives, clear and competitive volume-based pricing, personalized service and sourcing, shipping directly to customers from our distribution center, and improved product consistency, quality and availability.

## **Merchandise**

We carry a wide assortment of products organized into a number of categories including leather, hand tools, hardware, kits, liquids, machinery and other supplies. We operate a manufacturing facility in Fort Worth, Texas, where we manufacture kits, thread lace, belt strips and straps, and Craffaid®s, and provide some custom manufacturing processes for commercial and business customers. The factory produces approximately 10% of our products. We distribute product under the Tandy Leather™, Eco-Flu™, Craffool™, CraffoolPro™ and Dr. Jackson's™ brands, along with our recently launched TandyPro® products. We develop and invest in new products through the ideas and referrals of customers and store personnel as well as the analysis of trends in the market and sales performance at retail. In addition, we have been focused on broadening our assortment through strategic partnerships with key brands to drive category growth and better meet the needs of our customers.

## **Operations**

Information regarding net sales, gross profit, operating income, and total assets is included within Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and within Item 8, Financial Statements and Supplementary Data.

Our stores offer a broad selection of products combined with leathercraft expertise in a one-stop shop. Not only can customers purchase leather, related accessories and supplies necessary to complete their projects from a single source, but many of our store associates are also leathercrafters themselves and can provide suggestions and advice on our customers' projects. Customers value the expertise and high level of customer service from our store associates, the convenience of taking their purchases immediately, as well as the ability to touch, feel and choose their individual pieces of leather, an organic product in which each piece is unique. We also offer open workbenches where customers can work on projects, take classes, commune with the leathercrafting community, and test new tools and techniques.

Most of our stores range in size from 1,300 square feet to 9,000 square feet, with the average at approximately 3,500 square feet, and our Fort Worth flagship store is approximately 22,000 square feet. Stores are located in light industrial warehouse spaces or older strip shopping centers in proximity to major freeways or well-known crossroads. We believe that many of our customers view our stores as a destination: customers interested in leathercrafting seek us out, reducing the value of paying high rents for high foot-traffic locations.

Historically, we generate slightly more sales in the fourth quarter of each year due to the holiday shopping season (approximately 28-30% of annual sales), while the other three quarters average approximately 22-24% of annual sales each quarter.

## **Distribution**

Our stores receive the majority of their inventory from our central distribution center located in Fort Worth, Texas, in weekly shipments, using third party logistics providers. Occasionally, merchandise is shipped directly from the vendor. Starting in March 2020, with the store closures due to the COVID-19 pandemic, we began to fulfill web orders from our distribution center in Fort Worth. Prior to 2020, web orders were fulfilled by the store based upon availability. This required building a new direct-to-consumer pick, pack and ship process supplemented by our new web and shipping platform, which rolled out in June 2020. We also expanded our customer service team to handle web order inquiries and take phone orders.

Historically, we attempted to maintain the optimum number of items in our product line to minimize out-of-stock situations against carrying costs involved with such an inventory level. We generally maintain higher inventories of imported items, to ensure a continuous supply. In 2019, we tested our suppliers' ability to replenish more rapidly and to commit to on-time deliveries to allow lower overall inventory levels and found that out-of-stocks were at a level we viewed as unacceptable. Since 2019, we have also been executing against a number of strategic initiatives to improve our product assortment, test new items online, and tailor product assortments to the needs of local customers in each store. We carry about 6,500 stock-keeping units (SKUs) in our current product line and continue to refine both the line, the lead times and safety stock levels required to meet customer demand, online vs. in-store assortment, and overall total inventory levels needed to grow sales and market share.

## **Competition**

Our competitors are typically smaller, independently-owned brick-and-mortar retailers, internet-based retailers including those selling on platforms like Amazon and eBay, national craft chains like Michaels Stores, Inc. and Hobby Lobby Stores, Inc., and some wholesale-focused distributors. Virtually all of these competitors carry a more limited line of leathercraft products compared to Tandy. We are competitive on convenience, price, availability of merchandise, customer service, depth of our product line, and delivery time. Tandy Leather is the only multi-store chain specializing in leathercraft, which we believe provides a competitive advantage over internet-based retailers and the large general craft retailers. We also believe that our large size relative to most competitors gives us an advantage in sourcing as well as deep product and leathercrafting expertise among our employees.

## **Suppliers**

We purchase merchandise and raw materials from over 100 vendors from the United States and approximately 20 foreign countries. In general, our 10 largest vendors account for approximately 60-75% of our inventory purchases.

Because leather is sold internationally, market conditions abroad are likely to affect the price of leather in the United States. Aside from increasing purchases when we anticipate price increases (or possibly delaying purchases if we foresee price declines), we do not attempt to hedge our inventory costs.

Our supply chain and vendor relationships remain strong. We are focused on continuing to align our product and sourcing strategies to elevate the overall quality, consistency, and agility to meet the diverse needs of our existing consumers and attract new ones to the brand. COVID-19 has had varying impacts on our supply chain in 2020 through the present, as the course of the disease has impacted countries differently over time. During the early months of the pandemic, we experienced longer lead times in Asia, and later, we faced reduced capacity in Brazil and Europe, and a near shut-down in India in early 2021. Availability of shipping containers and vessels, especially in Asia, continues to be challenging. Vendors are now increasing product costs across nearly our entire product line, driven by raw material, shipping cost increases and labor shortages due to COVID-19. We invested heavily in inventory of key items especially in leather and hardware, over the last 12 months at 2020 prices. We believe we will be well-positioned to wait out any short-term price hikes for some months.

## **Compliance with Environmental Laws**

Our compliance with federal, state and local environmental protection laws has not had, and is not expected to have, a material effect on our capital expenditures, earnings, or competitive position.

## **Employees**

As of December 31, 2020, we employed 496 people, 419 of whom were employed on a full-time basis. As of August 20, 2021, we employed 513 people, 435 of whom are employed on a full-time basis. We are not a party to any collective bargaining agreements. Overall, we believe that relations with employees are good.



## Intellectual Property

The Company owns all of the material trademark rights used in connection with the production, marketing, distribution and sale of all Tandy-branded products. In addition, we license a limited number of our trademarks and copyrights used in connection with the production, marketing and distribution of certain categories of goods and limited edition co-branded projects. Major trademarks include federal trade name registrations for "Tandy Leather Factory," "Tandy Leather Company," and "Tandy." The Company is not dependent on any one particular trademark or design patent, although it believes that the "Tandy" and "Tandy Leather" names are important for its business. In addition, Tandy owns several patents for specific belt buckles and leather-working equipment. Tandy polices its trademarks and trade dress, and where appropriate pursues infringers. The Company expects that its material trademarks will remain in full force and effect for as long as we continue to use and renew them.

## Foreign Sales

Information regarding our sales from the United States and abroad and our long-lived assets is found in Note 2, Significant Accounting Policies: Revenue Recognition and Note 3, Balance Sheet Components, of the Notes to the Consolidated Financial Statements. For a description of some of the risks attendant to our foreign operations, see Item 1A, Risk Factors.

## Available Information

We file reports with the SEC. These reports include our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to these filings. These reports are available on the Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov).

Our corporate website is located at [www.tandyleather.com](http://www.tandyleather.com). We make copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and any amendments thereto filed with or furnished to the SEC available to investors on or through our website free of charge as soon as reasonably practicable after we electronically file them with or furnish them to the SEC. Our SEC filings can be found on the Investor Relations page of our website through the "SEC Filings" link. In addition, certain other corporate governance documents are available on our website through the "Corporate Governance" link. No information contained on any of our websites is intended to be included as part of, or incorporated by reference into, this Form 10-K.

## Information about our Executive Officers

The following table sets forth information concerning our executive officers as of August 31, 2021:

Name and Age	Position	Served as Executive Officer Since
Janet Carr, 60	Chief Executive Officer	2018
Michael Galvan, 52	Chief Financial Officer	2021

**Janet Carr** has served as our Chief Executive Officer and as a member of our Board of Directors since October 2018. Prior to her current role, Ms. Carr served as the Senior Vice-President of Global Business Development for Caleres Inc. (formerly Brown Shoe Company Inc.) from 2016 to 2017. While there, she was responsible for international wholesale and retail for all of their brands. Prior to Caleres, Ms. Carr was the President of the Handbag Division of Nine West Group Inc. from 2013 to 2014, where she was responsible for all aspects of design, development and sales in both wholesale and retail. Ms. Carr has deep experience in strategy and consumer insights in various roles at a number of prominent retailers, including Tapestry, Inc. (formerly Coach, Inc.), Gap Inc and Safeway.

**Michael Galvan** has served as our Chief Financial Officer since January 2021. He first joined the Company in May 2020, initially serving as Interim Chief Financial Officer. Mr. Galvan brings over 25 years of finance and accounting experience to the Company, including executive leadership roles serving as Interim Chief Financial Officer, Chief Accounting Officer and Treasurer for a variety of publicly traded companies, including Main Street Capital Corporation and Mattress Firm. Prior to joining the Company, Mr. Galvan served in various management roles including Senior Vice President, Chief Accounting Officer and Treasurer of NexTier Oilfield Solutions, Inc. (formerly C&J Energy Services, Inc.), from June 2016 until April 2020, including serving as Interim Chief Financial Officer from March through September 2018.

**ITEM 1A. RISK FACTORS**

**Risks Related to the COVID-19 Pandemic**

*The COVID-19 pandemic has had, and likely may continue to have, a material adverse effect on our business and liquidity.*

The COVID-19 pandemic had an unprecedented impact on the U.S. economy as federal, state and local governments react to this public health crisis, which has created significant uncertainties. These uncertainties include, but are not limited to, the material adverse effect of the pandemic on the economy, our supply chain partners, our employees and customers, customer sentiment in general, and our stores. In March 2020, we temporarily closed all of our stores and took other significant actions to mitigate the ongoing impact of the COVID-19 pandemic on our cash flows and to protect our business and associates for the long term in response to the crisis. Such actions include targeted reductions in discretionary operating expenses such as advertising and payroll expenses, including furloughing a significant number of our employees and temporarily reducing the payroll of remaining employees, reducing capital expenditures and reducing merchandise receipts. Further, we have sought and may continue to seek extended payment terms with our vendors, including suppliers of our products and landlords. During the third quarter of 2020, all of our 106 stores had reopened. However, beginning with the fourth quarter of 2020 and into the present, we have continued to manage through the pandemic as we saw increased spikes in COVID-19 infections, and continue to see varying levels of infection rates, in various locations and have again been forced periodically to temporarily close certain stores or move certain stores to "curbside only" operations. We are unable to ensure that our sales will meet or exceed pre-pandemic levels or if additional periods of store closures will be needed or mandated. In addition, our merchandise vendors may have been negatively impacted by the pandemic and the financial difficulties of other retailers, thereby creating concerns about our vendors' ability to provide us with payment terms or merchandise that is suitable to our brand. The effects of the pandemic have materially adversely impacted our revenues, earnings, liquidity and cash flows, and have required significant actions as mentioned above.

The extent of the impact of the pandemic on our business and financial results will depend largely on future developments, including the duration of the spread of the outbreak (including new variants) and availability and acceptance rates of vaccines within the U.S. and Canada and our key sourcing markets, the impact on capital and financial markets and the related impact on consumer confidence and spending, all of which are highly uncertain and cannot be predicted. The pandemic has had, and may continue to have, a material adverse impact on our financial position, cash flows, liquidity and results of operations during fiscal year 2020 and beyond. This situation is changing rapidly, and additional impacts may arise that we are not aware of currently.

***Disruptions in the operation of our Fort Worth distribution center or manufacturing facility due to disease, including the COVID-19 pandemic, natural disaster, fire, or other crises, could have an adverse effect on our ability to supply our retail stores, fulfill web orders and/or manufacture product, resulting in possible decreases in sales and margin.***

We are dependent on a limited number of distribution and sourcing centers, primarily the center located at our Fort Worth, Texas headquarters. Our ability to meet the needs of our customers and our retail stores and e-commerce sites depends on the proper operation of these centers. If any of these centers were to shut down or otherwise become inoperable or inaccessible for any reason, we could suffer a substantial loss of inventory and/or disruptions of deliveries to our retail and wholesale customers. While we have business continuity and contingency plans for our sourcing and distribution center sites, significant disruption of manufacturing or distribution for any of the above reasons could interrupt product supply, result in a substantial loss of inventory, increase our costs, disrupt deliveries to our customers and our retail stores, and, if not remedied in a timely manner, could have a material adverse impact on our business.

### **Risks Related to Owning our Common Stock**

***Our continued delisting from the Nasdaq Market or a suspension of broker trading of our common stock could impair the value of your investment.***

Our common stock was listed on the Nasdaq Global Market. In order to maintain that listing, we were required to satisfy minimum financial and other listing requirements, including filing quarterly and annual financial reports as required by the rules of the SEC. From May 2019 until May 2021, the Company did not file its quarterly or annual financial reports as required by the rules of the SEC and Nasdaq, and it has not yet gotten current with filings for the most recent fiscal periods. The Company initially applied for, and was granted, extensions by Nasdaq to comply with Nasdaq's listing standards.

However, the Company was unable to become current in its filings within that extended time frame. On August 11, 2020, the Company received notice of Nasdaq's decision to suspend trading in the Company's stock on Nasdaq as of August 13, 2020 due to the Company not being current with its SEC filings. Nasdaq denied the Company's appeal of this decision, resulting in the Company's stock being formally delisted on February 9, 2021. To date, the delisting has not materially affected the trading price of the Company's common stock. The Company intends to apply for re-listing on Nasdaq once it is current with its Exchange Act filings. Any such listing would be subject to Nasdaq approval. However, if we are unable to do so, the continued delisting of our common stock from Nasdaq could adversely affect the market liquidity of our common stock or otherwise impair the value of your investment.

In addition, on September 16, 2020, the SEC adopted final rules amending Securities Exchange Act Rule 15c-211. The amended rule requires that a company have current and publicly available information as a precondition for a broker-dealer to either initiate or continue to quote its securities. The SEC has set September 28, 2021 as the deadline for companies to achieve this current status. In anticipation of this deadline, some broker dealers have informed their clients that several weeks prior to that deadline, those brokers would place stocks without current financial information in a "liquidation-only" mode, in which clients would be allowed only to sell, but not purchase, securities of affected companies. The Company is working diligently to complete and file all outstanding financial reports prior to the September 28 deadline. If it is unable to do so, however, or if it does so but later becomes delinquent again in filing its reports for a period of six months or more, trading of the Company's common stock through broker-dealers could be suspended for most owners until the Company regains compliance. Such a suspension could adversely affect the market liquidity of our common stock or otherwise impair the value of your investment.

***We have concluded that certain of our previously issued financial statements should not be relied upon and have restated certain of our previously issued financial statements which was time-consuming and expensive and could expose us to additional risks that could have a negative effect on our Company.***

As previously disclosed, we have concluded that certain of our previously issued financial statements should not be relied upon. We restated our previously issued audited financial statements as of and for the years ended December 31, 2018 and 2017 as well as the quarterly and year-to-date periods within fiscal 2018 included in the Company's previously filed Quarterly Reports on Form 10-Q, and the three months ended March 31, 2019, included in the Company's previously filed Quarterly Report on Form 10-Q. We believe that the errors described in our restated financial statements might impact periods prior to years ended December 31, 2017, but we do not intend to amend any other annual reports on Form 10-K or quarterly reports on Form 10-Q for earlier periods. As a result, our reports for those earlier periods should no longer be relied upon. In addition, our Quarterly Reports on Form 10-Q for quarterly period during 2020 and 2021 to date have not been filed in a timely manner. The restatement process was time consuming and expensive and, along with the failure to make certain filings with the SEC in a timely manner, could continue to expose us to additional risks that have had a negative effect on our Company. In particular, we incurred substantial unanticipated expenses and costs, including audit, legal and other professional fees, in connection with the restatement of our previously issued financial statements and the ongoing remediation of material weaknesses in our internal control over financial reporting. Certain remediation actions were recommended, and we are in the process of implementing them (see Item 9A, Controls and Procedures of this Form 10-K for a description of these remediation measures). To the extent these steps are not successful, we could be forced to incur additional time and expense. Our management's attention was also diverted from some aspects of the operation of our business in connection with the restatement and these ongoing remediation efforts.

***The restatement of our financial statements led to litigation and in the future may lead to, among other things, future stockholder litigation, loss of investor confidence, negative impacts on our stock price and certain other risks.***

In November 2019, a class action lawsuit was brought against the Company and members of its current and former management relating to our announcement of the circumstances leading to our restatement. We believe that suit was without merit, and the suit was withdrawn by the plaintiff in April 2020; however, there can be no assurance that additional litigation against the Company and/or its management or Board of Directors might not be threatened or brought in connection with matters related to our restatement.

As a result of the circumstances giving rise to the restatement, we have become subject to a number of additional risks and uncertainties, including unanticipated costs for accounting and legal fees in connection with or related to the restatement, stockholder litigation and government investigations. Any such proceeding could result in substantial defense costs regardless of the outcome of the litigation or investigation. If we do not prevail in any such litigation, we could be required to pay substantial damages or settlement costs. In addition, the restatement and related matters could impair our reputation and could cause our counterparties to lose confidence in us. Each of these occurrences could have an adverse effect on our business, results of operations, financial condition and stock price.

***We have identified material weaknesses in our system of internal controls pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 and are in the process of remediation. If not remediated, these material weaknesses could result in additional material misstatements in our Consolidated Financial statements. We may be unable to develop, implement and maintain appropriate controls in future periods.***

Section 404 of the Sarbanes-Oxley Act of 2002 requires that public companies evaluate and report on their systems of internal control over financial reporting. As disclosed in Part II, Item 9A, Controls and Procedures of this Form 10-K, our management, including our Chief Executive Officer and our Chief Financial Officer, has determined that we had material weaknesses in the Company's internal control over financial reporting as of December 31, 2020. These material weaknesses resulted in identified misstatements to the financial statements, and previously issued financial statements are restated in this filing. As a result of the material weaknesses, the Company's management, under the supervision of the Audit Committee and with participation of the Company's Chief Executive Officer and Chief Financial Officer, concluded that the Company's internal control over financial reporting was not effective as of December 31, 2020.

Although we are working to remedy the ineffectiveness of the Company's internal control over financial reporting and disclosure controls and procedures, there can be no assurance as to when the remediation plan will be fully developed and implemented. Until our remediation plan is fully implemented, our management will continue to devote significant time, attention and financial resources to these efforts. If we do not complete our remediation in a timely fashion, or at all, or if our remediation plan is inadequate, there will continue to be an increased risk that our future Consolidated Financial Statements could contain errors that will be undetected. Further and continued determinations that there are one or more material weaknesses in the effectiveness of the Company's internal control over financial reporting could adversely affect our business, reputation, revenues, results of operations, financial condition and stock price and limit our ability to access the capital markets through equity or debt issuances. For more information relating to the Company's internal control over financial reporting, the material weaknesses that existed as of December 31, 2020 and the remediation activities undertaken by us, see Part II, Item 9A Controls and Procedures of this Form 10-K.

### **Risks Related to Cash Flow and Capitalization**

***If our cash from operations falls short and we are unable to raise additional working capital, we might be unable to fully fund our operations or to otherwise execute our business plan.***

Historically, the Company has funded its business primarily with cash from operations and has utilized only small lines of working capital for seasonal expenditures. As a result of the restatement and the Company not having current audited financial information, our working capital lines have been discontinued by the lenders. We believe that access to this capital will be restored once we have become current in our financial reporting and that our currently available working capital will be sufficient to continue the needs of our business for at least the next twelve (12) months. However, should (1) our costs and expenses prove to be greater than we currently anticipate, or (2) seasonal fluctuations in sales or inventory purchases result in needing additional capital, and (3) we remain unable to borrow short- or long-term capital, the depletion of our working capital would be accelerated and could leave us unable to make required payments. We may also seek capital through the private issuance of debt or equity securities. We currently do not have any binding commitments for, or readily available sources of, additional financing. We cannot guarantee that we will be able to secure the additional cash or working capital we might require to continue our operations.

## **Risks Related to Technology, Data Security and Privacy**

***Failure to protect the integrity and security of personal information of our customers and employees could result in substantial costs, expose us to litigation and damage our reputation.***

We receive and maintain certain personal, financial, and other information about our customers, employees, and vendors. In addition, our vendors receive and maintain certain personal, financial, and other information about our employees and customers. The use and transmission of this information is regulated by evolving and increasingly demanding laws and regulations across various jurisdictions. If our security and information systems are compromised as a result of data corruption or loss, cyber-attack or a network security incident or if our employees or vendors fail to comply with these laws and regulations and this information is obtained by unauthorized persons or used inappropriately, it could result in liabilities and penalties and could damage our reputation, cause us to incur substantial costs and result in a loss of customer confidence, which could materially affect our results of operations and financial condition. Additionally, we could be subject to litigation and government enforcement actions because of any such failure.

Further, data privacy is subject to frequently changing rules and regulations, which sometimes conflict among the various jurisdictions and countries where we operate. For example, the General Data Protection Regulation ("GDPR"), which was adopted by the European Union effective May 2018, requires companies to meet new requirements regarding the handling of personal data. In addition, the State of California enacted the California Consumer Privacy Act (the "CCPA"), which became effective January 2020 and requires companies that process information on California residents to, among other things, provide new disclosures and options to consumers about data collection, use and sharing practices.

Moreover, each of the GDPR and the CCPA confer a private right-of-action on certain individuals and associations. Our failure to adhere to or successfully implement appropriate processes to adhere to the requirements of GDPR, CCPA and other evolving laws and regulations in this area could result in financial penalties, legal liability and could damage our reputation, which could have a material adverse effect on our business, financial condition and results of operations.

***Unreliable or inefficient information technology or the failure to successfully implement or invest in technology initiatives in the future could adversely impact operating results.***

We rely heavily on information technology systems in the conduct of our business, some of which are managed, and/or hosted by third parties, including, for example, point-of-sale processing in our stores, management of our supply chain, and various other processes and procedures. These systems are subject to damage, interruption or failure due to theft, fire, power outages, telecommunications failure, computer viruses, security breaches, malicious cyber-attacks or other catastrophic events. Certain technology systems may also be unreliable or inefficient, and technology vendors may limit or terminate product support and maintenance, which could impact the reliability of critical systems operations. If our information technology systems are damaged or fail to function properly, we may incur substantial costs to repair or replace them and may experience loss of critical data and interruptions or delays in our ability to manage inventories or process transactions, which could result in lost sales, customer or employee dissatisfaction, or negative publicity that could negatively impact our reputation, results of operations and financial condition.

Moreover, our failure to adequately invest in new technology or adapt to technological developments and industry trends, particularly with respect to digital commerce capabilities, could result in a loss of customers and related market share. If our digital commerce platforms do not meet customers' expectations in terms of security, speed, attractiveness or ease of use, customers may be less inclined to return to such digital commerce platforms, which could negatively impact our business.

## **Risks Related to the Macroeconomic Environment**

*Our business may be negatively impacted by general economic conditions in the United States and abroad.*

Our performance is subject to global economic conditions and their impact on levels of consumer spending that affect not only the ultimate consumer, but also small businesses and other retailers. Specialty retail, and retail in general, is heavily influenced by general economic cycles, which may also be affected by health emergencies such as the COVID-19 pandemic. Purchases of non-essential, discretionary products tend to decline in periods of recession or uncertainty regarding future economic prospects, as disposable income declines. During periods of economic uncertainty, we may not be able to maintain or increase our sales to existing customers, make sales to new customers, open and operate new stores, maintain sales levels at our existing stores, maintain or increase our international operations on a profitable basis, maintain our earnings from operations as a percentage of net sales, or generate sufficient cash flows to fund our operational and liquidity needs. As a result, our operating results may be adversely and materially affected by downward trends or uncertainty in the United States or global economies.

*Foreign currency fluctuations could adversely impact our financial condition and results of operations.*

We generally purchase our products in U.S. dollars. However, we source a large portion of our products from countries other than the United States. The cost of these products may be affected by changes in the value of the applicable currencies. Changes in currency exchange rates may also affect the U.S. dollar value of the foreign currency denominated sales that occur in other countries (currently Canada and the European Union). This revenue, when translated into U.S. dollars for consolidated reporting purposes, could be materially affected by fluctuations in the U.S. dollar, negatively impacting our results of operations and our ability to generate revenue growth.

*We face risks related to the effect of economic uncertainty.*

During events of economic downturn and slow recovery, our growth prospects, results of operations, cash flows and financial condition could be adversely impacted. Our stores offer leather and leathercraft-related items, which are viewed as discretionary items. Pressure on discretionary income brought on by economic downturns and slow recoveries, including housing market declines, rising energy prices and weak labor markets, may cause consumers to reduce the amount they spend on discretionary items. The inherent uncertainty related to predicting economic conditions makes it difficult for us to accurately forecast future demand trends, which could cause us to purchase excess inventories, resulting in increases in our inventory carrying cost, or limit our ability to satisfy customer demand and potentially lose market share.

## **Risks Related to Legal, Regulatory and Compliance**

*If the United States maintains recently-imposed tariffs on products manufactured in China, or if additional tariffs or trade restrictions are implemented by other countries or by the U.S., the cost of our products manufactured in China or other countries and imported into the U.S. or other countries could increase. This could in turn adversely affect the profitability for these products and have an adverse effect on our business, financial condition and results of operations.*

In addition, the violation of labor, environmental or other laws by an independent manufacturer or supplier, or divergence of an independent manufacturer's or supplier's labor practices from those generally accepted as ethical or appropriate in the U.S., could interrupt or otherwise disrupt the shipment of our products, harm our trademarks or damage our reputation. The occurrence of any of these events could materially adversely affect our business, financial condition and results of operations.

***Our success depends on the continued protection of our trademarks and other proprietary intellectual property rights.***

Our trademarks and other intellectual property rights are important to our success and competitive position, and the loss of or inability to enforce our trademark and other proprietary intellectual property rights could harm our business. We devote substantial resources to the establishment and protection of our trademark and other proprietary intellectual property rights on a worldwide basis. Despite any precautions we may take to protect our intellectual property, policing unauthorized use of our intellectual property is difficult, expensive, and time consuming, and we may be unable to adequately protect our intellectual property or determine the extent of any unauthorized use. Our efforts to establish and protect our trademark and other proprietary intellectual property rights may not be adequate to prevent imitation or counterfeiting of our products by others, which may not only erode sales of our products but may also cause significant damage to our brand name. Further, we could incur substantial costs in legal actions relating to our use of intellectual property or the use of our intellectual property by others. Even if we are successful in these actions, the costs we incur could have a material adverse effect on us.

**Risks Related to Our Business Strategy**

***The successful execution of our multi-year transformation and operational efficiency initiatives is key to the long-term growth of our business.***

During the fourth quarter of 2018, the Company, under its new management, began to implement a large number of initiatives to transform the Company's business, improve sales long term and improve operational efficiency. These include the realignment of the Company's retail division management structure, the closing of underperforming stores, the formation of a new division focused on serving commercial customers, pricing and marketing initiatives, systems improvements and other changes. The Company believes that long-term growth will be realized through these transformational efforts over time, however there is no assurance that such efforts will be successful in the short or long term. Actual costs incurred and the timeline of these initiatives may differ from our expectations. If these initiatives are unsuccessful, our business, financial condition and results of operation could be materially adversely affected.

***Our business is subject to the risks inherent in global sourcing activities.***

As a Company engaged in sourcing on a global scale, we are subject to the risks inherent in such activities, including, but not limited to:

- unavailability of, or significant fluctuations in the cost of, raw materials;
- compliance by us and our independent manufacturers and suppliers with labor laws and other foreign governmental regulations;
- imposition of additional duties, taxes and other charges on imports or exports;
- increases in the cost of labor, fuel (including volatility in the price of oil), travel and transportation;
- compliance by our independent manufacturers and suppliers with our Code of Business Conduct and Ethics and our Animal Welfare Policy;
- disruptions or delays in shipments;
- loss or impairment of key manufacturing or distribution sites, which also could result in a former manufacturer beginning to produce similar products that compete with ours;



- inability to engage new independent manufacturers that meet the Company's cost-effective sourcing model;
- product quality issues;
- political unrest;
- unforeseen public health crises, such as pandemic (e.g., the COVID-19 pandemic) and epidemic diseases;
- natural disasters or other extreme weather events, whether as a result of climate change or otherwise; and
- acts of war or terrorism and other external factors over which we have no control.

***Increases in the price of leather and other items we sell or a reduction in availability of those products could increase our cost of goods and decrease our profitability.***

The prices we pay our suppliers for our products are dependent in part on the market price for leather, metals, and other products. The cost of these items may fluctuate substantially, depending on a variety of factors, including demand, supply conditions, transportation costs, government regulation, economic climates, political considerations, and other unpredictable factors. Leather prices worldwide have been relatively stable for the past several years although the outlook for future prices is uncertain. Increases in these costs, together with other factors, will make it difficult for us to sustain the gross margin level we have achieved in recent years and result in a decrease in our profitability unless we are able to pass higher prices on to our customers or reduce costs in other areas. Changes in consumers' product preferences or lack of acceptance of our products whose costs have increased may prohibit us from passing those increases on to customers, which could cause our gross margin to decline. If our product costs increase and our sale prices do not, our future operating results could be adversely affected unless we are able to offset such gross margin declines with comparable reductions in operating costs. Accordingly, such increases in costs could adversely affect our business and our results of operations.

Further, involvement by the United States in war and other military operations abroad could disrupt international trade and affect our inventory sources. Finally, livestock diseases, such as mad cow, could reduce the availability of hides and leathers or increase their cost. The occurrence of any of these events could adversely affect our business and our results of operations.

***We are subject to risks associated with leasing retail space subject to long-term and non-cancelable leases. We may be unable to renew leases on acceptable terms. If we close a leased retail space, we might remain obligated under the applicable lease.***

We lease the majority of our retail store locations under long-term, non-cancelable leases, which have initial or renewed terms ranging from three years to ten years and may include lease renewal options. We believe that most of the lease agreements we will enter into in the future will likely be long-term and non-cancelable. Generally, our leases are "net" leases, which require us to pay our proportionate share of the cost of insurance, taxes, maintenance and utilities. We generally cannot cancel these leases at our option. If we determine that it is no longer economical to operate a retail store subject to a lease and decide to close it, as we have done in the past and will do in the future, we would generally remain obligated under the applicable lease for, among other things, payment of the base rent, common charges and other net payments for the balance of the lease term. In some instances, we may be unable to close an underperforming retail store without a significant financial penalty due to continuous operation clauses in our lease agreements. In addition, as each of our leases expire, we may be unable to negotiate renewals, either on commercially acceptable terms or at all, which could cause us to close retail stores in desirable locations. Our inability to secure desirable retail space or favorable lease terms could impact our ability to grow. Likewise, our obligation to continue making lease payments in respect of leases for closed retail spaces could have a material adverse effect on our business, financial condition and results of operations.

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

In 2019, we experienced declines in sales and operating income primarily resulting from changes in our strategic direction. In 2020, we experienced further declines primarily resulting from the COVID-19 pandemic. Many other specialty retailers have experienced declining sales and losses due to the overall challenging retail environment. Our sales and profits may continue to be negatively affected in the future. We anticipate that our financial performance will depend on a number of factors, including consumer preferences, the strength and protection of our brand, the introduction of new products, and the success of our new business strategy.

***Competition, including internet-based competition, could negatively impact our business.***

The retail industry is competitive, which could result in the reduction of our prices and loss of our market share. We must remain competitive in the areas of quality, price, breadth of selection, customer service, and convenience. We compete with smaller retailers focused on leather and leather crafting, some of whom have been able to offer competitive products at lower prices than ours. We also compete with larger specialty retailers (e.g., Michaels Stores, Inc. and Hobby Lobby Stores, Inc.) that dedicate a small portion of their selling space to products that compete with ours but are larger and have greater financial resources than we do. The Company also faces competition from internet-based retailers, in addition to traditional store-based retailers. This could result in increased price competition, since our customers can more readily search and compare products from internet-based retailers who do not need to support a physical store fleet and may be able to undercut our prices for products. The growth of internet retailers has also significantly reduced traffic to many shopping centers and physical stores, which, if not countered by an increase in our own online retailing, could have a material adverse effect on our in-store or overall sales.

***Declines in foot traffic in our retail store locations could negatively impact our sales and profits.***

The success of our retail stores is affected by (1) the location of the store within its community or shopping center; (2) surrounding tenants or vacancies; (3) increased competition in areas where shopping centers are located; (4) the amount spent on advertising and promotion to attract consumers to the stores; and (5) a shift towards online shopping resulting in a decrease in retail store traffic. Many of our stores are located in light industrial areas, where foot traffic tends to be lower than in traditional retail shopping areas. Furthermore, our initiatives to service our larger customers through a dedicated Commercial Program rather than primarily through local stores may also lead to a decline in the traffic to our store locations. Declines in consumer traffic could have a negative impact on our net sales and could materially adversely affect our financial condition and results of operations. Furthermore, declines in traffic could result in store impairment charges if expected future cash flows of the related asset group do not exceed the carrying value.

***Our business could be harmed if we are unable to maintain our brand image.***

Tandy Leather is one of the most recognized brand names in our industry. Our success to date has been due in large part to the strength of that brand. If we are unable to provide quality products and exceptional customer service to our customers, including education, which Tandy Leather has traditionally been known for, our brand name may be impaired which could adversely affect our operating results.

***Changes in customer demand could materially adversely affect our sales, results of operations and cash flow.***

Our success depends on our ability to anticipate and respond in a timely manner to changing customer demands and preferences for leather and leathercraft-related items. If we misjudge the market, we might significantly overstock unpopular products and be forced to take significant inventory markdowns, or experience shortages of key items, either of which could have a material adverse impact on our operating results and cash flow. In addition, adverse weather conditions, economic instability and consumer confidence volatility could have material adverse impacts on our sales and operating results.

***Our success depends, in part, on attracting, developing and retaining qualified employees, including key personnel.***

The ability to successfully execute against our goals is heavily dependent on attracting, developing and retaining qualified employees, including our senior management team. Competition in our industry to attract and retain these employees is intense and is influenced by our ability to offer competitive compensation and benefits, employee morale, our reputation, recruitment by other employers, perceived internal opportunities, non-competition and non-solicitation agreements and macro unemployment rates.

We depend on the guidance of our senior management team and other key employees who have significant experience and expertise in our industry and our operations. In 2018 and 2019, we experienced significant changes in our senior leadership team and have focused on recruiting for and retaining key roles. The unexpected loss of one or more of our key personnel or any negative public perception with respect to these individuals could have a material adverse effect on our business, results of operations and financial condition. We do not maintain key-person or similar life insurance policies on any of senior management team or other key personnel.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 2. PROPERTIES**

We lease our store locations, with the exception of our flagship store located in Fort Worth, Texas. The majority of our stores have initial lease terms of at least five years. The leases are generally renewable, with increases in lease rental rates in some cases. We believe that all of our properties are adequately covered by insurance. We own the 22,000 square foot building that houses our flagship store. Further, we own our corporate headquarters, which includes our central distribution center and manufacturing facility, sales, marketing, administrative, and executive offices. The facility consists of 191,000 square feet located on approximately 30 acres.

The following table summarizes the locations of our leased premises as of the date of this filing:

U.S. Locations			
Alabama	1	Missouri	3
Alaska	1	Montana	1
Arizona	3	Nebraska	1
Arkansas	1	Nevada	2
California	10	New Mexico	2
Colorado	4	New York	1
Connecticut	1	New Jersey	1
Florida	5	North Carolina	2
Georgia	2	Ohio	3
Idaho	1	Oklahoma	2
Illinois	1	Oregon	2
Indiana	1	Pennsylvania	3
Iowa	1	South Carolina	1
Kansas	1	South Dakota	1
Kentucky	1	Tennessee	3
Louisiana	2	Texas	16
Maryland	1	Utah	4
Massachusetts	1	Washington	3
Michigan	2	Wisconsin	1
Minnesota	2	Wyoming	1
Canadian locations:		International locations:	
Alberta	3	Spain	1
British Columbia	1		
Manitoba	1		
Nova Scotia	1		
Ontario	3		
Saskatchewan	1		

As a result of the COVID-19 pandemic and resulting legal requirements in most of our markets, we temporarily closed all of our stores to the public during March 2020. In addition, during the second quarter of 2020, we negotiated lease modifications for some of our properties with our landlords to abate or defer a portion of the rent or other expenses due during the time period that our properties were closed/limited. During the fourth quarter of 2020 and into the present, we continued to manage through the pandemic as we saw increased spikes in COVID-19 infections, and continue to see varying levels of infection rates, and were forced to close certain stores or move certain stores to "curbside only" operations. As of the date of filing this Form 10-K, most of our stores have reopened fully, and reduced store capacity, social distancing and other measures are in place in all stores but are not believed to be materially impacting store sales in most locations. However, some stores have had to temporarily close due to COVID-19, especially with the rise of the Delta variant in the third quarter of 2021, which has negatively impacted sales for those stores.

**ITEM 3. LEGAL PROCEEDINGS**

In 2019, the Company self-reported to the SEC information concerning the internal investigation of certain accounting matters resulting in the restatement for the full year 2017 and full year 2018, including interim quarters in 2018, and the first quarter of 2019. In response, the Division of Enforcement of the SEC initiated an investigation into the Company's historical accounting practices. In July 2021, the Company entered into a settlement agreement with the SEC to conclude this investigation. Under the terms of the settlement, in addition to other non-monetary settlement terms, (1) the Company paid a civil monetary penalty of \$200,000, and (2) the Company's former Chief Financial Officer and Chief Executive Officer, agreed to pay a civil monetary penalty of \$25,000. In accepting the Company's settlement offer, the SEC took into account remedial actions the Company took promptly after learning of the issues detailed in the SEC's order.

In addition, see discussion of Legal Proceedings in Note 8, *Commitments and Contingencies* of the Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the OTC Link (previously "Pink Sheets") operated by OTC Markets Group under the symbol "TLFA."

There were approximately 289 stockholders of record on August 30, 2021.

We did not sell any shares of our equity securities during our fiscal year ended December 31, 2020 that were not registered under the Securities Act.

Our Board of Directors did not authorize any dividends during the fiscal years ended December 31, 2020 or 2019. Our Board of Directors may consider future cash dividends after giving consideration to our profitability, cash flow, capital requirements, current and forecasted liquidity, as well as financial and other business conditions existing at the time. This policy is subject to change based on future industry and market conditions, as well as other factors.

The following table summarizes repurchases of our common stock occurring in fourth quarter 2020:

<u>Period (2)</u>	<u>(a) Total number of shares purchased</u>	<u>(b) Average price paid per share</u>	<u>(c) Total number of shares purchased as part of publicly announced plans or programs</u>	<u>(d) Dollar value of shares that may yet be purchased under the plans or programs (1)</u>
October 1 – October 31, 2020	-	\$ -	-	\$ 5,000,000
December 1 – December 31, 2020	-	\$ -	-	\$ 5,000,000
Total	-	\$ -	-	-

(1) Represents shares which may be purchased through our stock repurchase program, announced on August 9, 2020, permitting us to repurchase up to \$5 million value of shares of our common stock on or prior to July 31, 2022.

(2) The Company suspended repurchasing any shares under its program beginning in July 2019, because of the lack of publicly-available financial information of the Company during this period. Management expects to resume the Company's repurchase program (as conditions allow) following completion of our financial restatement and making all outstanding periodic filings with the SEC.

### ITEM 6. SELECTED FINANCIAL DATA

We are a smaller reporting company as defined in Item 10(f)(1) of SEC Regulation S-K and are not required to provide information under this item. However, see Note 12, *Quarterly Financial Data (Unaudited)* of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data of this Form 10-K, which provides unaudited quarterly condensed results of operations for the two years ended December 31, 2020.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This discussion is intended to assist in understanding our financial performance and should be read in conjunction with our financial statements and the notes accompanying those financial statements included elsewhere in this Form 10-K, including the information under the caption "Summary of Critical Accounting Policies." In addition to historical financial information, the following management's discussion and analysis may contain forward-looking statements. These statements reflect our expectations or estimates based on the information we have today but are not guarantees or predictions of future performance. They involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, and which may cause actual results to differ materially from the statements contained here. You are cautioned not to put undue reliance on these forward-looking statements. The Company assumes no obligation to update or otherwise revise these forward-looking statements, except as required by law. More discussion of risks can be found under Item 1A, *Risk Factors*.

**Summary**

**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, 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 four websites: tandyleather.com, tandyleather.ca, tandyleather.eu and tandyleather.com.au. We also manufacture leather lace, cut leather pieces and most of the do-it-yourself kits that are sold in our stores and on our websites. We also offer production services to our business customers such as cutting ("clicking"), splitting, and some assembly. We maintain our principal offices at 1900 Southeast Loop 820, Fort Worth, Texas 76140.

The Company currently operates a total of 106 retail stores as of August 2021. There are 95 stores in the U.S., ten stores in Canada and one store in Spain. During the second quarter of 2020, we consolidated U.S. e-commerce web order fulfillment from the stores to our Fort Worth distribution center.

We launched a new Commercial Program in April 2019 to better serve larger business customers, a majority of these customers and their sales were also recognized in retail stores through most of 2019. For 2019, the Company operated as a single reportable segment and all reporting herein is presented on a consolidated basis.

New management joined the Company in October 2018 and set new strategic directions for both the short and long term. The overarching goal is to invest in rebuilding a foundation for growth by: 1) improving our brand proposition, 2) reversing the sales decline with business customers, 3) building our talent, processes, tools and systems and 4) positioning us for long-term growth. Despite the major disruption of the business by COVID-19, progress was made against these goals in 2020.

## COVID-19

In late 2019, COVID-19 was detected in Wuhan, China and has since spread to other parts of the world, including the U.S. On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Federal, state, and local governments implemented various restrictions, including travel restrictions, border closings, restrictions on public gatherings, quarantining of people who may have been exposed to the virus, shelter-in-place restrictions and limitations on business operations. As previously announced and for the health and safety of employees and customers, on March 17, 2020, the Company made the decision to begin temporary store closures. The onset of the COVID-19 pandemic in March 2020 temporarily shifted our strategic focus to company survival and cash preservation. We began closing stores on March 18, 2020, and by April 2, 2020, we temporarily closed all stores to the public. While we pivoted to serve customers only online, the Company experienced significant decreases in demand for its products in the second and third quarters of 2020, negatively impacting net sales.

In response, we took immediate action to mitigate the impact of temporary store closures on our cash flows by: (i) furloughing 406 Tandy employees, comprising two-thirds of the Tandy work force, (ii) temporarily cutting corporate salaries, with deeper cuts for the Executive Leadership Team, (iii) negotiating abatements, deferrals and other favorable lease terms with landlords, and (iv) negotiating longer payment terms with our key product vendors.

Due to our size, we were not eligible for the Paycheck Protection Program administered through the Small Business Administration. Also, due to our not being current on financial filings with the SEC, we were not able to obtain loans under the Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act. During the second quarter of 2020, the Company borrowed \$0.4 million through the Spanish government's Institute of Official Credit Guarantee for Small and Medium-sized Enterprises, a COVID-19 relief program. The term of the agreement is for five years and the interest rate is fixed at 1.5%. Based on the terms of the loan agreement, we make interest-only payments for the first two years and monthly principal and interest payments for the remainder of the term of the agreement. In Canada, we participated in the Canada Emergency Commercial Rent Assistance ("CECRA") program for rent relief. This program provided for a 75% reduction in the store rent for included stores for the months of April, May and June 2020. We received total rent abatements under the program of \$0.05 million.

Nine stores were permanently closed during 2020 as leases expired or early terminations were negotiated, including at locations where we believe we can retain a majority of customers through geographically proximate stores and/or our enhanced website platform. After these permanent closures, Tandy operates 106 stores, including ten in Canada and one in Spain.

On May 22, 2020, our Fort Worth flagship store reopened to the public, the beginning of a phased approach to reopening our stores with limited hours, new protocols for sanitizing, social distancing, wearing masks and taking daily temperatures of employees. During the third quarter of 2020, all 106 of Tandy's stores had reopened to the public, and the store re-openings were well received by our employees and customers. During the fourth quarter of 2020 and into the present, we continue to manage through the pandemic as we saw increased spikes in COVID-19 infections, and continue to see varying levels of infection rates, and have been forced to close certain stores or move certain stores to "curbside only" operations. We expect that at least some further infections and temporary store shutdowns will continue for the foreseeable future.



While we previously fulfilled our web orders out of our retail stores, during the second quarter of 2020, we built a centralized web fulfillment capability in our Fort Worth distribution center and have been and expect to continue to fulfill web orders primarily through Fort Worth going forward. Both our e-commerce business and stores have been performing above last year sales levels, but the future remains uncertain, and more store closures and/or the ongoing unemployment crisis could cause a material negative impact on future sales.

As part of the Company's accounting policy for long-lived asset impairments, we believe the COVID-19 impact on the Company's results of operations, cash flows and financial position and the ongoing uncertainty the virus has created around future operating results represented a triggering event starting in the first quarter of 2020 which continued throughout the remainder of 2020.

Impairment charges recognized during 2020 totaled \$1.1 million and primarily related to property and equipment and operating lease assets for certain stores that are projected to underperform to a level where the cash flows they generate will not be sufficient to cover their respective asset carry values.

## Results of Operations

### Consolidated Net Sales

<i>(in thousands)</i>	<b>2020</b>	<b>2019</b>
Net sales	\$ 64,084	\$ 74,918
% Decrease from prior year	(14.5)%	(10.0)%

Consolidated net sales declined by \$10.8 million, or 14.5%, from 2019 to 2020. Of this decline, \$4.5 million was due to the permanent closure of nine stores in 2020. \$14.1 million was due to the temporary closure of all of our stores during the second and third quarters of 2020, which was offset by sales in the web and commercial channels. We saw sales increases in the fourth quarter of 2020 over the prior year of 6.5%, or \$1.3 million.

The table below reports our global net sales by store category for the year ended December 31, 2020 compared to the year ended December 31, 2019:

<i>(in thousands, except store data)</i>	<b>2020</b>		<b>2019</b>		<b>2020 vs 2019</b>	
	<b># Stores</b>	<b>Sales</b>	<b># Stores</b>	<b>Sales</b>	<b>\$ Change</b>	<b>% Change</b>
Comparable retail stores	106	\$ 42,556	106	\$ 59,391	\$ (16,835)	(28.3)%
Web/Commercial		20,784		11,748	9,036	76.9%
2019 Permanently closed stores		-	5	755	(755)	
2020 Permanently closed stores	9	744	9	3,024	(2,280)	
<b>Total at year-end</b>	<b>106</b>	<b>\$ 64,084</b>	<b>115</b>	<b>\$ 74,918</b>	<b>\$ (10,834)</b>	

We operated 106 stores worldwide as of December 31, 2020 and 115 stores as of December 31, 2019. Since January 1, 2020, we have closed nine stores, including Beaverton, OR in February 2020. During the second quarter of 2020, we converted eight stores from temporary closures to permanent closures based on expiring leases, proximity to other stores, and local web sales penetration: Phoenix, AZ; Austin TX; Dallas, TX; Peoria, IL; Henrico (Richmond VA; Nyack, NY; Johnston, RI and St Leonard (Montreal), QC. We did not open any new stores during 2019 or 2020.

## Gross Profit

<i>(in thousands)</i>	<b>2020</b>	<b>2019</b>
Sales	\$ 64,084	\$ 74,918
Cost of sales	28,026	32,959
<b>Gross profit</b>	<b>\$ 36,058</b>	<b>\$ 41,959</b>
<i>Gross profit margin percentage</i>	<i>56.3%</i>	<i>56.0%</i>

Gross margin rate in 2020 was essentially flat to 2019, with increases in product costs, shipping and handling related to supply chain disruptions of COVID-19 offset by improvements in average unit retail, investments in inventory at pre-pandemic pricing, and promotional pricing optimization.

## Operating Expenses

<i>(in thousands)</i>	<b>2020</b>	<b>2019</b>
Operating expenses	\$ 41,328	\$ 43,554
Non-routine items related to restatement	(3,587)	(1,346)
Non-routine items related to CFO transition	(388)	(206)
Adjusted operating expenses	<u>\$ 37,353</u>	<u>\$ 42,002</u>
Operating expenses % of sales	64.5%	58.1%
Adjusted operating expenses % of sales	58.3%	56.1%

Operating expenses decreased by \$2.2 million in 2020 as compared to the corresponding prior year mostly as a result of payroll and occupancy savings associated with store closures, lower bonuses, marketing expense reductions, and cancellation of the annual store manager conference, partially offset by higher costs for restricted stock units, and non-routine expenses related to the restatement and Chief Financial Officer ("CFO") turnover. Adjusted operating expenses, which excludes the non-routine items related to the restatement and CFO turnover, decreased in 2020 by \$4.6 million, compared to prior year, mostly as a result of the items noted above. Adjusted operating expenses excluding non-routine items as shown above is a non-GAAP measure and is included here because we believe it provides additional information regarding the Company's financial performance on a recurring basis. Non-routine items in 2020 primarily included legal and accounting fees associated with the restatement and recruiting fees, exit costs, interim CFO-related expenses, and expenses for a number of other contract accounting professionals associated with the turnover of our CFO.

## Impairment Expense

We completed an interim impairment assessment as of March 31, 2020, and based on the concluded fair value of the reporting unit, we recorded impairment expense of \$1.1 million during the first quarter of 2020. No other impairment was recorded throughout the remainder of 2020, including as a result of our annual impairment assessment. See Note 2, *Significant Accounting Policies – Impairment of long-lived assets* of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data of this Form 10-K for further detail.

For the years ended December 31, 2020 and 2019, 26 stores and three stores, respectively, were reviewed for impairment due to overall underperformance. Based on the results of the review, impairment expense of \$1.1 million and \$1.0 million was recorded for 2020 and 2019, respectively.

**Other Income/Expense (net)**

Other income/expense consists primarily of interest expense and interest income. In the years ended December 31, 2020, we recognized other income (net) of \$0.1 million. During the year ended December 31, 2019 other (income) expense, net was immaterial. We earned \$0.1 million and \$0.2 million, respectively, in interest income and paid \$0.1 million and \$0.04 million, respectively, in interest expense on our bank debt.

**Provision for Income Taxes**

Our effective tax rate was 21.9% and 26.6% for the years ended December 31, 2020, and 2019, respectively. For 2020 and 2019, the difference between our statutory rates and our effective rate are primarily due to state income taxes, the difference in tax rates for loss carryback periods, items that are nondeductible for income tax purposes, and the change in valuation allowance against U.S. deferred tax assets and certain foreign net operating losses. Going forward, we expect that our effective tax rate for 2021 will be 25-27%.

**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, cash generated from operating activities and a future working capital bank line of credit that we are negotiating. Any excess cash will be invested as determined by our Board of Directors in accordance with its approved investment policy. Our cash balance as of December 31, 2020, totaled \$10.3 million, and as of June 30, 2021, our cash balance totaled \$5.9 million.

**Spain Loan**

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. The term of the agreement is five years, and the interest rate is fixed at 1.5%. Based on the terms of the loan agreement, we are required to make monthly interest-only payments for the first two years and monthly principal and interest payments for the remainder of the term of the agreement.

**Share Repurchase Program**

In August 2015, our Board of Directors authorized a share repurchase program, pursuant to which we were authorized to repurchase up to 1.2 million shares of our common stock at prevailing market rates through August 2016. Subsequently, the program was amended to increase the number of shares available for repurchase to 2.2 million and to extend the program through August 2019. In June 2019, the program was again amended to decrease the number of shares available for repurchase to one million as of such date and to extend the program through August 9, 2020.

For the years ended December 31, 2020, and 2019, we repurchased the following shares:

Year ended December 31,	Total shares repurchased	Average price per share
2020	-	\$ -
2019	131,782	\$ 5.58

As of December 31, 2020, we were authorized to purchase \$5 million of our common stock under the plan.

On August 9, 2020, the Board of Directors approved a new program to repurchase up to \$5 million of its common stock between August 9, 2020 and July 31, 2022, subject to the completion of our financial restatement and the filing of all delinquent filings with the SEC. The Company's previous share repurchase program expired in August 2020.

On January 28, 2021, we entered into an agreement with an institutional shareholder of the Company, to repurchase 500,000 shares of our common stock, par value \$0.0024 in a private transaction. The purchase price was \$3.35 per share for a total of \$1.7 million. The closing of the repurchase of these shares took place on February 1, 2021. Prior to the repurchase, the shares represented approximately 5.5% of our outstanding common stock.

#### Cash Flows

(amounts in thousands)

	2020	2019
Net cash provided by (used in) operating activities	\$ (12,527)	\$ 10,471
Net cash provided by (used in) investing activities	6,256	(9,156)
Net cash provided by (used in) financing activities	416	(9,703)
Effect of exchange rate changes on cash and cash equivalents	279	223
<b>Net decrease in cash and cash equivalents</b>	<b>\$ (5,576)</b>	<b>\$ (8,165)</b>

For the year ended 2020, we used \$12.6 million of cash from operations driven by our net loss of \$4.9 million which was offset by non-cash expenses of \$6.7 million, including depreciation and amortization, impairments, and stock-based compensation. Working capital used \$14.3 million of cash, primarily from the build-up of inventory. We received \$7.5 million from the sale of short-term U.S. Treasuries. We invested \$1.3 million in capital expenditures for the purchase of store fixtures and systems implementations. We borrowed \$0.4 million as part of a COVID-19 relief program sponsored by the Spanish government. The activities above, in addition to the effect of exchange rate changes, resulted in a net decrease in cash of \$5.6 million.

For the year ended 2019, we generated \$10.5 million of cash from operations driven by our efforts to streamline working capital levels, of which \$9.3 million was from the liquidation of inventory. The 2019 net loss of \$1.9 million was offset by non-cash expenses of \$6.7 million, including depreciation and amortization, impairments, and stock-based compensation. With the cash generated from operations, we invested \$18.1 million in short-term U.S. Treasuries and sold short-term U.S. Treasuries at maturity for \$9.1 million, and we invested \$0.3 million in capital expenditures for the purchase of store fixtures and systems implementations. We used cash in financing activities to extinguish \$9.0 million of debt and to repurchase 131,782 shares of treasury stock for \$0.7 million at an average price of \$5.58 per share. The activities above, in addition to the effect of exchange rate changes, resulted in a net decrease in cash of \$8.2 million.

We believe that cash flow from operations and our existing cash reserves will be adequate to fund our operations through 2021, taking into account the current effects of the COVID-19 pandemic on our business and cash flow and our current business performance. In addition, we anticipate that this cash flow and our current cash reserves will enable us to meet our contractual obligations and commercial commitments throughout 2021. There can be no assurance, however, that the COVID-19 pandemic would not result in further restrictions on our business operations in a manner that would more materially impact our cash flow.

## **Off-Balance Sheet Arrangements**

We did not have any off-balance sheet arrangements during 2020 or 2019, and we do not currently have any such arrangements.

## **Summary of Critical Accounting Policies**

The preparation of the Company's Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States 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. The policies discussed below require estimates that contain a significant degree of judgement. The use of estimates is pervasive throughout the Consolidated Financial Statements, but the accounting policies and estimates considered most critical are as follows.

**Revenue Recognition.** Our revenue is earned from sales of merchandise and generally occurs via two methods: (1) at the store counter and (2) shipment of product generally via web sales. 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 is 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. Our sales return allowance for future merchandise returns is estimated based on historical sales return rates. Under our sales returns policy, merchandise may be returned, under most circumstances, up to 60 days after date of purchase. As merchandise is returned, the company records the sales return against the sales return allowance. 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.

**Inventory.** Inventory is stated at the lower of cost (first-in, first-out) or net realizable value. Finished goods held for sale includes the cost of merchandise purchases, the costs to bring the merchandise to our Texas distribution center, warehousing and handling expenditures, and distributing and delivering merchandise to our stores. These costs include depreciation of long-lived assets utilized in acquiring, warehousing and distributing inventory. Manufacturing inventory including raw materials and work-in-process is valued on a first-in, first out basis using full absorption accounting which includes material, labor, and other applicable manufacturing overhead. Carrying values of inventory are analyzed and, to the extent that the cost of inventory exceeds the net realizable value, provisions are made to reduce the carrying amount of the inventory. We regularly review all inventory items to determine if there are (i) damaged goods (e.g., for leather, excessive scars or damage from ultra-violet ("UV") light), (ii) items that need to be removed from our product line (e.g., slow-moving items, inability of a supplier to provide items of acceptable quality or quantity, and to maintain freshness in the product line) and (iii) pricing actions that need to be taken to adequately value our inventory at the lower of cost or net realizable value. 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 under long-term lease agreements. Starting in 2019, with the adoption of Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842), once we have determined an arrangement is a lease, at inception we recognize a lease asset and lease liability at commencement date based on the present value of the lease payments over the lease term. For our operating leases, the present value of our lease payments may include: (1) rental payments adjusted for inflation or market rates, and (2) lease terms with options to renew the lease when it is reasonably certain we will exercise such an option. The exercise of lease renewal options 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. Rent expense is recorded in operating expenses. The net excess of rent expense over the actual cash paid has been recorded as accrued expenses and other liabilities in the accompanying consolidated balance sheets. 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 is recorded in interest expense on the consolidated statements of comprehensive income (loss). As of December 31, 2020, we have no sublease agreements and no lease agreements in which we are named as a lessor. Subsequent to the recognition of our operating lease assets and lease liabilities, we recognize lease expense related to our operating leases on a straight-line basis over the lease term. 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.

**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 recovery is deemed not likely, 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 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.

**Report of Independent Registered Public Accounting Firm**

Board of Directors and Shareholders  
Tandy Leather Factory, Inc.

Opinions on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Tandy Leather Factory, Inc. and Subsidiaries (the Company) as of December 31, 2020 and 2019, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the entity's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States ("PCAOB")) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.



## Valuation of Inventory

The Company's accounting policy for the recognition of inventory and cost of sales is described in Note 1 to the consolidated financial statements. The Company has recorded an inventory balance of approximately \$36.7 million and cost of sales of approximately \$28.0 million as of and for the year ended December 31, 2020. Additionally, Note 3 to the consolidated financial statements provides further detail of the components of the year-end inventory balance.

The Company's merchandise inventories are stated at the lower of cost or net realizable value using a first-in first-out costing principle. Finished goods inventory costs include the cost of merchandise purchases, the costs to bring the merchandise to the Company's distribution center, warehousing and handling expenditures, and distributing and delivering merchandise to the Company's stores. Manufacturing inventory, raw materials and work-in-process are also valued on a first-in, first-out basis using full absorption accounting which includes material, labor, and other applicable manufacturing overhead. The determination of amounts that are required to be capitalized to inventory resulting from manufacturing labor and overhead costs, warehouse and handling expenditures and transportation costs (together "overhead costs") are subjective and are generally based on an allocation ratio calculated by the Company that is based on average inventory turns. Additionally, to determine if the value of their inventory should be written down, the Company considers many factors, including condition of the product (excessive scars, discoloring or damage from UV light), current and anticipated demand that may cause the product to become slow moving and age of the merchandise to ensure that the product line is considered fresh. If a write-down is warranted, the carrying value of the merchandise is reduced from its original cost to the lower of its cost or net realizable value.

Management estimates the value of inventory by estimating the capitalizable overhead costs and adjusts the inventory to lower of cost or net realizable value. Our audit procedures to evaluate these items involved a higher degree of auditor judgment and the involvement of more senior members of the engagement team in executing, supervising, and reviewing the results of the procedures.

### How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the valuation of inventories included the following, among others:

- We obtained an understanding of the controls over the valuation of inventory.
- We tested the mathematical accuracy of the Company's capitalizable overhead cost schedules.
- We evaluated the appropriateness and consistency of management's methodology and assumptions used in calculating the capitalizable overhead costs.
- We independently calculated the amount of capitalizable costs using an independently derived allocation ratio.
- We tested the mathematical accuracy of the Company's inventory obsolescence reserve calculation.
- We evaluated the appropriateness and consistency of management's methodology and assumptions used in developing its estimate of the inventory obsolescence reserve.
- We performed analytical procedures on the current year reserve rates (by product category) by comparing them to prior year rates and then obtaining corroborating evidence for any significant fluctuations.
- We tested on a sample basis, sales subsequent to yearend of the written-down items to ensure that the net realizable value was not lower than the previously written down value.

/s/ WEAVER AND TIDWELL, L.L.P.

We have served as the Company's auditor since 2003.

Oklahoma City, Oklahoma  
September 2, 2021

**Tandy Leather Factory, Inc.**  
**Consolidated Balance Sheets**  
**(amounts in thousands, except share data and per share data)**

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 10,329	\$ 15,905
Short-term investments	-	9,152
Accounts receivable-trade, net of allowance for doubtful accounts of \$14 and \$16 at December 31, 2020 and 2019, respectively	350	409
Inventory	36,779	24,042
Income tax receivable	2,753	1,629
Prepaid expenses	536	1,082
Other current assets	265	297
<b>Total current assets</b>	<b>51,012</b>	<b>52,516</b>
Property and equipment, at cost	27,468	27,471
Less accumulated depreciation	(15,078)	(14,552)
<b>Property and equipment, net</b>	<b>12,390</b>	<b>12,919</b>
Operating lease assets	11,772	13,897
Financing lease assets	44	-
Deferred income taxes	82	427
Other intangibles, net of accumulated amortization of \$548 and \$547 at December 31, 2020 and 2019, respectively	6	7
Other assets	387	345
<b>TOTAL ASSETS</b>	<b>\$ 75,693</b>	<b>\$ 80,111</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
CURRENT LIABILITIES:		
Accounts payable-trade	\$ 5,737	\$ 5,753
Accrued expenses and other liabilities	3,642	2,656
Operating lease liabilities	3,530	3,823
Current maturities of financing lease obligations	14	-
<b>Total current liabilities</b>	<b>12,923</b>	<b>12,232</b>
Uncertain tax positions	393	296
Other non-current liabilities	463	509
Operating lease liabilities, non-current	9,245	10,655
Financing lease liabilities, net of current obligation	29	-
Long-term debt, net of current maturities	446	-
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.10 par value; 20,000,000 shares authorized; none issued or outstanding; attributes to be determined on issuance	-	-
Common stock, \$0.0024 par value; 25,000,000 shares authorized; 10,575,182 and 10,446,563 shares issued at December 31, 2020 and 2019, respectively	25	25
Paid-in capital	5,924	5,037
Retained earnings	57,310	62,211
Treasury stock at cost (1,424,376 shares at both December 31, 2020 and 2019, respectively)	(9,773)	(9,773)
Accumulated other comprehensive loss (net of tax of \$395 and \$359 at December 31, 2020 and 2019, respectively)	(1,292)	(1,081)
<b>Total stockholders' equity</b>	<b>52,194</b>	<b>56,419</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 75,693</b>	<b>\$ 80,111</b>

The accompanying notes are an integral part of these Consolidated financial statements.

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

	For the Years Ended December 31,	
	2020	2019
Net sales	\$ 64,084	\$ 74,918
Cost of sales	28,026	32,959
Gross profit	36,058	41,959
Operating expenses	41,328	43,554
Impairment expense	1,078	1,002
Loss from operations	(6,348)	(2,597)
Other (income) expense:		
Interest expense	7	36
Other, net	(76)	(40)
Loss before income taxes	(6,279)	(2,593)
Benefit for income taxes	(1,378)	(690)
Net loss	\$ (4,901)	\$ (1,903)
Foreign currency translation adjustments, net of tax	(211)	363
Comprehensive loss	\$ (5,112)	\$ (1,540)
Net loss per common share:		
Basic	\$ (0.54)	\$ (0.21)
Diluted	\$ (0.54)	\$ (0.21)
Weighted average number of shares outstanding:		
Basic	9,062,598	8,973,246
Diluted	9,062,598	8,973,246

The accompanying notes are an integral part of these Consolidated financial statements.

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

	<b>For the Years Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (4,901)	\$ (1,903)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,021	1,655
Operating lease asset amortization	3,193	3,482
Impairment of goodwill and long-lived assets	1,078	1,002
Loss on disposal of assets	59	9
Stock-based compensation	887	770
Deferred income taxes	442	(334)
Exchange (gain) loss	(5)	137
Changes in operating assets and liabilities:		
Accounts receivable-trade	86	(23)
Inventory	(12,686)	9,330
Prepaid expenses	675	596
Other current assets	1,574	(96)
Accounts payable-trade	(440)	3,500
Accrued expenses and other liabilities	1,022	(2,719)
Income taxes, net	(1,120)	(1,220)
Other assets	(41)	(327)
Operating lease liabilities	(3,371)	(3,388)
Total adjustments	(7,626)	12,374
<b>Net cash provided by (used in) operating activities</b>	<b>(12,527)</b>	<b>10,471</b>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(1,313)	(269)
Purchase of short-term investments	-	(18,095)
Proceeds from sales of short-term investments	7,523	9,095
Proceeds from sales of assets	46	113
<b>Net cash provided by (used in) investing activities</b>	<b>6,256</b>	<b>(9,156)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from long-term debt	416	-
Payments on long-term debt	-	(8,968)
Repurchase of treasury stock	-	(735)
<b>Net cash provided by (used in) financing activities</b>	<b>416</b>	<b>(9,703)</b>
Effect of exchange rate changes on cash and cash equivalents	279	223
Net decrease in cash and cash equivalents	(5,576)	(8,165)
Cash and cash equivalents, beginning of period	15,905	24,070
Cash and cash equivalents, end of period	\$ 10,329	\$ 15,905

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

**Tandy Leather Factory, Inc.**  
**Consolidated Statements of Cash Flows - continued**  
**(amounts in thousands)**

	<b>For the Years Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid during the period	\$ 17	\$ 36
Income tax paid during the period, net of refunds	\$ 56	\$ 715
<b>Supplemental disclosures of non-cash activity:</b>		
Change in accruals related to property and equipment	\$ (105)	\$ (362)

The accompanying notes are an integral part of these Consolidated financial statements.

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

	Number of Shares Common Stock Outstanding	Par Value	Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance, December 31, 2018</b>	<b>9,060,561</b>	<b>\$ 25</b>	<b>\$ 4,267</b>	<b>\$ (9,038)</b>	<b>\$ 64,476</b>	<b>\$ (1,444)</b>	<b>58,286</b>
Cumulative effect of accounting change, net of tax (ASC 842)	-	-	-	-	(362)	-	(362)
Stock-based compensation expense	-	-	770	-	-	-	770
Issuance of restricted stock	93,408	-	-	-	-	-	-
Purchase of treasury stock	(131,782)	-	-	(735)	-	-	(735)
Net loss	-	-	-	-	(1,903)	-	(1,903)
Foreign currency translation adjustments, net of tax	-	-	-	-	-	363	363
<b>Balance, December 31, 2019</b>	<b>9,022,187</b>	<b>\$ 25</b>	<b>\$ 5,037</b>	<b>\$ (9,773)</b>	<b>\$ 62,211</b>	<b>\$ (1,081)</b>	<b>\$ 56,419</b>
Stock-based compensation expense	-	-	887	-	-	-	887
Issuance of restricted stock	128,619	-	-	-	-	-	-
Net loss	-	-	-	-	(4,901)	-	(4,901)
Foreign currency translation adjustments, net of tax	-	-	-	-	-	(211)	(211)
<b>Balance, December 31, 2020</b>	<b>9,150,806</b>	<b>\$ 25</b>	<b>\$ 5,924</b>	<b>\$ (9,773)</b>	<b>\$ 57,310</b>	<b>\$ (1,292)</b>	<b>\$ 52,194</b>

The accompanying notes are an integral part of these Consolidated financial statements.

**TANDY LEATHER FACTORY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020 and 2019**

**1. DESCRIPTION OF BUSINESS**

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

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

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

The Company currently operates a total of 106 retail stores. There are 95 stores in the United States ("U.S."), ten stores in Canada and one store in Spain.

The Nasdaq Global Market ("Nasdaq") suspended trading in the Company's stock on Nasdaq as of August 13, 2020. Our stock has since traded on the OTC Link (previously "Pink Sheets") operated by OTC Markets Group under the symbol "TLFA." Nasdaq denied the Company's appeal of its decision to suspend trading in the Company's stock and the Company's stock was formally delisted on February 9, 2021. We intend to reapply for Nasdaq listing after we have made our required Exchange Act filings. Any such listing would be subject to Nasdaq approval.

Certain reclassifications may have been made to prior period financials in order to conform to the current period presentation.

**COVID-19**

In late 2019, COVID-19 was detected in Wuhan, China and has since spread to other parts of the world, including the U.S. On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Federal, state, and local governments have since implemented various restrictions, including travel restrictions, border closings, restrictions on public gatherings, quarantining of people who may have been exposed to the virus, shelter-in-place restrictions and limitations on business operations. As previously announced and for the health and safety of employees and customers, on March 17, 2020, the Company made the decision to begin temporary store closures. The onset of the COVID-19 pandemic in March 2020 shifted our strategic focus to company survival and cash preservation. We began closing stores on March 18, 2020 and by April 2, 2020, we temporarily closed all stores to the public. While we pivoted to serve customers online, the Company experienced significant decreases in demand for its products in the second and third quarters of 2020, negatively impacting net sales.

In response, we took immediate action to mitigate the impact of temporary store closures on our cash flows by: (i) furloughing 406 Tandy employees, comprising two-thirds of the Tandy work force, (ii) temporarily cutting corporate salaries, with deeper cuts for the Executive Leadership Team, (iii) negotiating abatements, deferrals and other favorable lease terms with landlords, and (iv) negotiating longer payment terms with our key product vendors. By June 2020, we also permanently closed nine stores with expiring leases and/or negative cash flows, creating additional savings in operating expenses.

Due to our size, we were not eligible for the Paycheck Protection Program administered through the Small Business Administration. Also, due to our not being current on financial filings with the SEC, we were not able to obtain loans under the Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act. During the second quarter of 2020, the Company borrowed \$0.4 million through the Spanish government's Institute of Official Credit Guarantee for Small and Medium-sized Enterprises, a COVID-19 relief program. The term of the agreement is for five years and the interest rate is fixed at 1.5%. Based on the terms of the loan agreement, we make interest-only payments for the first two years and monthly principal and interest payments for the remainder of the term of the agreement. In Canada, we participated in the Canada Emergency Commercial Rent Assistance ("CECRA") program for rent relief. This program provided for a 75% reduction in the store rent for included stores for the months of April, May and June 2020. We received total rent abatements under the program of \$0.05 million.

Nine stores were permanently closed during 2020 as leases expired or early terminations were negotiated, including at locations where we believe we can retain a majority of customers through geographically proximate stores and/or our enhanced website platform. After these permanent closures, Tandy operates 106 stores, including ten in Canada and one in Spain.

On May 22, 2020, our Fort Worth flagship store reopened to the public, the beginning of a phased approach to reopening our stores with limited hours, new protocols for sanitizing, social distancing, wearing masks and taking daily temperatures of employees. During the third quarter of 2020, all 106 of Tandy's stores had reopened to the public and the store re-openings were well received by our employees and customers. During the fourth quarter of 2020 and into the present, we continue to manage through the pandemic as we saw increased spikes in COVID-19 infections, and continue to see varying levels of infection rates, and are forced to close certain stores or move certain stores to "curbside only" operations. With the rapid spread of the Delta variant of COVID-19 during the third quarter of 2021, we have experienced an increasing number of these shutdowns. We believe that the rollout of COVID-19 vaccines in 2021 has offset these closures somewhat, but it is difficult to predict whether these vaccines will be adopted by further large numbers of Americans or whether current or future vaccines will remain effective against Delta or other future variants of the virus. We expect that at least some further infections and temporary store shutdowns will continue for the foreseeable future.

While we previously fulfilled our web orders out of our retail stores, we have built a centralized web fulfillment capability in our Fort Worth distribution center and will be fulfilling web orders primarily through Fort Worth going forward. Both our e-commerce business and stores, during the limited period since reopening, have been performing above last year sales levels, but the future remains uncertain, and more store closures and/or other ongoing effects of the pandemic on the economy or employment market could cause a material negative impact on future sales.

As part of the Company's accounting policy for long-lived asset impairments, we believe the COVID-19 impact on the Company's results of operations, cash flows and financial position and the ongoing uncertainty the virus has created around future operating results represented a triggering event during the first quarter of 2020 and continued throughout 2020. For fiscal year 2020, the Company recorded impairment expense of \$1.1 million, primarily related to property and equipment and operating lease assets for certain stores that underperformed to a level where the cash flows they generate will not be sufficient to cover their respective asset carry values.



## 2. SIGNIFICANT ACCOUNTING POLICIES

### *Management estimates and reporting*

The preparation of the Company's Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States ("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. The policies discussed below require estimates that contain a significant degree of judgement. The use of estimates is pervasive throughout the Consolidated Financial Statements, but the accounting policies and estimates considered most significant are as follows.

### *Principles of consolidation*

Our Consolidated Financial Statements include the accounts of Tandy Leather Factory, Inc. and its active wholly-owned subsidiaries, The Leather Factory L.P. (a Texas limited partnership), Tandy Leather Company, L.P. (a Texas limited partnership), The Leather Factory of Canada, Ltd. (a Canadian corporation), Tandy Leather Factory UK Limited (a UK corporation), Tandy Leather Factory Australia Pty. Limited (an Australian corporation), and Tandy Leather Factory España, S.L. (a Spanish corporation). All intercompany accounts and transactions have been eliminated in consolidation.

### *Cash and cash equivalents*

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

### *Accounts Receivable 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. 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 December 31, 2020, 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 December 31, 2020 totaled less than \$0.1 million.

### *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, net of tax charge of \$0.1 million and \$0.1 million in the years ended December 31, 2020 and 2019, respectively.

Gains and losses resulting from foreign currency transactions are reported in the statements of income (loss) under the caption "Other, net," for all periods presented. We did not recognize a foreign currency transaction gain or loss in the years ended December 31, 2020. We recognized a foreign currency transaction loss of less than \$0.1 million in the years ended December 31, 2019.

*Revenue recognition*

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

The sales return allowance is based each year on historical customer return behavior and other known factors and reduces net sales and cost of sales, accordingly. The sales return allowance included in accrued expense and other liabilities was \$0.2 million and \$0.3 million as of December 31, 2020 and 2019, respectively. The estimated value of merchandise expected to be returned included in other current assets was \$0.1 million and \$0.1 million as of December 31, 2020 and 2019, respectively.

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 December 31, 2020 and 2019, our gift card liability, included in accrued expenses and other liabilities, was \$0.3 million and \$0.3 million, respectively. We recognized gift card revenue of \$0.2 million during 2020 from the December 31, 2019 deferred revenue balance and \$0.1 million during 2019 from the December 31, 2018 deferred revenue balance.

During 2019, we ended our wholesale pricing club program where customers received lower prices in exchange for a yearly membership fee. Under this program, the yearly membership fee when paid was recorded as deferred revenue and was recognized in net sales throughout the one-year period.

For the years ended December 31, 2020 and 2019, we recognized \$0.6 million and \$1.1 million, respectively, in net sales associated with gift cards and the wholesale pricing club membership fees.

*Disaggregated revenue*

In the following table, revenue for the years ended December 31, 2020 and 2019 is disaggregated by geographic areas as follows:

<i>(in thousands)</i>	<b>2020</b>	<b>2019</b>
United States	\$ 56,877	\$ 65,745
Canada	5,798	6,514
All other countries	1,409	2,659
<b>Net sales</b>	<b>\$ 64,084</b>	<b>\$ 74,918</b>

Geographic sales information is based on the location of the customer. Excluding Canada, no single foreign country had net sales greater than 2.2% of our consolidated net sales in 2020 or 2019.

### *Discounts*

Prior to 2019, we maintained five price levels: retail, wholesale gold, wholesale elite, business, and manufacturer. Since May of 2019 (April of 2019 in Canada), we offer a single retail price level, plus three volume-based levels for commercial customers. Discounts from those price levels are offered to Business, Military/First Responder and Employee customers. Such discounts do not convey a material right to these customers since the discounted pricing they receive at the point of sale is not dependent upon any previous or subsequent purchases. 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 expense*

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.

### *Inventory*

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

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

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 is recorded in interest expense on the consolidated statements of 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.

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. Refer to Note 4, "Leases" for further discussion of the Company's leases.

### *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.

During the first quarter of 2020, we determined the economic impact from the COVID-19 pandemic created a triggering event for our fleet of stores, and we continued to believe the triggering event existed in each of the remaining three quarters of 2020. For each of the four quarters of 2020 we performed recoverability testing at the store level with 26 stores failing recoverability testing and resulting in impairment expense of \$1.1 million during the 2020 year. For the year ended December 31, 2019, three stores failed recoverability due to overall underperformance, and we recognized impairment expense of less than \$0.1 million during the year.

*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.

<i>(in thousands, except share data)</i>	<u>2020(1)</u>	<u>2019(1)</u>
<b>Numerator:</b>		
Net loss	\$ (4,901)	\$ (1,903)
<b>Denominator:</b>		
Basic weighted-average common shares outstanding	9,062,598	8,973,246
Diluted weighted-average common shares outstanding	<u>9,062,598</u>	<u>8,973,246</u>

(1) For the years ended December 31, 2020 and 2019, there were 6,401 and 9,203 shares, respectively, excluded from the diluted EPS calculation because the impact of their assumed vesting would be anti-dilutive due to a net loss in that period.

For additional disclosures regarding restricted stock awards and employee stock options, see Note 10, Stockholders' Equity – Equity Compensation Plans.

*Other intangibles and goodwill*

Our intangible assets and related accumulated amortization consisted of the following:

<i>(in thousands)</i>	<u>As of December 31, 2020</u>		
	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Trademarks/copyrights	\$ 554	\$ 548	\$ 6
<b>TOTAL</b>	<u>\$ 554</u>	<u>\$ 548</u>	<u>\$ 6</u>
	<u>As of December 31, 2019</u>		
	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Trademarks/copyrights	\$ 554	\$ 547	\$ 7
<b>TOTAL</b>	<u>\$ 554</u>	<u>\$ 547</u>	<u>\$ 7</u>

All our intangible assets 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 of less than \$0.01 million in each of 2020, and 2019 was recorded in operating expenses, and non-compete intangible assets were fully amortized during 2019 upon the expiration of such agreements. 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.

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in a business combination. Goodwill is allocated across one reporting unit: Tandy Leather Factory. Goodwill is not amortized but is evaluated at least annually for impairment. At the reporting unit level, the Company tests goodwill for impairment on an annual basis as of December 31 of each year, or more frequently if events or changes in circumstances, referred to as triggering events, indicate the carrying value of goodwill may not be recoverable and that a potential impairment exists. Application of the goodwill impairment test requires exercise of judgement, including the estimation of future cash flows, determination of appropriate discount rates and other Level 3 assumptions (significant unobservable inputs which are supported by little or no market activity). Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment for the reporting unit.

On October 1, 2019, we elected to early adopt ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350)—Simplifying the Test for Goodwill Impairment* and applied the simplified accounting method as part of the Company's annual goodwill impairment assessment as of December 31, 2019. We completed our annual goodwill impairment assessment as of December 31, 2019 using a quantitative Step 1 approach with the income approach methodologies discussed below.

The discounted cash flow ("DCF") model utilizes present values of cash flows to estimate fair value. Future cash flows were projected based on estimates of projected sales growth, store count, pricing, gross margin rates, operating expense rates, working capital fluctuations, income tax expense and capital expenditures. Forecasted cash flows took into account known market conditions as of December 31, 2019, and management's anticipated business outlook. The future cash flows were discounted using a market-participant risk-adjusted weighted average cost of capital for the reporting unit. A terminal year value was calculated under two approaches: (i) using an EBITDA exit multiple supported by guideline public company data using selected public companies operating within the retail industry and (ii) applying a perpetual growth rate methodology to the terminal year. These assumptions were derived from both observable and unobservable inputs and were combined to reflect management's judgements and assumptions.

The estimated fair values determined under both approaches above were consistent. The concluded fair value for the reporting unit was based on a 50/50 weighting of the two valuation approaches above. The results of the Step 1 impairment testing for goodwill resulted in the Company recognizing an impairment expense of \$1.0 million during the fourth quarter of 2019, representing the entire balance of goodwill for the reporting unit.

#### *Fair value of financial instruments*

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

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

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

Our principal financial instruments held consist of short-term investments, accounts receivable, accounts payable, and long-term debt. As of December 31, 2020 and 2019, 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 years ended December 31, 2020 and 2019.

#### *Short-term investments*

We determine the appropriate classification of investments at the time of purchase, and we re-evaluate that determination at each balance sheet date. Investments are recorded as either short-term or long-term on the Consolidated Balance Sheet, based on contractual maturity date.

As of December 31, 2020, we held no short-term investments. As of December 31, 2019, we held investments in U.S. Treasuries with maturity values of \$9.2 million and maturities less than one year. We classified these investments in debt securities as held-to-maturity. Such investments were recorded at amortized cost with book value approximating fair value which is based on Level 1 inputs for these investments.

#### *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 award 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.

#### *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.

#### *Shipping and handling costs*

Costs to ship products from our stores to our customers are included in operating expenses on the Consolidated Statements of Comprehensive Income (Loss). These costs totaled \$3.2 million and \$2.1 million for the years ended December 31, 2020 and 2019, respectively.



## Advertising

Advertising costs include the cost of print, digital, direct mail, community events, trade shows, and our ecommerce platform. Advertising costs are expensed as incurred. Total advertising expense was \$1.1 million and \$3.4 million in 2020 and 2019, respectively.

## Recently Adopted Accounting Pronouncements

### Internal-Use Software

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software* (Subtopic 350-40). This update provides additional guidance to ASU No. 2015-05, *Intangibles—Goodwill and Other—Internal-Use Software* (Subtopic 350-40), which was issued in April 2015. The amendments in this ASU align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). We adopted this ASU on January 1, 2020; the adoption of this ASU did not have a material effect on the Company's financial condition, results of operations or cash flows.

### Credit Losses

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*, which requires entities to measure impairment of certain financial instruments, including trade receivables, based on expected losses rather than incurred losses. We adopted this ASU on January 1, 2020; the adoption of this ASU did not have a material effect on the Company's financial condition, results of operations or cash flows.

## Recent Accounting Standards Not Yet Adopted

### Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which simplifies the accounting for income taxes by removing certain exceptions to the general principles in topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. This guidance will be effective for entities for the fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, on a prospective basis, with early adoption permitted. We do not believe that the adoption of this standard will have a material impact on our financial condition, results of operations or cash flows.

## 3. BALANCE SHEET COMPONENTS

### Inventory

<i>(in thousands)</i>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
On hand:		
Finished goods held for sale	\$ 32,654	\$ 20,575
Raw materials and work in process	828	717
Inventory in transit	3,297	2,750
<b>TOTAL</b>	<u>\$ 36,779</u>	<u>\$ 24,042</u>

## Property and Equipment

<i>(in thousands)</i>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Building	\$ 9,240	\$ 9,257
Land	1,451	1,451
Leasehold improvements	1,853	1,828
Equipment and machinery	7,361	6,516
Furniture and fixtures	7,339	8,082
Vehicles	224	337
	<u>27,468</u>	<u>27,471</u>
Lesss: accumulated depreciation	(15,078)	(14,552)
<b>TOTAL</b>	<b>\$ 12,390</b>	<b>\$ 12,919</b>

Our property and equipment, net was located in the following countries:

<i>(in thousands)</i>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
United States	\$ 12,077	\$ 12,541
Canada	309	373
United Kingdom	2	3
Spain	2	2
	<u>\$ 12,390</u>	<u>\$ 12,919</u>

Depreciation expense was \$1.0 million and \$1.7 million for the years ended December 31, 2020 and 2019, respectively.

## Short-term Liabilities

<b>Accrued Expenses and Other Liabilities</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
<i>(in thousands)</i>		
Accrued bonuses and payroll	1,121	1,104
Unearned gift card revenue	301	319
Estimated returns	241	285
Sales and payroll taxes payable	935	459
Accrued severance	-	38
Accrued vendor payables	1,044	451
<b>TOTAL</b>	<b>\$ 3,642</b>	<b>\$ 2,656</b>

## 4. LEASES

The Company leases certain real estate and warehouse equipment under long-term lease agreements.

On January 1, 2019, the Company adopted ASU 2016-02, *Leases (Topic 842)* ("Topic 842"), and all subsequent amendments, using the optional transition method applied to leases existing on January 1, 2019, with no restatement of comparative periods.

Upon adoption of Topic 842, the Company recognized operating ROU assets (referred herein as "lease assets") and lease liabilities based on the present value of its remaining minimum rental payments for existing operating leases as of the adoption date, utilizing the Company's applicable incremental borrowing rate as of that date. The adoption of Topic 842 resulted in the Company recognizing \$17.6 million and \$18.1 million of operating lease assets and lease liabilities, respectively, as of January 1, 2019. The difference between the lease assets and liabilities was primarily due to the recognition of a \$0.5 million pre-tax cumulative effect adjustment to retained earnings on January 1, 2019, resulting from the impairment of certain operating lease assets upon adoption. The Company had no existing finance leases, previously termed capital leases under ASC 840, as of its adoption of Topic 842. During the fourth quarter of 2020, the Company executed two financing leases for two forklifts used in the warehouse operations totaling less than \$0.1 million.

The Company performs interim reviews of its operating and finance lease assets for impairment when evidence exists that the carrying value of an asset group, including a lease asset, may not be recoverable. During the year ended December 31, 2020, the Company recognized an impairment expense of approximately \$0.6 million associated with certain operating lease assets. Excluding the January 1, 2019 impairment charge to retained earnings upon the adoption of Topic 842, the Company recognized an impairment expense of less than \$0.1 million associated with its operating lease assets during 2019.

Additional information regarding the Company's operating leases is as follows (in thousands, except for lease term and discount rate information):

<b>Leases</b>	<b>Balance Sheet Classification</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
<i>(in thousands)</i>			
<b>Assets:</b>			
Operating	Operating lease assets	\$ 11,772	\$ 13,897
Finance	Financing lease assets	44	-
<b>Total assets</b>		<b>\$ 11,816</b>	<b>\$ 13,897</b>
<b>Liabilities:</b>			
<b>Current</b>			
Operating	Operating lease liabilities	\$ 3,530	\$ 3,823
Finance	Current maturities of financing lease obligations	14	-
<b>Non-current</b>			
Operating	Operating lease liabilities, non-current	9,245	10,655
Finance	Financing lease liabilities, net of current obligation	29	-
<b>Total lease liabilities</b>		<b>\$ 12,818</b>	<b>\$ 14,478</b>

<b>Lease Cost</b>	<b>Income Statement Classification</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
<i>(in thousands)</i>			
Operating lease cost	Operating expenses	\$ 3,809	\$ 4,151
Operating lease cost	Impairment expense	601	4
Variable lease cost (1)	Operating expenses	937	895
<b>Finance:</b>			
Amortization of lease assets (2)	Operating expenses	-	-
Interest on lease liabilities (2)	Interest expense	-	-
<b>Total lease cost</b>		<b>\$ 5,347</b>	<b>\$ 5,050</b>

(1) Variable lease cost includes payment for certain real estate taxes, insurance, common area maintenance, and other charges related to lease agreements, which are not included in the measurement of the operating lease liabilities.

(2) Finance lease costs are less than \$1,000 for December 31, 2020; we had no finance lease costs in 2019.

<b>Maturity of Lease Liabilities</b>	<b>December 31, 2020</b>	
	<b>Operating Leases</b>	<b>Finance Leases</b>
<i>(in thousands)</i>		
2021	\$ 3,591	\$ 16
2022	2,835	16
2023	2,035	15
2024	1,564	-
2025	1,220	-
Thereafter	3,205	-
<b>Total lease payments</b>	<b>\$ 14,450</b>	<b>\$ 47</b>
Less: Interest	(1,675)	(4)
<b>Present value of lease liabilities</b>	<b>\$ 12,775</b>	<b>\$ 43</b>

<b>Lease Term and Discount Rate</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Weighted-average remaining lease term (years):		
Operating leases	5.9	6.0
Finance leases	2.9	-
Weighted-average discount rate:		
Operating leases	4.4%	4.1%
Finance leases-	6.5%	-

<b>Other Information</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
<i>(in thousands)</i>		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows used in operating leases	\$ 3,866	\$ 4,079
Operating cash flows used in finance leases	-	-
Financing cash flows used in finance leases	1	-
Operating lease assets obtained in exchange for lease obligations		
Operating leases, initial recognition	317	18,077
Operating leases, modifications and remeasurements	1,340	-
Finance leases, initial recognition	45	-

## 5. NOTES PAYABLE AND LONG-TERM DEBT

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. The term of the agreement is five years and the interest rate is fixed at 1.5%. Based on the terms of the loan agreement, we are required to make monthly interest-only payments for the first two years and monthly principal and interest payments for the remainder of the term of the agreement.

We restated our previously issued audited financial statements as of and for the years ended December 31, 2018 and 2017 as well as the quarterly and year-to-date periods within fiscal 2018 included in the Company's previously filed Quarterly Reports on Form 10-Q, and the three months ended March 31, 2019 included in the Company's previously filed Quarterly Report on Form 10-Q. Under the terms of the Promissory Note agreements we had in place with our primary bank, BOKF, NA d/b/a Bank of Texas ("BOKF"), we were required to provide BOKF quarterly financial statements and compliance certificates. We were unable to provide these financial statements and compliance certificates for the Delinquent Filings noted above. In response, on April 2, 2020, BOKF provided notice under the terms of the Promissory Note agreements that such Promissory Notes were cancelled. As of the date of cancellation, Tandy had no borrowings outstanding under these credit facilities or with any other lending institution. As of the date of this filing, Tandy has no lines of credit outstanding. Details of the terms of the Promissory Note agreements with BOKF are as follows.

On September 18, 2015, we executed a Promissory Note agreement with BOKF which provided us with a working capital line of credit facility of up to \$ million which was secured by our inventory. On August 20, 2018, this line of credit was amended to extend the maturity to September 18, 2020 and to reduce the interest rate by 0.35%, and on September 18, 2019, the maturity date was further extended through September 18, 2021. The Business Loan Agreement contained covenants that required us to maintain a funded debt to EBITDA ratio of no greater than 1.5 to 1 and a Fixed Charge Coverage Ratio greater than or equal to 1.2 to 1. Both ratios were calculated quarterly on a trailing four quarter basis. For the years ended December 31, 2020 and 2019, there were no amounts drawn on this line of credit.

Also, on September 18, 2015, we executed a Promissory Note agreement with BOKF which provided us with a line of credit facility of up to \$10 million for the purpose of repurchasing shares of our common stock pursuant to our stock repurchase program, announced in August 2015 and subsequently amended, which permitted us to repurchase up to 2.2 million shares of our common stock through August 2020. Subsequently, this line of credit was amended to increase the availability from \$10 million to \$15 million for the repurchase of shares of our common stock pursuant to our stock repurchase program through the end of the draw down period which was the earlier of August 9, 2020 or the date on which the entire amount was drawn. In addition, this Promissory Note was amended on August 20, 2018 to reduce the interest rate by 0.35%, and on September 18, 2019, the maturity date was further extended through September 18, 2024. We were required to make monthly interest-only payments through September 18, 2020. After this date, the principal balance would have rolled into a 4-year term note with principal and interest paid on a monthly basis with a maturity date of September 18, 2024. This Promissory Note was secured by a Deed of Trust on the real estate located at 1900 SE Loop 820, Fort Worth, Texas. During the first quarter of 2019, we paid \$9.0 million to pay off this line of credit with no pre-payment penalties incurred. There were no amounts outstanding on this line of credit as of December 31, 2020 and 2019.

The amount outstanding under the above agreement consisted of the following:

<i>(in thousands)</i>	December 31,	
	2020	2019
Institute of Official Credit ("ICO") Guarantee for Small and Medium-sized Enterprises with Banco Santander S.A. (Spain) as described more fully above - interest due monthly at 1.50%; matures June 4, 2025	\$ 446	\$ -
Less current maturities	-	-
<b>TOTAL</b>	<b>\$ 446</b>	<b>\$ -</b>

## 6. EMPLOYEE BENEFIT AND SAVINGS PLANS

We have a 401(k) plan to provide retirement benefits for our employees. As allowed under Section 401(k) of the Internal Revenue Code, the plan provides tax-deferred salary contributions for eligible employees and allows employees to contribute a percentage of their annual compensation to the plan on a pretax basis. Employee contributions are limited to a maximum annual amount as set periodically by the Internal Revenue Code. In 2020, and 2019, we matched 100% of the pretax employee contributions on the first 3% of eligible earnings and 50% of the pretax employee contributions on the next 2% of eligible earnings that are contributed by employees. For the years ended December 31, 2020 and 2019, we recorded employer match expense of \$0.2 million and \$0.3 million, respectively.

The plan allows employees who meet the age requirements and reach the plan contribution limits to make a catch-up contribution. The catch-up contributions are not eligible for matching contributions. In addition, the plan provides for discretionary matching contributions as determined by the Board of Directors. There were no discretionary matching contributions made in 2020 or 2019.

We offer no postretirement or postemployment benefits to our employees.

## 7. INCOME TAXES

The provision for income taxes consists of the following:

<i>(in thousands)</i>	<b>Year Ended December 31,</b>	
<b>Income Tax Benefit</b>	<b>2020</b>	<b>2019</b>
<b>Current provision (benefit):</b>		
Federal	\$ (1,385)	\$ (582)
State	65	7
Foreign	6	(10)
Related to UTP	20	26
	<u>(1,294)</u>	<u>(559)</u>
<b>Deferred provision (benefit):</b>		
Federal	(62)	(94)
State	(3)	(24)
Foreign	(19)	(13)
	<u>(84)</u>	<u>(131)</u>
<b>Total tax benefit</b>	<u>\$ (1,378)</u>	<u>\$ (690)</u>

We have \$4.6 million of net operating loss ("NOL") carryovers and carrybacks which will begin to expire in 2025.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, permits NOL carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOLs incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. The Company is evaluating the impact of the CARES Act and expects that the NOL carryback provision of the CARES Act will result in a cash tax benefit to the Company.

Income (loss) before income taxes was earned in the following tax jurisdictions:

<i>(in thousands)</i>	<b>Year Ended December 31,</b>	
<b>Income (Loss) Before Income Taxes</b>	<b>2020</b>	<b>2019</b>
United States	\$ (6,222)	\$ (1,959)
Spain	161	21
Canada	(204)	(131)
Australia	(7)	(170)
United Kingdom	(7)	(354)
<b>TOTAL</b>	<u>\$ (6,279)</u>	<u>\$ (2,593)</u>

The income tax effects of temporary differences that give rise to significant portions of deferred income tax assets and liabilities are as follows:

<b>Deferred income tax assets:</b>	<b>2020</b>	<b>2019</b>
<i>(in thousands)</i>		
Inventory	\$ 498	\$ 468
Stock-based compensation	63	51
Accounts receivable	4	5
Sales returns	105	119
Foreign currency translation gain/loss in OCI	323	359
Goodwill and other intangible assets amortization	5	33
Net operating loss	665	459
Accrued expenses	170	-
Leases	250	145
Other	1	-
<b>Total deferred income tax assets</b>	<b>2,084</b>	<b>1,639</b>
Less: valuation allowance	<b>(1,320)</b>	<b>(382)</b>
<b>Total deferred income tax assets, net of valuation allowance</b>	<b>\$ 764</b>	<b>\$ 1,257</b>
Property and equipment depreciation	\$ 682	\$ 740
Accrued expenses	-	90
<b>Total deferred income tax liabilities</b>	<b>682</b>	<b>830</b>
<b>Net deferred tax asset (liability)</b>	<b>\$ 82</b>	<b>\$ 427</b>

We are required to reduce deferred tax assets by a valuation allowance if, based on the weight of the available evidence, it is more likely than not that all or a portion of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences are deductible. We determined a \$0.9 million increase to the valuation allowance for deferred income tax assets was necessary as of December 31, 2020, as compared to 2019. Our evaluation considered, among other things, the nature, frequency, and severity of losses, forecasts of future profitability and the duration of statutory carryforward periods.

Our effective tax rate differs from the federal statutory rate primarily due to U.S. state income tax expense, the difference in tax rates for loss carryback periods, foreign income/loss positions, expenses that are nondeductible for tax purposes, the change in our valuation allowance associated with our deferred tax assets, and differences in tax rates. Below is a reconciliation of our effective tax rate from the statutory rate:

	<b>Year Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Statutory rate – Federal U.S. income tax	21%	21%
State and local taxes	3%	0%
Permanent book/tax differences	(2)%	(6)%
Difference in tax rates in loss carryback periods	8%	3%
Change in valuation allowance	(10)%	(5)%
Rate differential on UTP reversals	0%	13%
Other, net	2%	1%
<b>Effective rate</b>	<b>22%</b>	<b>27%</b>

We file a consolidated U.S. income tax return as well as state tax returns on a consolidated, combined, or stand-alone basis, depending on the jurisdiction. We are no longer subject to U.S. federal income tax examinations by tax authorities for years prior to the tax year ended December 2016. Depending on the jurisdiction, we are no longer subject to state examinations by tax authorities for years prior to the December 2015 and December 2016 tax years.

A reconciliation of the beginning and ending amount of uncertain tax positions ("UTP") is as follows:

<b>Fiscal Year</b>	<b>2020</b>	<b>2019</b>
UTP at beginning of the year	\$ 296	\$ 1,416
Gross increase (decrease) to tax positions in current period	77	(1,146)
Interest expense	20	26
Lapses in statute	-	-
UTP at end of year	<u>\$ 393</u>	<u>\$ 296</u>

We file tax returns in the U.S. and a limited number of foreign jurisdictions. With few exceptions, we are no longer subject to federal, state and local, or non-U.S. income tax examinations for years before 2015. Included in the balance of UTPs as of December 31, 2020 and 2019 are \$0.1 million and \$0.1 million respectively, of tax benefits that, if recognized, would affect the effective tax rate. Also included in the balance of UTPs as of December 31, 2020 and 2019 are \$0.3 million and \$0.02 million, respectively, of tax benefits that, if recognized, would result in adjustments primarily to deferred taxes.

## 8. COMMITMENTS AND CONTINGENCIES

### Legal Proceedings

We are periodically involved in various 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.

In November 2019, a class action lawsuit seeking unspecified damages was brought by a stockholder in the Federal District Court in Los Angeles, California and subsequently transferred to the Federal District Court for the Northern District of Texas, against the Company and members of its current and former management relating to our announcement of the circumstances leading to our restatement. We believe that suit was without merit, and the suit was withdrawn by the plaintiff in April 2020; however, there can be no assurance that additional litigation against the Company and/or its management or Board of Directors might not be threatened or brought in connection with matters related to our restatement.

### Delisting of the Company's Common Stock

As previously disclosed, the Company was unable to timely file the Delinquent Filings due to the process of restating its financial statements as described above. As a result, on February 18, 2020, the Company received a notice from Nasdaq indicating that, unless the Company timely requested a hearing before a Nasdaq Hearings Panel (the "Panel"), the Company's common stock would be subject to suspension and delisting from Nasdaq due to non-compliance with Nasdaq Listing Rule 5250(c)(1). On May 1, 2020, the Panel granted the Company's request to remain listed on Nasdaq, subject to the Company filing a current and overdue quarterly and annual reports with the Securities and Exchange Commission on or before August 10, 2020. Because the restatement process was not complete by such date, Nasdaq suspended trading in our stock on Nasdaq as of August 13, 2020. Our stock has since traded on the OTC Link (previously "Pink Sheets") operated by OTC Markets Group under the symbol "TLFA." Nasdaq denied our appeal of this decision, and our stock was formally delisted on February 9, 2021. We intend to reapply for Nasdaq listing once the Company has made the required Exchange Act filings.



## **SEC Investigation**

In 2019, the Company self-reported to the SEC information concerning the internal investigation of previously disclosed accounting matters resulting in the restatement for the full year 2017 and full year 2018, including interim quarters in 2018, and the first quarter of 2019. In response, the Division of Enforcement of the SEC initiated an investigation into the Company's historical accounting practices. In July 2021, the Company entered into a settlement agreement with the SEC to conclude this investigation. Under the terms of the settlement, in addition to other non-monetary settlement terms, (1) the Company paid a civil monetary penalty of \$200,000, and (2) the Company's former Chief Financial Officer and Chief Executive Officer, agreed to pay a civil monetary penalty of \$25,000. In accepting the Company's settlement offer, the SEC took into account remedial actions the Company took promptly after learning of the issues detailed in the SEC's order.

## **9. SIGNIFICANT BUSINESS CONCENTRATIONS AND RISK**

### **Major Customers**

Our revenues are derived from a diverse group of customers, from hobbyist crafters to small and large businesses across a wide variety of industries. No single customer accounted for more than 0.3% of our consolidated revenues in 2020 or 2019, and sales to our five largest customers represented 1.1% and 1.7%, respectively, of consolidated revenues in those years. While we do not believe the loss of one of these customers would have a significant negative impact on our operations, we do believe the loss of several of these customers simultaneously or a substantial reduction in sales generated by them could temporarily affect our operating results.

### **Major Vendors**

We purchase a significant portion of our inventory through one supplier. Due to the number of alternative sources of supply, we do not believe that the loss of this supplier would have an adverse impact on our operations.

### **Credit Risk**

Due to the large number of customers comprising our customer base, concentrations of credit risk with respect to customer receivables are limited, although as of December 31, 2020 and 2019, two customers' balances represented 29.9% and 35.3% of net accounts receivable balance, respectively. We do not generally require collateral for accounts receivable, but we do perform periodic credit evaluations of our customers and believe the allowance for doubtful accounts is adequate. It is our opinion that if any one or a group of customer receivable balances should be deemed uncollectable, it would not have a material adverse effect on our results of operations or financial condition.

We maintain a majority of our cash in bank deposit accounts that, at times, may exceed federally insured limits. We have not experienced any losses in such accounts. We believe we are not exposed to any significant credit risk on our cash and cash equivalents.

## 10. STOCKHOLDERS' EQUITY

### Equity Compensation Plans

#### *Restricted Stock Plan*

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 of our common stock for restricted stock and restricted stock unit ("RSU") awards, on or prior to June 2018, 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 through June 2023 (of which, there were 606,712 shares available for future awards as of December 31, 2020). 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. In March 2020, as part of their annual director compensation, certain of our non-employee directors were granted a total of 24,010 service-based RSUs under the 2013 Plan which will vest ratably over the next 3 years provided that the participant is employed on the vesting date. In July 2020, our new CFO was granted a total of 9,063 service-based RSUs under the 2013 Plan which were scheduled to vest ratably over the next 3 years, provided that the participant is employed on the vesting date. This award was forfeited in January 2021 when the grantee left the employ of the Company. In December 2020, certain of our key employees were granted a total of 18,255 service-based RSUs which vested immediately, under the 2013 Plan.

In addition to grants under the Company's 2013 Restricted Stock Plan, in October 2018 we granted a total of 644,000 RSUs to the Company's Chief Executive Officer ("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 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.

A summary of the activity for non-vested restricted stock and RSU awards is as follows:

	Shares (in thousands)	Weighted Average Share Price
Balance, January 1, 2019	\$ 658	\$ 7.39
Granted	46	5.67
Forfeited	(5)	5.64
Vested	(93)	7.39
<b>Balance, December 31, 2019</b>	<b>\$ 606</b>	<b>\$ 7.27</b>
Balance, January 1, 2020	\$ 606	\$ 7.27
Granted	51	3.94
Vested	(135)	6.63
<b>Balance, December 31, 2020</b>	<b>\$ 522</b>	<b>\$ 7.11</b>

The Company's stock-based compensation relates to restricted stock and RSU awards. For these service-based awards, our stock-based compensation expense, included in operating expenses, was \$0.9 million and \$0.8 million in 2020 and 2019, respectively.

As of December 31, 2020, the Company has concluded it is not probable that the performance conditions related to performance-based RSUs will be achieved, and as a result no compensation expense related to performance-based RSUs has been recorded.

As of December 31, 2020, there was unrecognized compensation cost related to non-vested, service-based awards of \$2.1 million which will be recognized over 1.9 weighted average years in each of the following years:

Unrecognized Expense	
2021	\$ 811,580
2022	759,540
2023	516,286
	<u>\$ 2,087,406</u>

We issue shares from authorized shares upon the lapsing of vesting restrictions on restricted stock and RSUs. In 2020 and 2019, we issued 128,619 and 93,408 shares, respectively, resulting from the vesting of restricted stock. We do not use cash to settle equity instruments issued under stock-based compensation awards.

### Share Repurchase Program

In August 2015, our Board of Directors authorized a share repurchase program, pursuant to which we were authorized to repurchase up to 1.2 million shares of our common stock at prevailing market rates through August 2016. Subsequently, the program was amended to increase the number of shares available for repurchase to 2.2 million and to extend the program through August 2019. In June 2019, the program was again amended to increase the number of shares available to one million as of such date and to extend the program through August 9, 2020.

For the years ended December 31, 2020 and 2019, we repurchased the following shares:

<b>Year ended December 31,</b>	<b>Total shares repurchased</b>	<b>Average price per share</b>
2020	-	\$ -
2019	131,782	\$ 5.58

As of December 31, 2020, we could repurchase \$5,000,000 of our common stock.

On August 9, 2020, the Board of Directors approved a new program to repurchase up to \$5.0 million of its common stock between August 9, 2020 and July 31, 2022, subject to the completion of our financial restatement and the filing of all Delinquent Filings with the SEC. The Company's previous share repurchase program expired in August 2020. As of December 31, 2020, the full \$5.0 million of our common stock remained available for repurchase under this program.

On January 28, 2021, we entered into an agreement with an institutional shareholder of the Company, to repurchase 500,000 shares of our common stock, par value \$0.0024 in a private transaction. The purchase price was \$3.35 per share for a total of \$1.7 million. The closing of the repurchase of these shares took place on February 1, 2021. Prior to the repurchase, the shares represented approximately 5.5% of our outstanding common stock. This repurchase was separately authorized by our Board of Directors and did not reduce the remaining amount authorized to be repurchased under the plan described in the previous paragraph.

## 11. SEGMENT INFORMATION

As of January 1, 2019, we operate as a single segment and report on a consolidated basis. Prior to January 1, 2019, we operated and reported in two segments, North America and International. In early 2019, we announced several strategic initiatives to drive future sales growth and long-term profitability, which resulted in the Company closing two of its three stores outside of North America. This left Spain as our only store outside of North America, and our chief operating decision maker was no longer making operating performance assessments and resource allocation decisions for this one single store. As a result, we no longer report International as a reportable segment.

## 12. QUARTERLY FINANCIAL DATA (UNAUDITED)

The Company is providing quarterly and year-to-date unaudited consolidated financial information for interim periods occurring within the years ended December 31, 2020 and 2019 in order to comply with SEC requirements.

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

<b>2020</b>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
Net sales	\$ 17,145	\$ 9,146	\$ 15,990	\$ 21,803
Gross profit	9,866	5,243	9,289	11,660
Net loss	(1,738)	(1,775)	(982)	(406)
Net loss per common share:				
Basic	\$ (0.19)	\$ (0.20)	\$ (0.11)	\$ (0.04)
Diluted (1)	\$ (0.19)	\$ (0.20)	\$ (0.11)	\$ (0.04)
Weighted average number of common shares outstanding:				
Basic	9,029,212	9,042,991	9,042,991	9,134,621
Diluted	9,029,212	9,042,991	9,042,991	9,134,621

(1) For the three months ended March 31, 2020, June 30, 2020, September 30, 2020, and December 31, 2020, there were 492, 2,290, 1,875 and 3,300 shares, respectively, excluded from the diluted EPS calculation because the impact of their assumed exercise would be anti-dilutive due to a net loss in those periods.

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

<b>2019</b>	<b>First Quarter Restated</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
Net sales	\$ 20,941	\$ 17,197	\$ 16,311	\$ 20,469
Gross profit	12,244	9,371	8,849	11,495
Net income (loss)	1,520	(875)	(1,719)	(830)
Net income (loss) per common share:				
Basic	\$ 0.17	\$ (0.10)	\$ (0.19)	\$ (0.09)
Diluted (2)	\$ 0.17	\$ (0.10)	\$ (0.19)	\$ (0.09)
Weighted average number of common shares outstanding:				
Basic	9,009,752	8,933,648	8,932,246	9,020,187
Diluted	9,011,107	8,933,648	8,932,246	9,020,187

(2) For the three months ended June 30, 2019, September 30, 2019 and December 31, 2019, there were 2,290, 2,704 and 8,387 shares, respectively, excluded from the diluted EPS calculation because the impact of their assumed exercise would be anti-dilutive due to a net loss in those periods.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

***Evaluation of Disclosure Controls and Procedures***

As previously disclosed in our Comprehensive Form 10-K filing for the period ended December 31, 2019, and in connection with the filing of this Form 10-K for the period ended December 31, 2020, our management, with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), evaluated the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). As a result of this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were not effective due to the material weaknesses described below, which resulted in reporting errors requiring a restatement of our financial statements for the years ended December 31, 2017 and 2018 and for the first quarter ended March 31, 2019.

***Management's Annual Report on Internal Control over Financial Reporting***

Our management, including our CEO and CFO, 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 reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

An effective internal control system, no matter how well designed, has inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud, and therefore can provide only reasonable assurance with respect to reliable financial reporting. Because of its inherent limitations, our internal control over financial reporting may not prevent or detect all misstatements.

A material weakness is defined as a deficiency, or combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. Based on this definition, our management, with the participation of our CEO and CFO, evaluated the effectiveness and design of our internal control over financial reporting against the COSO Framework and concluded that our internal control over financial reporting was not effective as of December 31, 2020 due to material weaknesses arising from flaws in our control environment, risk oversight measures, control activities, information processing and communication and our monitoring systems, each of which is described in more detail below.

*Control environment.* We concluded that we did not maintain effective controls in the following areas: (i) managerial functions, procedures and oversight; (ii) organizational structure, delegation of authority and responsibilities; (iii) segregation of duties; (iv) adequacy of trained accounting and financial reporting personnel to ensure that internal control responsibilities were performed effectively and material accounting errors were detected; and (v) maintenance and enforcement of internal control responsibilities, including holding individuals accountable for their internal control responsibilities.

*Risk oversight environment.* We did not maintain adequate risk oversight measures related to the (i) identification and assessment of risks that could impact achieving our objectives and (ii) identification and analysis of the potential changes that could affect our internal controls environment.

*Control activities.* We concluded that we did not have effective control activities in the following areas: (i) selecting and developing control policies, procedures and activities to mitigate risks, including with respect to the methodologies used to calculate and report financial information and results; and (ii) selecting and implementing information technology and related systems supportive to our internal control over financial reporting.

*Information processing and communication.* We identified deficiencies associated with information processing and communication within our internal control framework. Specifically, we did not effectively communicate objectives and internal control responsibilities throughout the organization which contributed to inadequate documentation of processes and methodologies used to calculate and reconcile regular consolidation adjustments hindering clear communication with management, the Board of Directors and our independent auditors.

In addition, the documentation of inventory purchasing relied on paper-based vendor invoices and multi-step manual data-entry processes, some of which were subject to management override, which resulted in errors at multiple steps of the process, and deficiencies in communicating accurate information to management, the Board of Directors and our independent auditors.

*Monitoring activities.* We concluded that we did not design and implement effective monitoring activities related to (i) selecting, developing, and performing separate evaluations of our internal control over financial reporting; and (ii) evaluating and communicating internal control deficiencies in a timely manner to parties responsible for taking corrective actions.

The issues described above resulted in the following errors in our financial statements previously filed with the SEC:

- Inventory was not stated on a FIFO basis nor was it stated at the lower of FIFO cost or net realizable value;
- Freight-in, warehousing and handling expenditures, factory labor and overhead and freight-out costs were not correctly capitalized;
- Warehousing and handling expenditures were incorrectly classified as operating expenses;
- Allowance for sales returns was incorrectly calculated and accounted for;
- Net gift card liability was not correctly accounted for in 2017;
- Lease asset and liability under ASC Topic 842 was incorrectly calculated;
- PTO related accrued liabilities were incorrectly calculated;
- Provision for income taxes, including adjustments related to the Tax Cuts and Jobs Act (the "TaxAct"), uncertain tax position (UTP) liability and related interest expense, and correction of taxable income on the return of our Canada and Spain foreign subsidiaries;
- Foreign currency gains and losses associated with the Company's Canadian subsidiary were incorrectly classified as a component of accumulated other comprehensive loss and the cumulative translation adjustments included in accumulated other comprehensive loss were not tax effected; and
- Shares repurchased and subsequently cancelled were incorrectly accounted for as treasury stock.

## **Remediation Efforts to Address Material Weaknesses**

Our management, including our CEO and CFO, has worked with expert accounting consultants and our Audit Committee to design and implement both short-term and a long-term remediation plan to correct the material weaknesses in our disclosure controls and procedures and our internal control over financial reporting. The following activities highlight our commitment to remediating our identified material weaknesses:

Since October 2019 and through the filing date of this Form 10-K, we have taken the following measures, among others:

- i. Hired a new, highly-qualified CFO in January 2021 with extensive public-company experience;
- ii. Replaced critical roles within our accounting team with contract accounting resources and ultimately (ongoing) full-time employees with expertise in GAAP accounting, SEC reporting and disclosure, internal audit and internal controls;
- iii. 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;
- iv. Made improvements to our accounting close process, including a formalized accounting close checklist establishing accountability for oversight and review;
- v. Documented process narratives in the following areas: (i) financial reporting, (ii) inventory, (iii) purchasing and accounts payable, (iv) revenue, (v) fixed assets and lease accounting, (vi) general accounting, treasury and financial planning & analysis, (vii) tax, (viii) information technology (IT) governance, and (ix) HR and payroll;
- vi. 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).

Our continuing plan and additional steps for remediation include:

- i. Ongoing recruitment and hiring of permanent, qualified public-company accounting personnel;
- ii. Point-of-sale systems implementation that will be fully integrated with our new ERP system;
- iii. Redesigning our accounting procedures and activities to align with our new ERP system that will include built-in controls to improve upon the reliability of financial reporting and the preparation of financial statements in accordance with GAAP;
- iv. Reporting the progress and results of our remediation plan to the Audit Committee on a recurring basis, including the identification, status, and resolution of internal control deficiencies; and
- v. Creating 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 and CFO, our Audit Committee and our Board of Directors have taken certain steps to set the proper tone-at-the-top 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.
- Periodic communications from the CEO, CFO 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 ensure appropriate segregation of duties, 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 are also developing a process to conduct monthly business reviews by functional area that would include risk assessments of reporting accuracy based on complexity and transaction levels as well as compliance with GAAP and other regulatory requirements, in order to evaluate whether our existing control activities appropriately mitigate such risks or if additional controls need to be employed.

### *Control Activities*

We continue to redesign and implement our internal control activities. Specifically, we conducted detailed working sessions to document our current and prior finance and accounting policies, procedures and step-by-step activities as a prerequisite to selecting a new systems vendor. These sessions identified specific areas that required short-term improvement and long-term redesign of processes, structure, authorities and controls, and those actions include:

- New systems designed to calculate inventory at FIFO and create efficiency and accuracy through integration: we implemented the warehouse management, factory production system and general ledger systems modules as part of our new ERP system implementation which went live on September 1, 2020. We are still in the process of implementing our new point-of-sale system, which will be fully integrated with our ERP system and with a phased implementation across our fleet of stores throughout 2021.
- Creation and implementation of newly-designed processes, structures, delegation of authority and controls, in accordance with the COSO Framework, including:
  - The creation of a risk controls matrix;
  - Driving a greater sense of accountability by requiring sub-certifications below the CEO and CFO level for certain key accounting, finance and operations personnel;
  - Quarterly updates for the CFO regarding upcoming accounting pronouncement and proposed changes to GAAP accounting standards, tax regulations, and other requirements that may impact the Company's financial reporting;
  - Quarterly reviews of the most significant accounting estimates and judgements;
  - Validation of results through detailed variance analyses and reconciliation of account balances;
  - 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 and CFO with the certification process.

### *Information Processing and Communication*

The implementation of our new ERP system is expected to eliminate the need for many of 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 over time will eliminate the need for topside adjustments outside of the system. In addition, management is developing detailed policies, procedures and internal controls related to our financial reporting and working with our ERP vendor 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.

### *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 are developing a checklist of activities based on the criteria established in the COSO Framework against which we will 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 and CFO. 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.

## **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.

### ***Changes in Internal Control Over Financial Reporting***

As discussed in the remediation section above, we implemented the warehouse management, factory production system and general ledger systems modules as part of our new ERP system implementation which had a go-live date of September 1, 2020. We are still in the process of implementing our new point-of-sale system, with a phased implementation throughout 2021. Also, during January 2021, we hired a new highly-qualified CFO with public company experience. Although we had not fully remediated the material weaknesses in our internal control over financial reporting as of December 31, 2020, as the phased implementation of this system continues, we are experiencing certain changes to our processes and procedures which, in turn, result in changes to our internal control over financial reporting. 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.

#### **ITEM 9B. OTHER INFORMATION**

None.

**PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE****GENERAL INFORMATION ABOUT DIRECTORS AND EXECUTIVE OFFICERS**

<b>Name</b>	<b>Age</b>	<b>Director/Executive Officer Since</b>	<b>Position</b>
Janet Carr	60	2018	Director, Chief Executive Officer
Michael Galvan	52	2021	Chief Financial Officer
Vicki Cantrell	63	2017	Director
Elaine D. Crowley	62	2021	Director
Jefferson Gramm	46	2014	Chairman of the Board of Directors
Sharon M. Leite	59	2017	Director
James Pappas	40	2016	Director
Sejal Patel	42	2017	Director
William M. Warren	76	2013	Director

**Janet Carr**, 60, has served as our Chief Executive Officer and as a member of our Board of Directors since October 2018. Prior to her current role, Ms. Carr served as the Senior Vice-President of Global Business Development for Caleres Inc. (formerly Brown Shoe Company Inc.) from 2016 to 2017. While there, she was responsible for international wholesale and retail for all of their brands. Prior to Caleres, Ms. Carr was the President of the Handbag Division of Nine West Group Inc. from 2013 to 2014, where she was responsible for all aspects of design, development and sales in both wholesale and retail. Ms. Carr has deep experience in strategy and consumer insights in various roles at a number of prominent retailers, including Tapestry, Inc. (formerly Coach, Inc.), Gap Inc. and Safeway.

**Michael Galvan**, 52, has served as our Chief Financial Officer since January 2021. He first joined the Company in May 2020, initially serving as Interim Chief Financial Officer. Mr. Galvan brings over 25 years of finance and accounting experience to the Company, including executive leadership roles serving as Interim Chief Financial Officer, Chief Accounting Officer and Treasurer for a variety of publicly traded companies, including Main Street Capital Corporation and Mattress Firm. Prior to joining the Company, Mr. Galvan served in various management roles including Senior Vice President, Chief Accounting Officer and Treasurer of NextTier Oilfield Solutions, Inc. (formerly C&J Energy Services, Inc.), from June 2016 until April 2020, including serving as Interim Chief Financial Officer from March through September 2018.

**Vicki Cantrell**, 63, is a retail veteran with over 20 years of operational experience. Since January 2020 she has served as Chief Executive Officer for Vendors in Partnership LLC. From September 2017 until June 2018, she served as Retail Transformation Officer for Aptos Inc., where Ms. Cantrell brought transformation strategies to the retailer's businesses and to the vendor/retail partnership. Prior to that role, Ms. Cantrell served from October 2011 to October 2016 as a Senior Vice President at National Retail Federation, which is the world's largest retail association. From May 2008 until June 2011, she served as Chief Operating Officer of Tory Burch LLC while it experienced 300% growth. From April 2003 until May 2008 she served as Chief Information Officer for Giorgio Armani, as it underwent a multi-phase CRM implementation. Ms. Cantrell has worked in all facets of the retail industry, as retailer, vendor/partner and industry spokesperson. She has deep expertise in building and executing strategies to meet evolving needs including enhancing customer acquisition, service and loyalty; determining optimal organizational structure in ever-changing environments; and in building robust cyber security programs.

**Elaine D. Crowley**, 62, served as Chief Restructuring Officer of Stage Stores, Inc. from May 2020 to October 2020 and served as a member of its Board of Directors from 2014 to 2020. From 2010 until her retirement in 2012, Ms. Crowley served as Executive Vice President and Chief Financial Officer for Mattress Giant Corporation, a mattress retailer. From 2008 to 2010, Ms. Crowley served as Executive Vice President and Chief Financial Officer and Senior Vice President, Controller and Chief Accounting Officer/Chief Financial Officer for Michaels Stores, Inc., an arts and crafts retailer. From August 1990 to September 2007, Ms. Crowley was employed by The Bombay Company, Inc., a furniture and home goods retailer, most recently as Senior Vice President, Chief Financial Officer and Treasurer. She held that title for administrative purposes while also having served as Liquidation Trustee for the Bombay Liquidation Trust from September 2007 to December 2017. She has 11 years of public accounting experience principally with Price Waterhouse. She holds a B.B.A. in accounting from Texas Christian University and is licensed as a certified public accountant in Texas. Ms. Crowley's tenure in senior executive and financial roles with other retailers and experience as a Certified Public Accountant in the practice of public accounting provides the Board with valuable leadership experience and financial and retail expertise.

**Jefferson Gramm**, 46, is a portfolio manager at Bandera Partners LLC, which might be deemed to be an affiliate of ours by virtue of holding approximately 33% of our outstanding common stock. See "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT INFORMATION" for information regarding Bandera Partners LLC's ownership of our common stock. Mr. Gramm has been in his present position with Bandera since 2006. His prior experience includes serving as Managing Director of Arklow Capital, LLC, a hedge fund manager focused on distressed and value investments, from October 2004 to July 2006. He has been a Director of Rubicon Technology since November 2017. He also served as a Director of Ambassadors Group from May 2014 until October 2015 and of Morgan's Foods Inc. from April 2013 to March 2014. He served as a Director of Peerless Systems Corp from June 2009 to November 2010. He received an M.B.A. from Columbia University in 2003 and a B.A. in Philosophy from University of Chicago in 1990. Mr. Gramm provides a unique and valuable perspective with respect to corporate governance, our stockholder base and stockholder issues in general.

**Sharon M. Leite**, 59, has been Chief Executive Officer of Vitamin Shoppe, Inc. since August 2018. She previously served as Managing Director, President of Godiva Chocolatier in North America from October 2017 until August, 2018. Prior to joining Godiva, from February 2016 until May 2017, Ms. Leite was the President of Sally Beauty, US and Canada (NYSE: SBH), an international specialty retailer and distributor of professional beauty products, with over 3,000 stores. Prior to joining SBH, from 2007 until January 2016, Ms. Leite was the Executive Vice President of Sales, Customer Experience, & Real Estate at Pier 1 Imports (NYSE: PIR). In addition, Ms. Leite has held various executive leadership roles at Bath and Body Works (L Brands) as well as various sales and operations positions with other prominent retailers including Gap, Inc. and The Walt Disney Company. She currently serves as a member of the Board of Directors of the National Retail Federation (NRF). Ms. Leite brings significant general management experience as well as retail sales, operations, digital, e-commerce, real estate, merchandising, marketing and human resource strategies.

**James Pappas**, 40, is the managing member and owner of JCP Investment Management. Mr. Pappas serves on the board of Innovative Food Holdings, Inc. since 2020. Mr. Pappas also served as a director of US Geothermal, Inc. from September 2016 until April 2018. He served as a director of Jamba, Inc., a health and wellness brand and leading retailer of freshly squeezed juice, from January 2015 to September 2018; he also served on Jamba, Inc.'s Nominating and Corporate Governance and Audit Committees. He served on the board of directors of The Pantry, Inc., the largest independently operated convenience store chains in the U.S. from March 2014 until it was acquired in February 2015. Mr. Pappas also served on the board of directors, including Chairman of the Board, of Morgan's Foods from February 2012 to May 2014 until it was acquired. Mr. Pappas received a BBA in Information Technology and a Masters in Finance from Texas A&M University. Mr. Pappas has substantial skills in marketing and branding, as well as experience with growth-oriented businesses. Mr. Pappas also offers a strong tactical and financial background.

**Sejal Patel**, 42, is a Portfolio Manager at Skale Investments since January 2019. From July 2015 through September 2018, she was a Partner/Advisor at Lake Trail Capital, a private investment firm. Her prior work experience includes serving as Vice President of Indus Capital, a hedge fund manager focused on Asian and Japanese equities, from 2012 to 2015 and Director for Kelusa Capital Management, a hedge fund manager focused on Asian equities, from 2006 to 2012. She served on the Boards of Value Quest Capital, a value fund based in India, since 2014 and the Tiger Foundation, a non-profit organization based in New York, from 2009 to 2018. She received a B.S. in Economics from the University of Pennsylvania. Ms. Patel brings a strong financial and business background to our Board.

**William M. Warren**, 76, is president and sole Director of William M. Warren, PLLC, an independent law firm. He also serves as of Counsel to Loe Warren P.C., a law firm located in Fort Worth Texas, where he was President and Director from 1979 until December 2019. He has served as one of our directors from 1993 to 2003 and since 2013 and also served as our Secretary and General Counsel from 1993 until 2018. Mr. Warren brings to our Board extensive legal and industry experience, as well as a long history with, and deep institutional knowledge of, the Company.

The information relating to the occupations and security holdings of our directors and nominees is based upon information received from them.

### **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Sections 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors, executive officers and holders of more than 10% of our common stock to file reports regarding their ownership and changes in ownership of our securities with the SEC. Based solely on a review of the copies of such reports and amendments thereto furnished to us with respect to fiscal 2020 and written representations from our directors and executive officers, we believe that, during fiscal 2020, our directors, executive officers and 10% stockholders complied with all Section 16(a) filing requirements, except that a Form 3 and Form 4 were not filed reporting Steven Swank's initial ownership upon joining the Company as Chief Financial Officer and an initial grant of restricted stock units made to him (which was reported on a Form 8-K).

### **CODE OF ETHICS**

The Company's Board of Directors has adopted the Tandy Leather Factory, Inc. Code of Business Conduct and Ethics, which applies to the Company's Chief Executive Officer, Chief Financial Officer, Controller and all other employees and Directors of the Company. This Code can be found at the Company's website, [www.tandy-leather.com](http://www.tandy-leather.com), under the Investor Relations/Corporate Governance tabs.

### **AUDIT COMMITTEE**

The Audit Committee's basic role is to assist the Board of Directors in fulfilling its fiduciary responsibility pertaining to our accounting policies and reporting practices. Among other duties, the Audit Committee is to be the Board of Directors' principal agent in assuring the independence of our outside auditor, the integrity of management, and the adequacy of disclosures to stockholders. The Audit Committee has been structured to comply with the requirements of Section 3(a)(58)(A) of the Exchange Act. The Board of Directors has determined that all members of the Audit Committee are "independent" under the applicable rules of the Nasdaq and that James Pappas, Chairman of the Audit Committee, qualifies as an "audit committee financial expert" within the meaning of Item 407(d)(5) of Regulation S-K. The Board of Directors has adopted a written charter for the Audit Committee, which is available on our website at [www.tandy-leather.com](http://www.tandy-leather.com). The Audit Committee met seven times during 2020. The Report of the Audit Committee for the fiscal year ended December 31, 2020 appears below.

## **Report of the Audit Committee**

As members of the Audit Committee, we oversee Tandy Leather Factory, Inc.'s financial reporting process on behalf of the Board of Directors. Management is responsible for the preparation, presentation, and integrity of our financial statements, accounting and financial reporting principles, internal controls, and procedures designed to ensure compliance with accounting standards, applicable laws, and regulations.

During 2020 we recommended, and the Board of Directors approved, the appointment of Weaver as independent auditors for the year ended December 31, 2020. Our auditors are responsible for performing an independent audit of the consolidated financial statements and expressing an opinion on the conformity of those audited financial statements with accounting principles generally accepted in the United States.

The Audit Committee has received from Weaver the written disclosures and the letter required by the applicable requirements of the PCAOB regarding Weaver's communications with the Audit Committee concerning independence and the Audit Committee has discussed with Weaver their independence from us and our management.

As previously disclosed, in October 2019 the Company's management, in consultation with the Audit Committee, determined that the Company's previously issued Consolidated Financial Statements for the years 2017 and 2018 and quarterly periods between January 1, 2017 and March 31, 2019 should no longer be relied upon due to misstatements related to the Company's accounting processes for inventory transactions. The Company undertook to make the necessary accounting corrections and restate such financial statements.

The foregoing report was submitted by the Audit Committee and shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A promulgated by the SEC or Section 18 of the Exchange Act.

AUDIT COMMITTEE:  
James Pappas, *Chairman*  
Elaine D. Crowley  
Sharon M. Leite  
Sejal Patel

ITEM 11. EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

The primary focus of our executive compensation programs is to improve our performance year over year and over a longer-term period. The compensation programs were designed to provide the tools necessary to hire executives with the skills needed to manage Tandy Leather Factory, Inc. to meet these goals and to retain them over the long-term. In developing the programs, a key consideration was to have plans that were easy to understand and administer, while being competitive with companies of similar size and philosophy. Over the past several years, management and the Compensation Committee have worked to refine the compensation programs used to ensure that they support these goals and our ongoing business objectives. Our philosophy has been to reward team performance, measured by our overall results. Each executive officer's compensation is linked to their individual contribution toward increases in the size of our operations, our income, and increases in stockholder value. At the 2020 Annual Meeting, stockholders were asked to approve Tandy Leather Factory, Inc.'s 2019 executive compensation programs. Approximately 99% of the shares voted approved the program. In consideration of these results and other factors the Compensation Committee evaluates on a regular basis, the Compensation Committee concluded that Tandy Leather Factory, Inc.'s existing executive compensation programs continue to be appropriate to support Tandy Leather Factory, Inc.'s compensation philosophy and objectives described in this discussion.

Compensation for our executive officers consists of the following components:

- Base salary;
- Annual incentive bonus;
- Restricted stock unit grants;
- Retirement and other benefits, and
- Employment Agreements.

Each of these elements of pay is described below.

*Company Performance.* In 2020, Tandy Leather Factory, Inc.'s sales decreased approximately 15% from 2019, as the Company's entire fleet of stores was temporarily shut down by the COVID-19 pandemic. Because of the ongoing financial restatement, the Company has not yet announced (as of the date of this information statement) its full-year gross profits or operating expenses for 2020.

*Base Salary*

Base salaries are intended to reward our executive officers based upon their roles within Tandy Leather Factory, Inc. and for their performance in those roles. Base salaries are established when an executive officer is hired, based on prior experience and compared to salaries for comparable positions in other companies. Base salaries are generally increased annually, if market factors dictate such increases and assuming our financial performance is satisfactory. The Company did not increase, and temporarily lowered because of the COVID-19 pandemic, base salaries for its executive officers during 2020.

*Bonuses*

We award discretionary bonuses to our executive officers, as determined by the Compensation Committee. We determine these bonuses on a subjective basis, considering business prospects for the upcoming year and the improvement in our net income and financial position for the year in question. These discretionary bonuses are awarded annually and paid in the first quarter of the following year. We did not award any bonuses to our executive officers for 2020.



### *Restricted Stock Unit Grants*

We award restricted stock unit grants to promote long-term retention of executive officers and permit them to accumulate equity ownership in Tandy Leather Factory, Inc., so that the interests of our management team are directly aligned with the interest of our stockholders. We believe it is important to have an element of compensation that is focused directly on retaining talent so that we can minimize potential loss of company and industry knowledge and the disruption inherent in unplanned turnovers. Restricted stock unit grants also align our executive officers with our stockholders by making them stockholders themselves. Retaining talent and aligning interests encourages our executive officers to take actions to enhance the value of our business and increase stockholder value. Time-based restricted stock unit awards generally vest equally over four years. We did not grant any restricted stock units to our Chief Executive Officer during 2020. In July 2020, the Company awarded Steven Swank, its Chief Financial Officer, a new-hire grant of restricted stock unit valued at \$30,000, which were scheduled to vest one year after the grant date; these units were cancelled when Mr. Swank left the Company in March 2021.

### *Retirement and Other Benefits*

Our benefits program includes a retirement plan and a group insurance program. The objective of the program is to provide executive officers with reasonable and competitive levels of protection against the four contingencies (retirement, death, disability and ill health) that could interrupt the executive officer's employment and/or income received as an active employee. Our retirement plans are designed to provide a competitive level of retirement income to our executive officers and to reward them for continued service with Tandy Leather Factory, Inc. The retirement program for executive officers consists of a tax-qualified 401(k) Plan that covers all full-time employees. The group insurance program consists of life and health insurance benefits plans that cover all full-time employees.

### *Employment Agreement with Ms. Carr*

We have entered into an employment agreement with Janet Carr, CEO, dated as of October 2, 2018. Under this agreement, Ms. Carr is entitled to receive an annual base salary of \$500,000 and is eligible to receive an annual discretionary bonus, as determined by the Board. Also under this agreement, On October 2, 2018, Ms. Carr received: (i) a time-based equity grant of 460,000 restricted stock units ("RSUs") that vest over five years from the date of the grant; (ii) a performance-based equity grant of 92,000 RSUs that will vest if/when the Company's operating income exceeds \$12 million dollars two fiscal years in a row; and (iii) a performance-based equity grant of 92,000 RSUs that will vest if/when the Company's operating income exceeds \$14 million dollars in one fiscal year. Ms. Carr was also reimbursed for reasonable costs and expenses in connection with her commute and relocation from New York to Texas in 2019. If Ms. Carr's employment is terminated by the Company without Cause or by Ms. Carr for Good Reason (each as defined in her employment agreement), Ms. Carr would receive twelve months of base salary and an annual reimbursement of COBRA payments and vest in a pro-rata portion of the time-based RSUs, based on the number of days that Ms. Carr is employed. Any unvested performance-based RSUs would be forfeited. In the event that Ms. Carr's employment is terminated by the Company without Cause or by Ms. Carr for Good Reason within six months prior to or one year after a Change in Control (as defined in her employment agreement), Ms. Carr would receive thirty-six months of base salary and an annual reimbursement of COBRA payments and vest in a pro-rata portion of the time-based RSUs, based on the number of days that Ms. Carr had been employed. Any unvested performance-based RSUs would be forfeited. Under this agreement, a "Change in Control" is a defined term that includes a merger, a sale of all or substantially all of our assets or a similar transaction involving us, a third party acquiring more than 50% of our shares which includes, in general, a person or entity becoming a 50% or greater stockholder of us, a covered removal of directors on our board of directors, or our liquidation or dissolution.

### *Change in Control Effect on other Restricted Stock Units*

Our 2013 Restricted Stock Plan (which does not govern the grants to Ms. Carr described above) also provides for accelerated vesting in the event of a "change of control", whose meaning is materially the same as a Change in Control described above for Ms. Carr's employment agreement. Except to the extent that the Compensation Committee provides a result more favorable to holders of awards, in the event of a change of control, restricted stock units that are not vested before a change of control will vest on the date of the change of control.

### *Separation and Release Agreement with Steven Swank*

We entered into a Separation and Release Agreement with Steven Swank, the Company's Chief Financial Officer from July 2020 until January 2021, dated as of January 6, 2021. Pursuant to this agreement, Mr. Swank remained with the Company until March 5, 2021 (the "Separation Date") to assist with transition. During this period, Mr. Swank continued to receive his base salary of \$275,000 per year and continued to participate in all company health and retirement plans and other benefits programs. The Company also agreed not to seek reimbursement from Mr. Swank for relocation or health insurance-related payments totaling \$44,544 made to Mr. Swank at the time of his hire.

### **Compensation Committee Report**

The Compensation Committee has reviewed and discussed the foregoing Compensation Discussion and Analysis ("CD&A") with management.

The foregoing report was submitted by the Compensation Committee and shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A promulgated by the SEC, other than as provided in Item 407 of Regulation S-K, or to the liabilities of Section 18 of the Exchange Act.

COMPENSATION COMMITTEE:

Sharon M. Leite, *Chair*

Vicki Cantrell

Jefferson Gramm

### **COMPENSATION TABLES AND OTHER INFORMATION**

The following table includes information required by Item 402 of Regulation S-K promulgated by the SEC. The amounts shown represent the compensation paid to our named executive officers for each fiscal year noted in the table, for services rendered to us. For a more complete discussion of the elements of compensation included in this table, please refer to the discussion reflected in "Compensation Discussion and Analysis" above.

**SUMMARY COMPENSATION TABLE**

Name and Principal Position	Year	Salary	Bonus	Restricted Stock Awards	All Other Compensation	Total
Janet Carr, Chief Executive Officer (1)	2020	\$ 361,574	\$ -	\$ -	\$ 10,000(3)	\$ 371,574
	2019	\$ 500,000	-	-	\$ 20,230(3)	\$ 520,230
	2018	\$ 113,010	-	\$ 4,759,160	-	\$ 4,872,170
Steven Swank, Chief Financial Officer (2)	2020	\$ 123,077	\$ -	\$ 30,000	\$ 44,544(4)	\$ 197,621

- (1) In October 2018, Ms. Carr was appointed CEO with an annual salary of \$500,000. In addition, Ms. Carr was granted 644,000 restricted stock units; the amount reported as the value of these restricted stock units is based on the grant date fair value of \$7.39 per share, computed in accordance with FASB ASC Topic 718.
- (2) In July 2020, Mr. Swank was granted restricted stock units valued on the grant date at \$30,000 based on the grant date fair value of \$3.31 per share, computed in accordance with FASB ASC Topic 718. Mr. Swank's position as an executive officer of the Company terminated in January 2021, although he continued to remain employed by the Company in a non-executive-officer capacity until March 2021, at which time these restricted stock units were cancelled.
- (3) For 2019, represents Company-reimbursed moving expenses for Ms. Carr. For 2020, represents matching funds contributed to Ms. Carr's Company 401(k) plan.
- (4) Represents \$42,376 paid by the Company to Mr. Swank for his relocation to Texas and \$2,168 reimbursed to Mr. Swank for extending his health insurance coverage from his prior employer.

**GRANTS OF PLAN-BASED AWARDS**

The Company did not grant any plan-based or non-plan-based equity awards to its Chief Executive Officer during 2020. In July 2020, the Company awarded Steven Swank, its Chief Financial Officer, a new-hire grant of restricted stock units valued at \$30,000, which were scheduled to vest one year after the grant date; these units were cancelled when Mr. Swank left the Company in March 2021.

**OUTSTANDING STOCK AWARDS  
as of December 31, 2020**

Name	Number of shares of stock that have not vested (#)	Market value of shares of stock that have not vested (\$)
Janet Carr (1)	460,000	\$ 1,472,000
Steven Swank (2)	9,063	\$ 29,002

- (1) Vesting is subject to Ms. Carr's continued employment with the Company and to the achievement of performance criteria set forth in 184,000 performance-based restricted stock award units granted to her in 2018.
- (2) All stock awards held by Mr. Swank were cancelled upon his departure from the Company in March 2021.

## EQUITY COMPENSATION PLANS

The following table sets forth information regarding our equity compensation plans (including individual compensation arrangements) that authorize the issuance of shares of our common stock. The information is aggregated in two categories: plans previously approved by our stockholders and plans not approved by our stockholders. The table includes information for officers, directors, employees and non-employees. All information is as of December 31, 2020.

Plan Category	Column (A) Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Column (B) Weighted-average exercise price of outstanding options, warrants and rights	Column (C) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in Column (A))
Equity compensation plans approved by stockholders	61,215	\$ -	630,202
Equity compensation plans not approved by stockholders	460,000	-	-
<b>TOTAL</b>	<b>521,215</b>	<b>\$ -</b>	<b>630,202</b>

## DIRECTOR COMPENSATION

Compensation of non-employee directors is determined by the Board. Our non-employee directors are paid an annual cash retainer of \$16,000; in addition the Chairman of the Audit Committee is paid an additional annual retainer of \$5,000, and other members of the Audit Committee are paid an additional retainer of \$2,000. All directors are reimbursed for reasonable expenses incurred in connection with their service on our Board of Directors, including the committees thereof.

We generally award restricted stock units annually to each non-employee director in accordance with our 2013 Restricted Stock Plan; these grants generally have a value equal to approximately \$14,000 (based on the fair market value of our common stock as of the date of grant) and vest equally over a four-year period from the date of grant. Between February 2017 and the end of 2018, we did not award any equity to our non-employee directors, and the Board has determined that this was an oversight that should be corrected with increased grants in 2019 and 2020. Accordingly, in February 2020, we awarded each non-employee director other than Mr. Gramm (who voluntarily declined this equity grant) an increased grant of restricted stock units with a fair market value equal to \$23,000 as of the grant date; the shares underlying the 2020 awards will vest equally over a three-year period from the date of grant. In February 2021, we awarded each non-employee director other than Mr. Gramm (who voluntarily declined this equity grant) a grant of restricted stock units with a fair market value equal to \$14,000 as of the grant date; the shares underlying the 2021 awards will vest equally over a four-year period from the date of grant. Upon joining the Board in May 2021, Elaine Crowley was awarded a grant of restricted stock units with these same terms.

The goal of our restricted stock unit grants to directors is to attract and retain competent non-employee personnel to serve on our Board of Directors by offering them long-term equity incentives. Each of our non-employee directors is eligible to participate in this plan.

**DIRECTOR COMPENSATION TABLE**

The table below summarizes the compensation paid by us to our non-employee directors for their service on the Board during the year ended December 31, 2020. Our directors who are also employees receive no additional compensation for serving as directors.

<b>Name</b>	<b>Fees Earned or Paid in Cash (\$)</b>	<b>Restricted Stock Awards (\$)</b>	<b>Total (\$)</b>
Vicki Cantrell	\$ 16,000	\$ 23,000	\$ 39,000
Jefferson Gramm	16,000	-	16,000
Sharon M. Leite	18,000	23,000	41,000
James Pappas	21,000	23,000	44,000
Sejal Patel	18,000	23,000	41,000
William Warren	16,000	23,000	39,000

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following table sets forth information regarding the following as of May 20, 2021, the record date for the Annual Meeting:

- Beneficial owners of more than 5 percent of the outstanding shares of our common stock, other than our officers and directors;
- Beneficial ownership by our current directors and nominees and the named executive officers set forth in the Summary Compensation table below; and
- Beneficial ownership by all our current directors and executive officers as a group, without naming them.

The percentage of beneficial ownership is calculated on the basis of 8,663,921 shares of our common stock outstanding as of July 31, 2021. The information provided in the table is based on our records, information filed with the SEC, and information provided to us, except where otherwise noted.

**Security Ownership of Certain Beneficial Owners**

<b>Title of Class</b>	<b>Name and Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership (1)</b>	<b>Percent of Class</b>
Common Stock	Bandera Partners LLC (2) 50 Broad Street, Suite 1820 New York, NY 10004	2,857,936	33.0%
Common Stock	JCP Investment Partnership, LP (3) 1177 West Loop South, Suite 1650 Houston, TX 77027	859,197	9.9%

**Security Ownership of Management**

<b>Title of Class</b>	<b>Name of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership (1)(4)</b>	<b>Percent of Class</b>
Common Stock	Janet Carr	192,800	2.2%
Common Stock	Michael Galvan	-	*
Common Stock	Vicki Cantrell	3,374	*
Common Stock	Elaine D. Crowley	-	*
Common Stock	Jefferson Gramm(2)	2,864,055	33.1%
Common Stock	Sharon M. Leite	3,374	*
Common Stock	James Pappas (3)	863,922	10.0%
Common Stock	Sejal Patel	3,374	*
Common Stock	William Warren	28,516	*
	All Current Directors and Executive Officers as a Group (9 persons)	3,959,415	45.7%

\* Represents beneficial ownership of less than 1% of our outstanding shares of common stock.

- (1) All shares of common stock are owned beneficially, and such owner has sole voting and investment power, unless otherwise stated. The inclusion herein of shares listed as beneficially owned does not constitute an admission of beneficial ownership.
- (2) Holdings shown for Jefferson Gramm and Bandera Partners, LLC are based on a Schedule 13D/A filed on February 5, 2021 by Mr. Gramm and Bandera Partners, LLC. Bandera Partners, LLC is the investment manager of Bandera Master Fund L.P. in whose name 2,857,936 of our shares are held. Messrs. Gregory Bylinsky and Jefferson Gramm are Managing Partners, Managing Directors and Portfolio Managers of Bandera Partners LLC. Bandera Master Fund L.P. has delegated to Bandera Partners the sole and exclusive authority to vote and dispose of the securities held by Bandera Master Fund. As a result, each of Bandera Partners and Messrs. Bylinsky and Gramm may be deemed to beneficially own the shares held by Bandera Master Fund.
- (3) Holdings shown JCP Investment Management, LLC are based on a Schedule 13D/A filed on December 6, 2018 by JCP Investment Management, LLC. Mr. Pappas, one of our Directors, is a Managing Member and Owner of JCP Investment Management, LLC. As a result, Mr. Pappas may be deemed to beneficially own the shares held by JCP Investment Management, LLC. Ownership percentages in the table are rounded to the nearest 1/10%; actual ownership percentage for Mr. Pappas is 9.97%.
- (4) To our knowledge, none of these shares have been pledged.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

On January 28, 2021, the Company entered into an agreement with Central Square Management (the "Seller"), an institutional shareholder of more than 5% of the Company's common stock, to repurchase 500,000 shares of the Company's common stock in a private transaction. The purchase price was \$3.35 per share and \$1,675,000 in total. The closing of the repurchase of those shares took place on February 1, 2021. Prior to the repurchase, the Seller represented approximately 5.5% of the Company's outstanding common stock. The Company believes that the transaction was an arm's length transaction, at the then-current market price for the Company's common stock and otherwise on favorable terms to the Company.

For our last two fiscal years, there have been no other transactions, and there is no currently proposed transaction, in which we were or are to be a participant and the amount involved exceeds the lesser of \$120,000 or one percent (1%) of the average of our total assets at year-end for our last two most recently completed fiscal years, and in which any related person, as defined under Item 404(a) of Regulation S-K, had or will have a direct or indirect material interest. Such related persons include our directors, executive officers, nominees for director, any beneficial owner of more than five percent (5%) of our common stock, and their immediate family members.

Our Code of Business Conduct, which applies to all employees, including our executive officers and our directors, provides that our employees and officers and members of our Board of Directors are expected to use sound judgment to help us maintain appropriate compliance procedures and to carry out our business with honesty and in compliance with law and high ethical standards. In addition, our directors and officers are expected to report any potential related party transactions to the Board of Directors. Our Audit Committee, on behalf of the Board of Directors, reviews the material facts of all reported matters, by taking into account, among other factors it deems appropriate, whether a transaction is on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the related person's interest in the transaction to determine whether an actual conflict of interest exists. No director may participate in any discussion or approval of a matter for which he or she is a related party. An annual review and assessment of any ongoing relationship with a related party is performed by the Audit Committee and reported to the Board of Directors.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Weaver & Tidwell performed the audit of our 2018 financial statements, as well as the reviews of the financial statements included in our Forms 10-Q during 2018 and the first quarter of 2019. They also have performed services in connection with the pending restatement of our 2017 – 2018 financial statements and with the pending preparation of financial statements for periods since January 1, 2019. The amounts shown below are the aggregate amounts paid to Weaver during 2020 and 2019 for services in the categories indicated.

<u>Types of Fees</u>	<u>2020</u>	<u>2019</u>
Audit fees	\$ 352,691	\$ 125,850
Audit-related fees	-	-
Tax fees	-	-
All other fees	-	-
Total	<u>\$ 352,691</u>	<u>\$ 125,850</u>

In accordance with the charter of our Audit Committee as in effect at the relevant times and the rules of the SEC, the Audit Committee approved all of the fee indicated above before the services were provided, except for the portions of the 2019 and 2020 fees relating to the financial restatement of the prior years, which were not able to be determined before the services were begun. The Audit Committee considered the services listed above to be compatible with maintaining Weaver's independence.



## **PART IV**

### **ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) The following are filed as part of this Form 10-K:

#### **1. Financial Statements**

The following Consolidated Financial Statements are included in Item 8, Financial Statements and Supplementary Data:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of December 31, 2020 and 2019
- Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2020 and 2019
- Consolidated Statements of Cash Flows for the years ended December 31, 2020 and 2019
- Consolidated Statements of Stockholders' Equity for the years ended December 31, 2020 and 2019

#### **2. Financial Statement Schedules**

All financial statement schedules are omitted because the required information is not present or not present in sufficient amounts to require submission of the schedule or because the information is reflected in the Consolidated Financial Statements or notes thereto.

### 3. Exhibits

**TANDY LEATHER FACTORY, INC. AND SUBSIDIARIES**  
**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
<a href="#">3.1</a>	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.
<a href="#">3.2</a>	Bylaws of The Leather Factory, Inc. (n/k/a Tandy Leather Factory, Inc.), filed as Exhibit 3.5 to the Current Report on Form 8-K (Commission File No. 001-12368) filed by Tandy Leather Factory, Inc (f/k/a The Leather Factory, Inc.) with the Securities and Exchange Commission on July 14, 2004 and incorporated by reference herein.
<a href="#">3.3</a>	Certificate of Designations of Series A Junior Participating Preferred Stock 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 June 10, 2013 and incorporated by reference herein.
<a href="#">4.1</a>	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.
<a href="#">10.1</a>	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.
<a href="#">10.2</a>	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 Commission on June 22, 2021 and incorporated by reference herein.
<a href="#">10.3</a>	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.
<a href="#">10.4</a>	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 Current Report on Form 8-K filed with the Securities and Exchange Commission on February 14, 2014 and incorporated by reference herein.
<a href="#">10.5</a>	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.
<a href="#">10.6</a>	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 Factory Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 5, 2018 and incorporated by reference herein.

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<a href="#">10.7</a>	Form of Stand-Alone Restricted Stock Unit Agreement dated October 2, 2018 between the Company and Janet Carr, filed as Exhibit 10.3 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.
<a href="#">10.8</a>	Form of Stock Purchase Agreement dated January 28, 2021 between the Company and Central Square Management, filed as Exhibit 10.14 to the Tandy Leather Factory, Inc.'s 2019 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on June 22, 2021 and incorporated by reference herein.
<a href="#">14.1</a>	Code of Business Conduct and Ethics of Tandy Leather Factory, Inc., adopted by the Board of Directors on December 4, 2018, 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.
<a href="#">*21.1</a>	Subsidiaries of Tandy Leather Factory, Inc.
<a href="#">*23.1</a>	Consent of Independent Registered Public Accounting Firm.
<a href="#">*31.1</a>	Certification by the Chief Executive Officer and President pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended.
<a href="#">*31.2</a>	Certification by the Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended.
<a href="#">*32.1</a>	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
<a href="#">*101.INS</a>	XBRL Instance Document.
<a href="#">*101.SCH</a>	XBRL Taxonomy Extension Schema Document.
<a href="#">*101.CAL</a>	XBRL Taxonomy Extension Calculation Document.
<a href="#">*101.DEF</a>	XBRL Taxonomy Extension Definition Document.
<a href="#">*101.LAB</a>	XBRL Taxonomy Extension Labels Document.
<a href="#">*101.PRE</a>	XBRL Taxonomy Extension Presentation Document.

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\*Filed Herewith

**ITEM 16. FORM 10-K SUMMARY**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

**TANDY LEATHER FACTORY, INC.**

By:

/s/ Janet Carr

**Janet Carr**

**Chief Executive Officer**

Dated: September 2, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934 as amended, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Jefferson Gramm</u> Jefferson Gramm	Chairman of the Board	September 2, 2021
<u>/s/ Janet Carr</u> Janet Carr	Chief Executive Officer, Director (principal executive officer)	September 2, 2021
<u>/s/ Michael Galvan</u> Michael Galvan	Chief Financial Officer (principal financial officer and principal accounting officer)	September 2, 2021
<u>/s/ William M. Warren</u> William M. Warren	Director	September 2, 2021
<u>/s/ James Pappas</u> James Pappas	Director	September 2, 2021
<u>/s/ Vicki Cantrell</u> Vicki Cantrell	Director	September 2, 2021
<u>/s/ Sharon M. Leite</u> Sharon M. Leite	Director	September 2, 2021
<u>/s/ Sejal Patel</u> Sejal Patel	Director	September 2, 2021
<u>/s/ Elaine D. Crowley</u> Elaine D. Crowley	Director	September 2, 2021

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## LIST OF THE SUBSIDIARIES OF THE COMPANY

- The Leather Factory, Inc., a Nevada corporation
  - The Leather Factory of Nevada Investments, Inc., a Nevada corporation
  - The Leather Factory, LP, a Texas limited partnership
  - The Leather Factory, Inc., an Arizona corporation
  - Hi-Line Leather & Manufacturing Company, a California corporation
  - Roberts, Cushman & Company, Inc., a New York corporation
  - The Leather Factory of Canada Ltd., an Ontario domiciled Canadian corporation
  - Tandy Leather Company, Inc., a Nevada corporation
  - Tandy Leather Company Investments, Inc. a Nevada corporation
  - Tandy Leather Company, LP, a Texas limited partnership
  - Tandy Leather Factory Australia Pty Ltd, an Australian proprietary company
  - Tandy Leather Factory Espana, S.L., a Spanish limited liability company
  - Tandy Leather Factory UK Limited, a United Kingdom limited liability company
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**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statement on Form S-8 No. 333-190389 of Tandy Leather Factory, Inc. of our report dated September 2, 2021, relating to our audits of the consolidated financial statements of Tandy Leather Factory, Inc. as of and for the years ended December 31, 2020 and 2019 appearing in this Form 10-K.

/s/ WEAVER AND TIDWELL, L.L.P.

Oklahoma City, Oklahoma  
September 2, 2021

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## RULE 13a-14(a) CERTIFICATION

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

1. I have reviewed this annual report on Form 10-K of Tandy Leather Factory, Inc.;
2. 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;
3. 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;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. 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 control over financial reporting.

Date: September 2, 2021

/s/ Janet Carr

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**Janet Carr**  
**Chief Executive Officer**  
(principal executive officer)

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## RULE 13a-14(a) CERTIFICATION

I, **Michael Galvan**, certify that:

1. I have reviewed this annual report on Form 10-K of Tandy Leather Factory, Inc.;
2. 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;
3. 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;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. 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 control over financial reporting.

Date: September 2, 2021

/s/ Michael Galvan

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**Michael Galvan**

**Chief Financial Officer**

(principal financial officer and principal accounting officer)

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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 annual report on Form 10-K of Tandy Leather Factory, Inc. (the "Company") for the fiscal years ended December 31, 2020, 2019 and 2018 as filed with the United States Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company 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, as amended; and
- ii. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 2, 2021

By: /s/ Janet Carr

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**Janet Carr**  
**Chief Executive Officer**

Date: September 2, 2021

By: /s/ Michael Galvan

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**Michael Galvan**  
**Chief Financial Officer**

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