

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, 2018

OR

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

Commission File Number 1-12368



Tandy Leather Factory, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

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

1900 Southeast Loop 820, Fort Worth, TX 76140
(Address of Principal Executive Offices and Zip Code)

817/872-3200
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.0024	NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act: NONE

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$40,063,733 at June 30, 2018 (based on the price at which the common stock was last traded on the last business day of its most recently completed second fiscal quarter). At March 5, 2019, there were 9,007,835 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on June 4, 2019, are incorporated by reference in Part III of this report.

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PART I

ITEM 1. BUSINESS

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

General

With \$83.1 million of sales in 2018 (of which 14% were export sales), Tandy Leather is, to our knowledge, the world's largest specialty retailer of leather and leathercraft related items based on sales. We offer a wide range of leather, quality tools, hardware, small machines, accessories, liquids, lace, kits and teaching materials. We sell our products primarily through company-owned stores and through orders generated from our website, www.tandyleather.com. We also manufacture the leather lace and some of our do-it-yourself kits that are sold in our stores and website. We maintain our principal offices at 1900 Southeast Loop 820, Fort Worth, Texas 76140. Our common stock trades on the NASDAQ Global Market under the symbol "TLF."

The business that today is the Company was founded in Fort Worth, Texas in 1919. Tandy Leather Company opened its first branch store in 1927, gradually to expanding to 132 stores by 1969, then more rapidly to 288 stores by 1976. In 1980, two former Tandy executives founded Midas Leathercraft Tool Company, a Texas corporation ("Midas") that eventually became the Company, which focused on the distribution of leathercraft tools. The founders of Midas entered into an agreement with Brown Group, Inc., a major footwear retailer, to develop a chain of wholesale stores known as "The Leather Factory." In 1985, Midas purchased the assets related to The Leather Factory's six stores from Brown Group, Inc. In 1993, we changed our name to The Leather Factory, Inc, and we reincorporated in the state of Delaware in 1994. In 2000, The Leather Factory purchased the operating assets of Tandy Leather Company, and in 2005, the combined enterprise again changed its name to Tandy Leather Factory, Inc.

Our Development in Recent Years

We have built our business by offering our customers quality products in one location at competitive prices. We have expanded our store footprint by opening new stores and by making numerous acquisitions of small businesses in strategic geographic locations. In 1996, we expanded into Canada by acquiring our Canadian distributor, The Leather Factory of Canada, Ltd. In 2000, we acquired the operating assets of two subsidiaries of Tandycrafts, Inc. We began expanding outside of North America by opening a store in the United Kingdom in 2008, then Australia in 2011 and Spain in 2012. We opened another store in the United Kingdom in 2015. At December 31, 2018, we operated 117 stores located in North America and 3 stores in the United Kingdom, Australia and Spain.

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

Year ended	North America			International		
	Opened	Closed	Total	Opened	Closed	Total
2014	3	1	110	-	-	3
2015	-	-	110	1	-	4
2016	4	3*	111	-	-	4
2017	4*	-	115	-	-	4
2018	2	-	117	-	1	3

*1 store temporarily closed in April 2016 and reopened in January 2017

Business Strategy

In October 2018, we announced certain leadership changes including the appointment of a new Chief Executive Officer and departures of our former Chief Executive Officer and our former President. Under our new leadership, we are developing a strategic plan to drive future sales growth and long-term profitability and cash flow. Several key actions are currently being undertaken including:

We are developing a new operating model to better serve our retail and wholesale/business customers and align the cost structure with the related margin earned from those customers. Today, our retail stores serve both our retail and wholesale/business customer base, as well as fulfilling web orders. We believe that a more focused, tailored operating model can provide a better foundation for future sales growth. For higher-margin retail customers, we will continue to offer high-touch customer service in our stores, with deeply knowledgeable sales associates to create an engaging retail experience. For lower-margin but higher per-customer volume wholesale and business customers, we are developing a more convenient and efficient service model to provide the product assortment at the quantity and price that our wholesale and business customers need and expect.

Enhancing our business processes and infrastructure to support our new operating model requires additional headcount in areas such as human resources, technology and marketing, all key functional areas in which we have not adequately invested in the past. We expect that 2019 will be a year of investment and change as we rebuild our infrastructure, and there may be some overlap of old and new systems and people during this transition, which will inflate our 2019 operating expenses. However, we believe that these investments in talent and technology will drive future sales growth and cost savings in 2020 and beyond.

Going forward, our North American retail fleet will be managed primarily for cash flow. New locations will be assessed for their ability to produce incremental cash, not just sales. Evaluating our current store fleet in light of these criteria and our new operating model has resulted in the closing of three underperforming stores to date, located in Irving, Texas; Fort Wayne, Indiana; and Minto, Australia. The Irving and Fort Wayne locations closed in January 2019, while the Minto store closed in February 2019. We will continue our evaluation of our store portfolio, which is likely to result in four to six additional store closures in 2019. This is a shift in direction from prior management, who had pursued top-line growth through opening new stores.

To support our business priorities, we have made changes to our retail field organization and incentives. These steps include reducing our store management structure from eleven districts reporting to two regional managers into eight zones reporting to a single VP of the Retail division. In addition, effective February 2019, store managers' base pay now reflects the cost of living in their store location and their overall performance rating, with bonus now based on performance and cash flow indicators such as sales, labor cost and inventory. Previously, store managers all received the same base pay, regardless of cost of living, and a percentage of store operating income, most components of which were out of their control. We believe that these changes will better reward managers' focus on retail excellence and customer service and will make us much more competitive in the retail labor market. In addition, restructuring fleet management into a smaller number of territories allows us to invest in other areas of the business, including a dedicated leathercraft training program for our store associates and building our new commercial model.

To better capture market share and drive sales growth from business/wholesale/ commercial customers, we have created a separate team that will operate as a traditional wholesale sales and service organization. Commercial Account Representatives will call directly on Commercial customers, national accounts and institutions, and those customers will be served with direct shipments from our Fort Worth distribution center. We believe a small, dedicated team of experts can provide the right product offering, pricing and service that Commercial customers need in a way that our 100+ store managers could not. And the low operating cost of this team is better aligned to the lower gross margin Commercial business.

We are improving our brand proposition, with a focus on our products, promotion and pricing. Specifically, we are reevaluating legacy programs such as our participation in local and national trade shows, our Wholesale Club loyalty program (in which memberships have been declining), and in our digital and social media programs. Our goal is to ensure that we are investing in the right areas to drive sales growth.

We intend to maximize the yield on our cash. In 2018, cash provided from operations was \$7.4 million, and cash on hand was \$24.1 million at December 31, 2018. During 2018, we repurchased 243,387 shares at an average price of \$6.79 per share, which was primarily funded by our stock repurchase line of credit. At December 31, 2018, the balance on our line of credit was \$9.0 million with an interest rate of 4.0%. To date in 2019, we have repaid that debt and repurchased an additional 53,626 shares totaling \$306,000 under our buy-back program.

Customers

Our customer base is diverse, with individual retail customers as our largest customer group, representing approximately 61% of our 2018 sales. The remaining portion of our 2018 sales were to our wholesale, manufacturer and institutional groups (including horse and tack shops, Western wear, crafters, upholsterers, cobblers, auto repair, education, hospitals, prisons and other large businesses that use our products as raw materials to produce goods for resale); we refer to this group collectively as "wholesale" "non-retail", "business", or "commercial" customers. Generally, our retail customers provide a higher gross profit as compared to our non-retail customer groups.

No single customer's purchases represented more than 0.6% of our total sales in 2018. Sales to our five largest customers represented 1.0%, 1.2% and 1.4% of consolidated sales in 2018, 2017, and 2016, respectively. We do not believe the loss of any one of these customers would have a significant negative impact on our consolidated results.

We strive to provide 100% satisfaction to our customers, which we believe promotes customer loyalty. In addition, we offer credit terms to our non-retail customers upon receipt of a credit application and approval by our credit manager. Generally, our open accounts are net 30 days.

Merchandise

Our products are generally organized into 12 categories. We carry a wide assortment of products including leather, lace, hand tools, kits, and craft supplies. We operate a light manufacturing facility in Fort Worth, Texas, whose processes generally involve cutting leather into various shapes and patterns using metal dies. The factory produces approximately 10% of our products and also assembles and repackages products as needed. Products manufactured in our factory are distributed through our stores under the Tejas™ brand name. We also distribute product under the Tandy Leather™, Eco-Flo™, Craftool™, and Dr. Jackson's™ brands. We develop new products through the ideas and referrals of customers and store personnel as well as the analysis of trends in the market.

Sales by product category were as follows:

Product Category	2018 Sales Mix	2017 Sales Mix	2016 Sales Mix
Belts strips and straps	3%	4%	4%
Books, patterns, videos	1%	1%	1%
Buckles	3%	2%	3%
Conchos^	2%	2%	2%
Craft supplies	2%	2%	2%
Dyes, finishes, glues	8%	7%	7%
Hand tools	20%	20%	18%
Hardware	8%	8%	8%
Kits	5%	6%	6%
Lace	3%	3%	3%
Leather	40%	40%	41%
Stamping tools	5%	5%	5%
	100%	100%	100%

^A concho is a metal adornment attached to clothing, belts, saddles, etc., usually made into a pattern such as southwestern or a geometric object.

Operations

We operate in two segments, based on management responsibility and store location: North America and International. With the recent closure of two of our International stores (Northampton, UK in September 2018 and Minto, Australia in February 2019), the International segment is becoming less significant, and we may reevaluate our segment reporting in the future.

Information regarding net sales, gross profit, operating income, and total assets attributable to each of our segments is included within Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and within Item 8, Financial Statements and Supplementary Data in Note 11, Segment Information, of our Notes to Consolidated Financial Statements.

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 his or her project from a single source, but many of our store associates are also leathercrafters themselves and can provide suggestions and advice on our customers' projects. The size and layout of the stores are planned to allow large quantities of product to be displayed in an easily accessible and visually appealing manner. For example, leather may be displayed by the pallet where the customer can see and touch, assessing first-hand the numerous sizes, styles, and grades offered. We also offer open workbenches where customers can try out tools and stamps.

From a physical standpoint, our stores range in size from 1,200 square feet to 22,000 square feet, with the average size of a store approximating 4,000 square feet. The types of premises utilized for our stores are generally light industrial offices or warehouse spaces or older strip shopping centers in proximity to major freeways or well-known crossroads, which typically offer lower rent. More recently, we began opening new stores with a smaller footprint, averaging 2,500 square feet in upgraded retail centers to seek to attract more retail customers.

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.

In 2018, we began testing extended store hours and Sunday openings, to better accommodate our customers' schedules. Depending on our store location and customer demographics, some of our stores may open early to accommodate more wholesale customers, while stores that serve more retail customers may open later. In addition, some of our stores that are located in retail shopping centers are opening on Sundays. Previously, the hours of operation of our stores were uniform across all of our locations.

Distribution

Our stores receive the majority of their inventory from our central distribution center located in Fort Worth, Texas, although occasionally, merchandise is shipped directly from the vendor. Inventory is typically shipped to the stores from our central distribution center on a weekly basis. Customer orders are typically filled as received, and we do not typically have backlogs.

We attempt to maintain the optimum number of items in our product line to seek to minimize out-of-stock situations against carrying costs involved with such an inventory level. We generally maintain higher inventories of imported items to seek to ensure a continuous supply. The number of products offered changes every year due to the introduction of new items and the discontinuance of others. We carry approximately 2,600 items in the current lines of leather and leather-related merchandise. Historically, all items have been offered in all stores, unless prohibited by local regulations.

Competition

Most of our competition comes in the form of small, independently-owned businesses, some of which are also our customers. These small businesses generally carry only a limited line of leathercraft products. We also compete with several national chains that carry leathercraft products on a very small scale relative to their overall product line. We also compete with internet-based retailers that provide customers the ability to search and compare products and prices without having to visit a physical store. We compete on convenience, price, availability of merchandise, customer service, depth of our product line, and delivery time. While there is competition with a number of our products, to our knowledge, there is no direct competition affecting our entire product line. Further, to our knowledge, our store chain is the only one in existence solely specializing in leathercraft, which we believe provides a competitive advantage over internet-based retailers. We also believe that our large size relative to most competitors gives us the advantage of being able to purchase large volumes and stock a full range of products in our stores, as well as hire experienced store personnel that offer product expertise and project advice.

Suppliers

We purchase merchandise and raw materials from approximately 150 vendors dispersed throughout the United States and approximately 20 foreign countries. In 2018, our 10 largest vendors accounted for approximately 68% of our inventory purchases.

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

Overall, we believe that our relationships with suppliers are strong and do not anticipate any material changes in these supplier relationships. Due to the number of alternative sources of supply, we do not believe that the loss of any of our principal suppliers would have a material impact on our operations.

Compliance With Environmental Laws

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

Employees

As of December 31, 2018, we employed 684 people, 562 of whom were employed on a full-time basis. We are not a party to any collective bargaining agreements. Overall, we believe that relations with employees are good.

Intellectual Property

We own approximately 120 registered trademarks, including federal trade name registrations for "Tandy Leather Factory," "The Leather Factory," "Tandy Leather Company," and "Tandy." We also own approximately 60 registered foreign trademarks worldwide. We own approximately 600 registered copyrights in the United States covering more than 800 individual works relating to various products. We also own several United States patents for specific belt buckles and leather-working equipment. These rights are valuable assets, and we defend them as necessary.

Foreign Sales

Information regarding our revenues from the United States and abroad and our long-lived assets are found in Note 11 to our Consolidated Financial Statements, *Segment Information*. For a description of some of the risks attendant to our foreign operations, see Item 1.A "Risk Factors".

Available Information

We file reports with the Securities and Exchange Commission ("SEC"). These reports include our Annual 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.

Our corporate website is located at 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 Annual Report on Form 10-K.

Executive Officers of the Registrant

The following table sets forth information concerning our executive officers as of March 5, 2019:

Name and Age	Position	Served as Executive Officer Since
Janet Carr, 57	Chief Executive Officer	2018
Tina L. Castillo, 48	Chief Financial Officer and Treasurer	2017

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 SVP of Global Business Development for Caleres (formerly Brown Shoe) 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 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 (formerly Coach), Gap Inc. and Safeway.

Tina Castillo has served as Chief Financial Officer and Treasurer since February 2017; previously, Ms. Castillo served as the Company's Controller from February 2016 to January 2017. From 2013 to 2016, Ms. Castillo served as Chief Financial Officer of Compass Well Services, a privately-held oilfield services company with operations in Texas, and from 2010 to 2013, as Chief Financial Officer of Union Drilling, a publicly-traded oilfield service company with operations throughout the United States. Ms. Castillo began her career at Ernst & Young in 1994. Ms. Castillo, a certified public accountant, also serves on our 401(k) Plan committee.

All officers are elected annually by the Board of Directors to serve for the ensuing year.

ITEM 1A. RISK FACTORS

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 shifting of sales to wholesale, commercial and some international customers to a new division based in the Company's headquarters, 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;
- 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 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.

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 conditions 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.

We are dependent on a limited number of distribution and sourcing centers. 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.

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 remain obligated under the applicable lease.

We do not own the majority of our retail store locations. We lease the majority of our stores under long-term, non-cancelable leases, which usually have initial or renewed terms of five years or longer, often with renewal options. We believe that the majority of the leases we 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 may remain obligated under the applicable lease for, among other things, payment of the base rent or common charges for the balance of the lease term. In some instances, we may be unable to close an underperforming retail store 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 may have a material adverse effect on our future operating results.

In 2018, we experienced a decline in operating income due to recent investments in our district manager program and new store growth strategy. 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 district manager program. Our future success will depend substantially on the ability of our management team to successfully execute on its business strategies. If we fail to successfully execute on these business strategies, our future operating results could be adversely affected.

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, or Internet-based retailers who do not need to support a U.S. store fleet may be able to undercut our prices for products.

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.

A decline in the volume of traffic to our stores could have a negative impact on our net sales.

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 division 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 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. 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. While consumer spending in the United States has stabilized recently, it could deteriorate in the future. As a result, our operating results may be adversely and materially affected by downward trends or uncertainty in the United States or global economies.

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

We generally purchase our products in U.S. dollars. However, we source a large portion of our products from countries other than the United States. The cost of these products may be affected by changes in the value of the applicable currencies. Changes in currency exchange rates may also affect the U.S. dollar value of the foreign currency denominated prices at which our international business will sell products. Furthermore, the majority of our international (including Canadian) sales are generally derived from sales in foreign countries. This revenue, when translated into U.S. dollars for consolidated reporting purposes, could be materially affected by fluctuations in the U.S. dollar, negatively impacting our results of operations and our ability to generate revenue growth.

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

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

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

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

A disruption in, or a significant data security or privacy breach of, our information systems could affect our business.

We rely heavily on various information and other business systems to manage our operations, including management of our supply chain, point-of-sale processing in our stores, our online businesses and various other processes. We are continually evaluating and implementing upgrades and changes to our systems. Implementing new or upgraded systems carries substantial risk, including failure to operate as designed, failure to properly integrate with other systems, potential loss of data or information, cost overruns, implementation delays and disruption of operations. Third-party vendors are also relied upon to design, program, maintain and service our ERP implementation program. Any failures of these vendors to properly deliver their services could similarly have a material effect on our business.

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

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

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

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. Our operational efficiency initiatives as well as acquisitions and related integration activity may intensify this risk.

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, 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.

Other uncertainties, which are difficult to predict and many of which are beyond our control, may occur as well and may adversely affect our business and our results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We lease our store locations, with the exception of our flagship store located in Fort Worth, Texas. The majority of our stores have initial lease terms of at least five years. The leases are generally renewable, with increases in lease rental rates in some cases. We believe that all of our properties are adequately covered by insurance. The properties leased by us are described in Item 1 in the description of each of our two operating segments. We own the 22,000 square foot building that houses our flagship store. Further, we own our corporate headquarters, which includes our central 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 December 31, 2018:

U.S. Locations			
Alabama	1	Montana	1
Alaska	1	Nebraska	1
Arizona	4	Nevada	2
Arkansas	1	New Mexico	2
California	11	New York	2
Colorado	5	New Jersey	1
Connecticut	1	North Carolina	2
Florida	5	Ohio	3
Georgia	1	Oklahoma	2
Idaho	1	Oregon	3
Illinois	2	Pennsylvania	3
Indiana	2	Rhode Island	1
Iowa	1	South Carolina	1
Kansas	1	South Dakota	1
Kentucky	1	Tennessee	3
Louisiana	2	Texas	19
Maryland	1	Utah	4
Massachusetts	1	Virginia	1
Michigan	2	Washington	3
Minnesota	2	Wisconsin	1
Missouri	3	Wyoming	1
Canadian locations:			
Alberta	3		
British Columbia	1		
Manitoba	1		
Nova Scotia	1		
Ontario	3		
Quebec	1		
Saskatchewan	1		
International locations:			
United Kingdom	1		
Australia	1		
Spain	1		

ITEM 3. LEGAL PROCEEDINGS

See discussion of Legal Proceedings in Note 8 to the consolidated financial statements included in Item 8 of this Annual Report on 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 is traded on the NASDAQ Global Market using the symbol "TLF."

There were approximately 286 stockholders of record on March 5, 2019.

We did not sell any shares of our equity securities during our fiscal year ended December 31, 2018 that were not registered under the Securities Act.

We purchased 243,387 shares of our common stock in 2018 through a stock purchase program permitting us to repurchase up to 2.2 million shares of our common stock at prevailing market prices. We announced the program in August 2015, and it has been amended, most recently in June 2018 to extend the termination date to August 9, 2019. See Note 10 to our Financial Statements included in Item 8 of this report.

Our Board of Directors did not authorize any dividends during the fiscal years ended December 31, 2018 or 2017. Our Board of Directors determines 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.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data presented below are derived from and should be read in conjunction with our Consolidated Financial Statements and related notes. This information should also be read in conjunction with "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations."

Income Statement Data, Years ended December 31,	2018	2017	2016	2015	2014
Net sales	\$ 83,098,187	\$ 82,321,268	\$ 82,923,992	\$ 84,161,200	\$ 83,430,912
Gross profit	50,580,191	52,113,829	51,713,242	52,071,060	52,124,757
Income from operations	3,828,463	7,241,822	10,300,731	10,474,700	11,958,029
Net income	\$ 1,963,828	\$ 4,451,751	\$ 6,402,259	\$ 6,402,405	\$ 7,706,921
Net income per share					
Basic	\$ 0.21	\$ 0.48	\$ 0.69	\$ 0.64	\$ 0.76
Diluted	\$ 0.21	\$ 0.48	\$ 0.69	\$ 0.63	\$ 0.75
Weighted average common shares outstanding for:					
Basic EPS	9,185,203	9,242,092	9,301,867	10,077,506	10,203,063
Diluted EPS	9,185,989	9,256,810	9,321,558	10,102,760	10,241,121
Cash dividend declared per common share	-	-	-	-	\$ 0.25
Balance Sheet Data, as of December 31,	2018	2017	2016	2015	2014
Cash and certificates of deposit	\$ 24,070,351	\$ 18,337,258	\$ 16,862,304	\$ 10,962,615	\$ 10,636,530
Total assets	76,140,134	74,914,596	70,652,720	64,611,076	62,873,874
Long-term debt, including current portion	8,968,018	7,371,730	7,444,416	3,863,307	5,643,125
Total Stockholders' Equity	\$ 59,460,304	\$ 59,538,981	\$ 53,693,201	\$ 50,972,176	\$ 49,123,012

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

We intend for the following discussion to provide you with information that will assist you in understanding our financial statements, the changes in key items in those financial statements from year to year and the primary factors that accounted for those changes, as well as how particular accounting principles affect our financial statements. This discussion also provides information about the financial results of the various segments of our business so you may better understand how those segments and their results affect our financial condition and results of operations as a whole. Finally, we have identified and discussed trends known to management that we believe are likely to have a material effect on our results of operations and financial condition.

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

Summary

To our knowledge, we are the world's largest specialty retailer of leather and leathercraft related items (based on sales), offering a wide range of leather, quality tools, hardware, small machines, accessories, liquids, lace, kits and teaching materials. We sell our products primarily through company-owned stores and through orders generated from our website, www.tandy-leather.com. We have built our business by offering our customers a broad selection of quality products combined with knowledgeable store associates, in one location, at competitive prices.

We operate in two segments, based on management responsibility and store location: North America and International. As of March 5, 2019, our North America segment operates 115 company-owned stores located in 42 U.S. states and 7 Canadian provinces and our International Segment operates two stores – one in the United Kingdom and other in Jerez Spain.

In October 2018, we announced certain leadership changes including the appointment of a new Chief Executive Officer and departures of our former Chief Executive Officer and our former President. Under our new leadership, we are developing a strategic plan to drive future sales growth and long-term profitability and cash flow. Several key actions are currently being undertaken including:

We are developing a new operating model to better serve our retail and wholesale/business customers and align the cost structure with the related margin earned from those customers. Today, our retail stores serve both our retail and wholesale/business customer base, as well as fulfilling web orders. We believe that a more focused, tailored operating model can provide a better foundation for future sales growth. For higher-margin retail customers, we will continue to offer high-touch customer service in our stores, with deeply knowledgeable sales associates to create an engaging retail experience. For lower-margin but higher per-customer volume wholesale and business customers, we are developing a more convenient and efficient service model to provide the product assortment at the quantity and price that our wholesale and business customers need and expect.

Enhancing our business processes and infrastructure to support our new operating model requires additional headcount in areas such as human resources, technology and marketing, all key functional areas in which we have not adequately invested in the past. We expect that 2019 will be a year of investment and change as we rebuild our infrastructure, and there may be some overlap of old and new systems and people during this transition, which will inflate our 2019 operating expenses. However, we believe that these investments in talent and technology will drive future sales growth and cost savings in 2020 and beyond.

Going forward, our North American retail fleet will be managed primarily for cash flow. New locations will be assessed for their ability to produce incremental cash, not just sales. Evaluating our current store fleet in light of these criteria and our new operating model has resulted in the closing of three underperforming stores to date, located in Irving, Texas; Fort Wayne, Indiana; and Minto, Australia. The Irving and Fort Wayne locations closed in January 2019, while the Minto store closed in February 2019. We will continue our evaluation of our store portfolio, which is likely to result in four to six additional store closures in 2019. This is a shift in direction from prior management, who had pursued top-line growth through opening new stores.

To support our business priorities, we have made changes to our retail field organization and incentives. These steps include reducing our store management structure from eleven districts reporting to two regional managers into eight zones reporting to a single VP of the Retail division. In addition, effective February 2019, store managers' base pay now reflects the cost of living in their store location and their overall performance rating, with bonus now based on performance and cash flow indicators such as sales, labor cost and inventory. Previously, store managers all received the same base pay, regardless of cost of living, and a percentage of store operating income, most components of which were out of their control. We believe that these changes will better reward managers' focus on retail excellence and customer service and will make us much more competitive in the retail labor market. In addition, restructuring fleet management into a smaller number of territories allows us to invest in other areas of the business, including a dedicated leathercraft training program for our store associates and building our new commercial model.

To better capture market share and drive sales growth from business/wholesale/ commercial customers, we have created a separate team that will operate as a traditional wholesale sales and service organization. Commercial Account Representatives will call directly on Commercial customers, national accounts and institutions, and those customers will be served with direct shipments from our Fort Worth distribution center. We believe a small, dedicated team of experts can provide the right product offering, pricing and service that Commercial customers need in a way that our 100+ store managers could not. And the low operating cost of this team is better aligned to the lower gross margin Commercial business.

We are improving our brand proposition, with a focus on our products, promotion and pricing. Specifically, we are reevaluating legacy programs such as our participation in local and national trade shows, our Wholesale Club loyalty program (in which memberships have been declining), and in our digital and social media programs. Our goal is to ensure that we are investing in the right areas to drive sales growth.

We intend to maximize the yield on our cash. In 2018, cash provided from operations was \$7.4 million, and cash on hand was \$24.1 million at December 31, 2018. During 2018, we repurchased 243,387 shares at an average price of \$6.79 per share, which was primarily funded by our stock repurchase line of credit. At December 31, 2018, the balance on our line of credit was \$9.0 million with an interest rate of 4.0%. To date in 2019, we have repaid that debt and repurchased an additional 53,626 shares totaling \$306,000 under our buy-back program.

Results of Operations**Net Sales**

Our net sales for the three years ended December 31, 2018, 2017 and 2016 were as follows:

Year	North America	International	Total	Incr (Decr) from Prior Year
2018	\$ 79,553,353	\$ 3,544,834	\$ 83,098,187	0.9%
2017	\$ 78,568,219	\$ 3,753,049	\$ 82,321,268	(0.7%)
2016	\$ 79,041,920	\$ 3,882,072	\$ 82,923,992	(1.5%)

Consolidated sales for 2018 increased 0.9% compared to 2017. North America reported a sales increase of 1.3%, while International reported a 5.5% decline. In North America, same store sales (sales from stores open more than 12 months during the same fiscal period last year) declined by 0.4%, while new / temporarily closed stores added \$1.3 million of sales. The decline in same store sales can be attributed to a 0.4% decrease in sales to our non-retail customers, offset by a 1.8% increase in sales to our retail customers. For our International stores, the sales decline was mostly attributable to the closure of our Northampton, UK store in September 2018, as well as weakness in Spain.

Consolidated sales for 2017 decreased 0.7% compared to 2016. North America reported a sales decline of 0.6% while International reported a 3.3% decline. In North America, same store sales declined by 2.3%, while new stores added \$1.3 million of sales. The decline in same store sales can be attributed to a 9% decrease in sales to our non-retail customers, offset by a 6% increase in sales to our retail customers. For our International stores, the sales decline was mostly attributable to weakness in our Australia operation.

In summary, we were pleased that our consolidated sales trend in 2018 showed improvement over 2017, after declines in 2017 and 2016. However, the improvements in North America were due to new store openings, as our same store sales have declined in each of 2018, 2017 and 2016 as new stores cannibalized existing stores and our non-retail customer base continued to shrink. Additionally, our International segment continued to show declines year over year. While 2019 will be a year of transition, these historical trends support the need for our new operating model – to have a more focused, targeted approach to our diverse customer base – as well as the need for an ongoing evaluation of our store portfolio to ensure that new stores do not cannibalize sales of existing locations and the rationalization of our remaining International stores.

Gross Profit

On a consolidated basis, gross profit margins were 60.9% in 2018, 63.3% in 2017, and 62.4% in 2016. In 2018, our gross profit was negatively impacted by a \$1.4 million write down of our inventory as we work to improve our brand proposition and evaluate our product, promotion and pricing. Specifically, the write down of our inventory was taken to adequately value our inventory at the lower of cost or net realizable value for damaged, slow-moving, and excess supplies of inventory where we expect to either dispose of the inventory or take pricing initiatives to promote and sell through slow-moving and excess supplies of inventory. Our recorded write-down of inventory could differ materially from our initial estimates based on future customer demand or economic conditions.

Our gross profit margin fluctuates based on the mix of customers we serve, the mix of products we sell, and our ability to source products globally. Our negotiations with suppliers for lower pricing are an on-going process, for which we have varying degrees of success. Sales to retail customers tend to produce higher gross margins than sales to non-retail customers due to the difference in pricing levels. Therefore, as retail sales increase in the overall sales mix, higher gross margins tend to follow, which is the main reason our gross profit margins have shown steady improvement (in 2018, excluding the write-down, our gross profit margin would have been 62.6%). Finally, there is also significant fluctuation in gross margins between the various merchandise categories we offer. As a result, our gross margins can also vary depending on the mix of products sold during any given time period.

Operating Expenses

Our consolidated operating expenses (consisting of wages and benefits, rent and occupancy costs, depreciation, advertising, store operating expenses, outbound freight charges to ship merchandise to customers, and corporate office costs) for the three years ended December 31, 2018, 2017 and 2016 were as follows:

	2018	2017	2016
Operating expenses	\$ 46,751,728	\$ 44,872,007	\$ 41,412,511
As a % of sales	56.3%	54.5%	49.9%

The \$1.9 million increase in operating expenses in 2018 compared to 2017 was primarily due to \$0.6 million of higher costs related to five new stores that have opened since April 2017; \$0.8 million of higher labor costs related to increasing pay for our store associates and extending our store operating hours (opening later in the evenings and Sunday openings); \$0.2 million of one-time costs related to store closures; \$0.3 million of impairment charges for underperforming stores; \$0.9 million of one-time costs related to our change in management (of which \$0.6 million related to separation payments to our former CEO and president and \$0.3 million related to legal and advisory costs). These increases were offset by \$0.9 million reduction in print and postage costs.

The \$3.4 million increase in operating expenses in 2017 compared to 2016 was primarily due to \$1.3 million in costs related to the seven new stores that have opened / reopened since October 2016, \$1.1 million related to the district manager program that was rolled out in early 2017, \$0.2 million for an increase in base salary for our store managers, \$0.2 million in increased advertising and marketing related to our national sponsorship of the Pinners program, with the remaining increase related to increases in credit card processing fees, occupancy costs across our store footprint, and home office wages.

Other Income/Expense (net)

Other Income/Expense consists primarily of interest expense and interest income. In 2018, we incurred other expenses (net) of approximately \$125,000 compared to \$79,000 in 2017. In 2018, we earned approximately \$165,000 in interest income and paid approximately \$305,000 in interest expense on our debt. In 2017, we earned approximately \$103,000 in interest income and paid approximately \$205,000 in interest expense on our bank debt.

Provision for Income Taxes

Our effective tax rate was 47%, 38%, and 37% for the years ended December 31, 2018, 2017 and 2016, respectively. For 2018, the difference between our statutory rates and our effective rate are primarily due to our lower income before tax, the country mix of earnings, and non-US income tax at a higher statutory rate than in the US. Also, in October 2018, we completed and filed all of federal, state and other statutory tax filings, as well as completed our accounting for the income tax effects of the Tax Act. This resulted in approximately \$401,000 of additional tax related to an increase in transitional tax as certain of our international net operating losses were subjected to federal limitation rules, additional U.S. federal income recognized related to cross-border intercompany transactions with our Canadian subsidiary, and for certain discrete items that were determined not deductible for tax. Also negatively impacting our effective tax rate in 2018, certain of our international locations incurred operating losses for which no tax benefit was recorded and the Tax Act created new taxes on foreign sourced income while eliminating the domestic manufacturing deduction. Going forward, we expect that our effective tax rate will be 25-27%.

In 2017, in connection with the Tax Act, we recorded an additional \$340,782 of net income tax expense as follows:

Transition tax on deemed repatriation of certain foreign earnings	\$	514,454
Foreign Withholding Taxes		290,128
Remeasuring deferred tax position at the lowered income tax rate		(463,800)
	\$	<u>340,782</u>

Segment Information

Results of operations by segment follows:

North America

The table below reports our net sales by store category for our North America segment for the year ended December 31, 2018 compared to the prior year:

	# Stores	2018	# Stores	2017	\$ Change	% Change
Same stores	111	\$ 77,136,143	111	\$ 77,460,635	\$ (324,492)	(0.4%)
New stores	5	1,798,936	3	612,174	1,186,762	193.9%
Closed/temp closed stores	1	618,274	1	495,410	122,864	24.8%
Total net sales	117	<u>\$ 79,553,353</u>	115	<u>\$ 78,568,219</u>	<u>\$ 985,134</u>	<u>1.3%</u>

North America consisted of 117 stores at December 31, 2018 and 115 stores at December 31, 2017. In July 2018, we opened new stores in Austin, TX and Calgary, Alberta. In 2017, we opened stores in Allen, TX (April 2017); Miami, FL (May 2017); and McAllen, TX (May 2017). Our Harrisburg, PA store was temporarily closed from April 2016 through January 2017. A store is categorized as "new" until it is operating for the full comparable period in the prior year.

The decline in same store sales was primarily due to a 0.4% decrease in sales to our non-retail customers, offset by a 1.8% increase to our retail customers. Ticket counts to our non-retail customers decreased 1.7%, while their average ticket increased 1.3% to \$118.53. We believe the decline to this customer group is due to our pricing, which is perceived to be not as competitive as other suppliers. For our retail customers, we believe our initiatives to improve our customer experience have been successful. Specifically, ticket counts to this customer segment increased 1.0%, while the average ticket was up 0.9% to \$63.69 in 2018 compared to \$63.12 in 2017.

The table below reports our net sales by store category for our North America segment for the year ended December 31, 2017 compared to the prior year:

	# Stores	2017	# Stores	2016	\$ Change	% Change
Same stores	107	\$ 75,698,765	107	\$ 77,449,960	\$ (1,751,195)	(2.3%)
New stores	7	2,374,044	4	1,034,142	1,339,902	129.6%
Closed/temp closed stores	1	495,410	3	557,818	(62,408)	(11.2%)
Total net sales	115	<u>\$ 78,568,219</u>	111	<u>\$ 79,041,920</u>	<u>\$ (473,701)</u>	<u>(0.6%)</u>

In 2016, we opened stores in Nyack, NY (March 2016); Philadelphia, PA (October 2016); Lyndhurst, NJ (November 2016); and Johnston, RI (December 2016). We closed stores in Tucson, AZ (March 2016) and Allentown, PA (April 2016). The decline in same store sales was primarily due to a 9% decrease in sales to our non-retail customers, offset by a 6% increase to our retail customers.

Our sales mix by customer group for the year ended December 31 was as follows:

Customer Group	2018	2017	2016
Retail	61%	60%	57%
Institution	2%	2%	2%
Wholesale	33%	34%	36%
Manufacturers	4%	4%	5%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

In 2018, North America's operating expenses increased \$1.8 million to \$44.2 million compared to \$42.4 million in 2017 due to \$0.6 million of higher costs related to five new stores that have opened since April 2017; \$0.8 million of higher labor costs related to increasing pay for our store associates and extending our store operating hours (opening later in the evenings and Sunday openings); \$0.1 million of one-time costs related to store closures; \$0.3 million of impairment charges for underperforming stores; \$0.9 million of one-time costs related to our change in management (of which \$0.6 million related to separation payments to our former CEO and president and \$0.3 million related to legal and advisory costs). These increases were offset by \$0.9 million reduction in print and postage costs.

In 2017, North America's operating expenses increased \$3.3 million to \$42.4 million compared to \$39.1 million in 2016 due to \$1.3 million in costs related to the seven new stores that have opened / reopened since October 2016, \$1.1 million related to the district manager program, \$0.2 million for the increased base salary for our store managers, \$0.2 million in increased advertising and marketing related to our national sponsorship of the Pinners program, while the remaining increases related to increases in credit card processing fees, occupancy costs across our store footprint and home office wages.

International

The International segment consists of all stores located outside of North America. At January 1, 2018, we had four international stores - two located in the United Kingdom, one located in Australia, and one located in Spain. During 2018, we concluded that we can continue to serve our customer demand outside of North America through existing international stores or through shipments from our Texas distribution center, while reducing our overall cost basis. As such, in September 2018, we closed our Northampton, UK store and in February 2019, we closed our Minto, Australia Store. We may consider closing additional stores in the future. International accounted for 4.3%, 4.6%, and 4.7% of our total sales in 2018, 2017, and 2016, respectively.

The increases (or decreases) in net sales, operating income (loss) and operating income (loss) as a percentage of sales from our International stores for the year ended December 31 were as follows:

Year	Net Sales Increase (Decrease)	Operating Income (Loss)	Operating Income (Decrease)	Operating Income (loss) as a % of Sales
	from Prior Year		from Prior Year	
2018	(5.5)%	\$ (354,506)	(37.9)%	(10.0)%
2017	(3.3)%	\$ (256,995)	(438.3)%	(6.8)%
2016	5.1%	\$ 75,958	(37.4)%	2.0%

International's sales totaled approximately \$3.5 million in 2018, compared to approximately \$3.8 million in 2017, a decrease of \$208,000, primarily due to the closure of our Northampton, UK store in September 2018 and lower sales in our Spain unit. Gross profit for International increased to 62.2% in 2018 compared to 59.3% in 2017, due to customer and product mix. International's operating expenses increased by \$78,000 primarily due to costs associated with Northampton's closure in September 2018. Specifically, International's operating expenses totaled approximately \$2.6 million in 2018, compared to \$2.5 million in 2017. Overall, advertising and marketing expenses are this segment's largest expense, followed by employee compensation, rent, travel, and shipping costs to customers.

International's sales totaled approximately \$3.8 million in 2017, compared to approximately \$3.9 million in 2016, a decrease of \$129,000, primarily due to lower sales in our Australia unit and unfavorable foreign currency exchange rates in the UK, offset by favorable exchange rates in Spain. Gross profit for International decreased to 59.3% in 2017 compared to 61.8% in 2016, due to customer and product mix. International's operating expenses increased by \$159,000 due to higher personnel, rent and advertising costs. Specifically, International's operating expenses totaled approximately \$2.5 million in 2017, compared to \$2.3 million in 2016.

Capital Resources, Liquidity and Financial Condition

We require cash principally for day-to-day operations, to purchase inventory, to finance capital investments, to service our outstanding debt and to fund our stock buy-back program. We expect to fund our operating and liquidity needs from a combination of current cash balances and cash generated from operating activities. Any excess cash will be invested as determined by our Board of Directors. Our cash balances at December 31, 2018 totaled \$24.1 million. In addition, we have available a \$6 million working capital line of credit, as more fully described below.

In August 2015, our Board of Directors authorized a share repurchase program, pursuant to which we are 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 2018, 243,387 shares were repurchased and in 2017, no shares were repurchased. At December 31, 2018, there were 907,406 shares available for repurchase under the plan.

On September 18, 2015, we executed a Promissory Note and Business Loan Agreement with BOKF which provides us with a line of credit facility of up to \$10,000,000 for the purpose of repurchasing shares of our common stock pursuant to our stock repurchase program. Subsequently, this line of credit was amended to increase the availability from \$10,000,000 to \$15,000,000 for the repurchase of shares of our common stock pursuant to our stock repurchase program through the earlier of August 25, 2019 or the date on which the entire amount is drawn. In addition, this promissory note was amended on August 20, 2018 to reduce the interest rate by 0.35%. During the draw down period, we are required to make monthly interest-only payments. At the end of the draw down period, the principal balance rolls into a 4-year term note. This Promissory Note is secured by a Deed of Trust on the real estate located at 1900 SE Loop 820, Fort Worth, Texas. There were no amounts drawn on this line during 2017. During the year ended December 31, 2018, we drew approximately \$1.6 million on this line which was used to purchase approximately 235,052 shares of our common stock pursuant to our stock repurchase program. At December 31, 2018, the unused portion of the line of credit was approximately \$6.0 million. In January 2019, we made the decision to pay down our line of credit note early, and the debt was fully repaid in February 2019. There were no prepayment penalties incurred and the line of credit does carry a commitment fee.

Also, on September 18, 2015, we executed a Promissory Note and Business Loan Agreement with BOKF, which provides us with a working capital line of credit facility of up to \$6,000,000 and is secured by our inventory. On August 20, 2018, this line of credit was amended to extend the maturity to September 18, 2020. The Business Loan Agreement contains covenants that require 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 are calculated quarterly on a trailing four quarter basis. For the years ended December 31, 2018 and 2017, there were no amounts drawn on this line, and we were fully in compliance with the required covenants.

Prior to August 20, 2018, amounts drawn under either Promissory Note accrued interest at the London interbank Eurodollar market rate for U.S. dollars (commonly known as "LIBOR") plus 1.85% (3.351% at December 31, 2017). Beginning after August 20, 2018, the notes accrue interest at LIBOR plus 1.5% (4.0% at December 31, 2018).

On our consolidated balance sheet, total assets increased to \$76.1 million at December 31, 2018 from \$74.9 million at year-end 2017. Our current ratio increased to 8.7 at December 31, 2018 from 8.3 at year-end 2017 due primarily to an increase in cash, partially offset by a decrease in inventory.

As of December 31, 2018, our investment in inventory decreased by \$3.4 million from year-end 2017. This decrease was due in part to the \$1.4 million write down of inventory taken at December 31, 2018 to adequately value our inventory at the lower of cost or net realizable value for damaged, slow-moving, and excess supplies of inventory, but also in part to a more disciplined approach to managing our inventory turnover as we work to improve our merchandising and assortments. We plan to continue to strengthen our inventory management process with the goal of improving our inventory turnover.

In 2018, cash flow provided by operating activities was \$6.9 million, composed of net income of \$2.0 million, plus \$1.8 million of depreciation and amortization, plus \$3.4 million from the net decrease in inventory.

By comparison, in 2017, cash flow provided by operating activities was approximately \$3.0 million, composed of net income of \$4.5 million, plus \$1.9 million of depreciation and amortization, plus \$0.9 million of foreign currency translation, offset by changes in working capital including purchases of inventory and payments of accrued expenses.

Cash flow used in investing activities totaled approximately \$1.1 million and \$1.7 million in 2018 and 2017, respectively, consisting primarily of the purchase of fixtures for new stores, store moves and remodels and computer equipment, and in 2017, vehicles and computer equipment for our new district managers.

In 2018, there was \$57,000 of cash used in financing activities. We repurchased \$1.7 million of stock, of which \$1.6 million was funded from our stock-buy back line of credit. By comparison, in 2017, there was \$151,000 of cash provided by financing activities, related to proceeds from the exercise of stock options, offset by the final payment on our capital lease.

We believe that cash flow from operations will be adequate to fund our operations in 2019, while also funding our strategic initiatives. At this time, we know of no trends or demands, commitments, events, or uncertainties that will or are likely to materially affect our liquidity, capital resources or results of operations. In addition, we anticipate that this cash flow will enable us to meet our contractual obligations and commercial commitments.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements during 2018, 2017, or 2016, 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. Historically, actual results have not varied materially from the Company's estimates. The Company does not currently anticipate significant changes in its assumptions related to these estimates. Actual results may differ from these estimates under different assumptions or conditions. The Company's significant accounting policies can be found in Note 2 of the Notes to Consolidated Financial Statements. The policies and estimates discussed below include the financial statement elements that are either judgmental or involve the selection or application of alternative accounting policies and are material to the Company's financial statements. 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. We recognize revenue for over the counter sales as transactions occur and other sales upon shipment of our products to our customers. A reserve has been established for estimated merchandise returns based upon historical experience and other known factors. Should actual returns differ from the Company's estimated reserve for merchandise returns, revisions to the estimate may be required. Our revenues are reported net of sales tax, discounts and returns, but include shipping charged to customers.

Gift cards. Historically, the sale of gift cards has not been material to our financial condition, results of operations or cash flows. As such, prior to January 1, 2018, gift cards were recognized as sales in the period the gift card was sold. Effective January 1, 2018, in conjunction with the adoption of Accounting Standards Codification 606, "Revenue from Contracts with Customers" ("ASC 606"), we began recording a gift card liability on the date we issue a gift card to a customer, of which \$168,311 was recognized on January 1, 2018 as the cumulative effect of an accounting change. 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. If actual redemption patterns vary from the Company's estimates or if laws or regulations change, actual gift card breakage may differ from the amounts recorded.

Inventory. Inventory is stated at the lower of cost (first-in, first out) or net realizable value. The calculation of cost includes merchandise purchases, the costs to bring the merchandise to our Texas distribution center, warehousing and handling expenditures, and distributing and delivering merchandise to stores. These costs include depreciation of long-lived assets utilized in acquiring, warehousing and distributing inventory. Carrying values of inventory are analyzed and, to the extent that the cost of inventory exceeds the expected selling prices less reasonable costs to sell, provisions are made to reduce the carrying amount of the inventory. We regularly review all inventory items to determine if there are damaged goods (e.g., for leather, excessive scars or damage from UV light), to determine what items should be eliminated from the product line (e.g., item is slow moving, supplier is unable provide acceptable quality or quantity, and to maintain freshness in the product line) and to ensure that all necessary pricing actions are taken to adequately value our inventory at the lower of cost or net realizable value by recording permanent markdowns on our on-hand inventory. Since the determination of net realizable value of inventory involves both estimation and judgment 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 at substantially all locations at least two-to-four times annually, at which time actual results are reflected in the financial statements.

Impairment of Long-Lived Assets. We evaluate long-lived assets for indicators of impairment whenever events or changes in circumstances indicate their carrying amounts may not be recoverable. Additionally, for store assets, we evaluate the performance of individual stores for indicators of impairment including material declines in operational and financial performance or planned changes in the use of assets, such as store relocation or store closure. Such stores are selected for further evaluation of the recoverability of their carrying amounts. The evaluation of long-lived assets is performed at the lowest level of identifiable cash flows, which is at the individual store level. Impairment is determined when estimated future undiscounted cash flows associated with an asset are less than the asset's carrying value resulting in an impairment charge equal to the difference between the asset's carrying value and fair value. This evaluation requires management to make judgments relating to future cash flows, growth rates and economic and market conditions. Fair value of an asset is estimated using a valuation method such as discounted cash flow or a relative, market-based approach.

Stock-based compensation. The Company's stock-based compensation relates to restricted stock 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 restricted 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 time-based awards typically vest ratably over the requisite service period, provided that the participant is employed on each applicable vesting date. Performance-based shares vest, if at all, upon the Company satisfying certain performance targets. The Company records compensation expense for these awards with a performance condition when it is probable that the condition will be achieved. The compensation expense ultimately recognized, if any, related to these performance-based awards will equal the grant date fair value for the number of shares for which the performance condition has been satisfied.

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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We face exposure to financial market risks, as described below. These exposures may change over time and could have a material impact on our financial results. We do not use or invest in market risk sensitive instruments to hedge any of these risks or for any other purpose.

Foreign Currency Risk. Our primary foreign currency exposure is related to our foreign subsidiaries as those subsidiaries have local currency revenue and local currency operating expenses. Changes in the foreign currency exchange rates impact the U.S. dollar amount of revenue and expenses. See Note 11 to the Consolidated Financial Statements, *Segment Information*, for financial information concerning our foreign activities.

Interest Rate Risk. We are subject to market risk associated with interest rate movements on our outstanding debt, which accrue interest at a rate that changes with fluctuations in the LIBOR rate. Based on the Company's level of debt at December 31, 2018, an increase of one percent in the LIBOR rate would result in additional interest expense of approximately \$90,000 during a twelve-month period.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Tandy Leather Factory, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Tandy Leather Factory, Inc. and Subsidiaries (the Company) as of December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company'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.

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

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

Fort Worth, Texas
March 8, 2019

Tandy Leather Factory, Inc.
Consolidated Balance Sheets

	December 31, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash	\$ 24,070,351	\$ 18,337,258
Accounts receivable-trade, net of allowance for doubtful accounts of \$15,703 and \$22,642 as of December 31, 2018 and 2017, respectively	408,170	461,212
Inventory	33,867,276	37,311,197
Prepaid income taxes	383,478	41,307
Prepaid expenses	1,244,754	1,473,147
Other current assets	161,208	189,029
Total current assets	60,135,237	57,813,150
PROPERTY AND EQUIPMENT, at cost	28,005,563	27,218,481
Less accumulated depreciation and amortization	(13,606,266)	(11,750,639)
Property and equipment, net	14,399,297	15,467,842
DEFERRED INCOME TAXES	248,228	271,738
GOODWILL	954,765	962,949
OTHER INTANGIBLES, net of accumulated amortization of \$713,000 and \$710,000 as of December 31, 2018 and 2017, respectively	16,500	19,222
OTHER assets	386,107	379,695
Total Assets	\$ 76,140,134	\$ 74,914,596
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable-trade	\$ 1,215,490	\$ 1,413,450
Accrued expenses and other liabilities	4,939,829	4,953,477
Current maturities of long-term debt	747,335	614,311
Total current liabilities	6,902,654	6,981,238
DEFERRED INCOME TAXES	1,556,493	1,636,958
LONG-TERM DEBT, net of current maturities	8,220,683	6,757,419
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.10 par value; 20,000,000 shares authorized, none issued or outstanding	-	-
Common stock, \$0.0024 par value; 25,000,000 shares authorized; 11,346,778 and 11,313,692 shares issued at December 31, 2018 and 2017, respectively; 9,060,561 and 9,270,862 shares outstanding at December 31, 2018 and 2017, respectively	27,232	27,153
Paid-in capital	7,158,821	6,831,271
Retained earnings	65,716,761	63,921,244
Treasury stock at cost (2,286,217 and 2,042,830 shares at December 31, 2018 and 2017, respectively)	(11,931,850)	(10,278,584)
Accumulated other comprehensive income	(1,510,660)	(962,103)
Total stockholders' equity	59,460,304	59,538,981
Total Liabilities and Stockholders' Equity	\$ 76,140,134	\$ 74,914,596

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

Tandy Leather Factory, Inc.
Consolidated Statements of Comprehensive Income
For the Years Ended December 31

	<u>2018</u>	<u>2017</u>	<u>2016</u>
NET SALES	\$ 83,098,187	\$ 82,321,268	\$ 82,923,992
COST OF SALES	<u>32,517,996</u>	<u>30,207,439</u>	<u>31,210,750</u>
Gross Profit	50,580,191	52,113,829	51,713,242
OPERATING EXPENSES	<u>46,751,728</u>	<u>44,872,007</u>	<u>41,412,511</u>
INCOME FROM OPERATIONS	3,828,463	7,241,822	10,300,731
OTHER (INCOME) EXPENSE:			
Interest expense	304,957	205,555	155,189
Other, net	<u>(180,191)</u>	<u>(126,857)</u>	<u>(57,287)</u>
Total other expense	<u>124,766</u>	<u>78,698</u>	<u>97,902</u>
INCOME BEFORE INCOME TAXES	3,703,697	7,163,124	10,202,829
PROVISION FOR INCOME TAXES	<u>1,739,869</u>	<u>2,711,373</u>	<u>3,800,570</u>
NET INCOME	\$ 1,963,828	\$ 4,451,751	\$ 6,402,259
Foreign currency translation adjustments	<u>(548,557)</u>	<u>931,026</u>	<u>(205,450)</u>
COMPREHENSIVE INCOME	<u>\$ 1,415,271</u>	<u>\$ 5,382,777</u>	<u>\$ 6,196,809</u>
NET INCOME PER COMMON SHARE:			
BASIC	<u>\$ 0.21</u>	<u>\$ 0.48</u>	<u>\$ 0.69</u>
DILUTED	<u>\$ 0.21</u>	<u>\$ 0.48</u>	<u>\$ 0.69</u>
Weighted Average Number of Shares Outstanding:			
Basic	9,185,203	9,242,092	9,301,867
Diluted	9,185,662	9,256,810	9,321,558

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

Tandy Leather Factory, Inc.
Consolidated Statements of Cash Flows
For the Years Ended December 31

	<u>2018</u>	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 1,963,828	\$ 4,451,751	\$ 6,402,259
Adjustments to reconcile net income to net cash provided by operating activities -			
Depreciation and amortization	1,797,281	1,875,102	1,719,154
Impairment of long-lived assets	285,477	-	-
Loss on disposal or abandonment of assets	1,321	3,139	16,985
Non-cash share-based compensation	327,629	239,599	199,870
Deferred income taxes	(90,997)	(215,576)	205,111
Exchange gain	27,984	29,848	18,598
Net changes in assets and liabilities, net of effect of business acquisitions:			
Accounts receivable-trade	53,042	99,772	(7,778)
Inventory	3,443,921	(4,133,658)	407,000
Prepaid expenses	239,082	135,713	(284,788)
Other current assets	27,821	(48,797)	(70,035)
Accounts payable-trade	(197,960)	(208,434)	(361,492)
Accrued expenses and other liabilities	(181,959)	(983,710)	(108,365)
Income taxes	(308,129)	923,016	(415,046)
Total adjustments	<u>5,424,513</u>	<u>(2,283,986)</u>	<u>1,319,214</u>
Net cash provided by operating activities	<u>7,388,341</u>	<u>2,167,765</u>	<u>7,721,473</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(1,091,433)	(1,689,645)	(1,697,704)
Proceeds from sale of assets / insurance	27,396	35,963	153,483
(Increase) in other assets	(3,690)	(43,669)	(1,127)
Net cash used in investing activities	<u>(1,067,727)</u>	<u>(1,697,351)</u>	<u>(1,545,348)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from notes payable and long-term debt	1,596,288	-	3,660,505
Payments on capital lease obligations	-	(72,686)	(79,396)
Repurchase of common stock (treasury stock)	(1,653,266)	-	(3,675,654)
Proceeds from exercise of stock options	-	223,404	-
Net cash (used in) provided by financing activities	<u>(56,978)</u>	<u>150,718</u>	<u>(94,545)</u>
Effect of exchange rate changes on cash	(530,543)	853,822	(181,891)
NET INCREASE IN CASH	<u>5,733,093</u>	<u>1,474,954</u>	<u>5,899,689</u>
CASH, beginning of period	<u>18,337,258</u>	<u>16,862,304</u>	<u>10,962,615</u>
CASH, end of period	<u><u>\$ 24,070,351</u></u>	<u><u>\$ 18,337,258</u></u>	<u><u>\$ 16,862,304</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest paid during the period	\$ 304,957	\$ 205,555	\$ 155,189
Income tax paid during the period, net of refunds	\$ 2,138,995	\$ 1,788,357	\$ 4,215,616

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

Tandy Leather Factory, Inc.
Consolidated Statements of Stockholders' Equity
For the Years Ended December 31

	Number of Shares	Par Value	Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, January 1, 2016	9,692,864	\$ 26,916	\$ 6,168,635	\$ (6,602,930)	\$ 53,067,234	\$ (1,687,679)	\$ 50,972,176
Share-based compensation	20,780	50	199,820	-	-	-	199,870
Net income	-	-	-	-	6,402,259	-	6,402,259
Purchase of Treasury stock	(520,482)	-	-	(3,675,654)	-	-	(3,675,654)
Translation adjustment	-	-	-	-	-	(205,450)	(205,450)
BALANCE, December 31, 2016	<u>9,193,162</u>	<u>\$ 26,966</u>	<u>\$ 6,368,455</u>	<u>\$ (10,278,584)</u>	<u>\$ 59,469,493</u>	<u>\$ (1,893,129)</u>	<u>\$ 53,693,201</u>
Shares issued - stock options exercised	44,400	107	223,297	-	-	-	223,404
Share-based compensation	33,300	80	239,519	-	-	-	239,599
Net income	-	-	-	-	4,451,751	-	4,451,751
Translation adjustment	-	-	-	-	-	931,026	931,026
BALANCE, December 31, 2017	<u>9,270,862</u>	<u>\$ 27,153</u>	<u>\$ 6,831,271</u>	<u>\$ (10,278,584)</u>	<u>\$ 63,921,244</u>	<u>\$ (962,103)</u>	<u>\$ 59,538,981</u>
Cumulative effect of accounting change	-	-	-	-	(168,311)	-	(168,311)
Share-based compensation	33,086	79	327,550	-	-	-	327,629
Purchase of treasury stock	(243,387)	-	-	(1,653,266)	-	-	(1,653,266)
Net income	-	-	-	-	1,963,828	-	1,963,828
Translation adjustment	-	-	-	-	-	(548,557)	(548,557)
BALANCE, December 31, 2018	<u>9,060,561</u>	<u>\$ 27,232</u>	<u>\$ 7,158,821</u>	<u>\$ (11,931,850)</u>	<u>\$ 65,716,761</u>	<u>\$ (1,510,660)</u>	<u>\$ 59,460,304</u>

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

TANDY LEATHER FACTORY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018, 2017, and 2016

1. DESCRIPTION OF BUSINESS

We are a specialty retailer of leather and leathercraft related items, offering a broad range of leather, quality tools, hardware, small machines, accessories, liquids, lace, kits and teaching materials. We sell our products primarily through company-owned stores and through orders generated from our website, www.tandy-leather.com. We also manufacture the leather lace and some of our do-it-yourself kits that are sold in our stores and website.

We operate in two segments, based on management responsibility and store location: North America and International.

2. SIGNIFICANT ACCOUNTING POLICIES

Management estimates and reporting

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the periods presented. Actual results could differ from those estimates. Assets and liabilities with reported amounts based on significant estimates include inventory (slow-moving), property and equipment (useful lives, impairment), goodwill, accrued liabilities (expected sales returns, gift card breakage) and deferred income tax.

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.

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. Gains and losses resulting from foreign currency transactions are reported in the statements of income under the caption "Other (Income) Expense", net, for all periods presented. We recognized foreign currency transaction gains of \$28,000, \$30,000, and \$19,000, in 2018, 2017, and 2016, respectively.

Revenue recognition

Our revenue is earned from sales of merchandise and generally occur via two methods: (1) at the store counter, and (2) shipment by common carrier. Sales at the counter are recorded and title passes as transactions occur. Otherwise, sales are recorded and title passes when the merchandise is shipped to the customer. Shipping terms are normally FOB shipping point. Sales tax and comparable foreign tax is excluded from revenue, while shipping charged to our customers is included in revenue.

Prior to November 2018, we offered an unconditional satisfaction guarantee to all customers and accepted all product returns. Net sales represent gross sales less negotiated price allowances, product returns, and allowances for defective merchandise. Beginning in November 2018, we changed our policy for returns to allow merchandise to be returned under most circumstances up to 60 days after purchase. At December 31, 2018, we have established a sales return reserve of \$184,000 based on historical customer return behavior, included in Accrued Expenses and Other Liabilities, while an estimated value of the merchandise expected to be returned of \$111,000 has been included in Inventory in the accompanying Consolidated Balance Sheet.

Historically, the sale of gift cards has not been material to our financial condition, results of operations or cash flows. As such, prior to January 1, 2018, gift cards were recognized as sales in the period the gift card was sold. Effective January 1, 2018, in conjunction with the adoption of Accounting Standards Codification 606, "Revenue from Contracts with Customers" ("ASC 606"), we began recording a gift card liability on the date we issue a gift card to a customer, of which \$168,311 was recognized on January 1, 2018 as the cumulative effect of an accounting change. 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. At December 31, 2018, our gift card liability, included in accrued expenses and other liabilities, totaled \$195,901.

Disaggregated revenue

In the following table, revenue is disaggregated by our major customer groups for the years ended December 31:

	2018	2017	2016
RETAIL (end users, consumers, individuals)	61%	59%	56%
NON-RETAIL (hospitals, organizations, distributors, and businesses)	39%	41%	44%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

For 2018, 2017 and 2016, North America represents approximately 96%, 95%, and 95%, respectively, of total sales; as such, we believe that revenue by customer group more closely aligns with our North America segment than our International segment. Note 11 also contains additional disaggregated revenue information by segment and geographic area.

Discounts

We maintain four price levels on a consistent basis: retail, wholesale, business, and distributor. Sales are reported after deduction of discounts. 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 and amortization

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. The calculation of cost includes merchandise purchases, the costs to bring the merchandise to our Texas distribution center, warehousing and handling expenditures, and distributing and delivering merchandise to stores. These costs include depreciation of long-lived assets utilized in acquiring, warehousing and distributing inventory. Carrying values of inventory are analyzed and, to the extent that the cost of inventory exceeds the expected selling prices less reasonable costs to sell, provisions are made to reduce the carrying amount of the inventory.

We regularly review all inventory items to determine if there are damaged goods (e.g. for leather, excessive scars or damage from UV light), to determine what items should be eliminated from the product line (e.g. item is slow moving, supplier is unable provide acceptable quality or quantity, and to maintain freshness in the product line) and to ensure that all necessary pricing actions are taken to adequately value our inventory at the lower of cost or net realizable value by recording permanent markdowns on our on-hand inventory.

Since the determination of net realizable value of inventory involves both estimation and judgment 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 at substantially all locations at least two-to-four times annually, at which time actual results are reflected in the financial statements.

Impairment of long-lived assets

We evaluate long-lived assets for indicators of impairment whenever events or changes in circumstances indicate their carrying amounts may not be recoverable. Additionally, for store assets, we evaluate the performance of individual stores for indicators of impairment including material declines in operational and financial performance or planned changes in the use of assets, such as store relocation or store closure. Such stores are selected for further evaluation of the recoverability of their carrying amounts. The evaluation of long-lived assets is performed at the lowest level of identifiable cash flows, which is at the individual store level. Impairment is determined when estimated future undiscounted cash flows associated with an asset are less than the asset's carrying value resulting in an impairment charge equal to the difference between the asset's carrying value and fair value. This evaluation requires management to make judgments relating to future cash flows, growth rates and economic and market conditions. Fair value of an asset is estimated using a valuation method such as discounted cash flow or a relative, market-based approach. During the quarter ended December 31, 2018, as part of an overall strategic review initiated in conjunction with changes in management, we performed a comprehensive evaluation of the historical sales performance, profitability and cash flow contribution of our individual stores, and assessed the recoverability of the carrying value of each store's property and equipment. As part of that evaluation, we recorded impairment losses of \$285,500, all of which relates to four underperforming stores in our North America segment and was determined on the basis of estimated future cash flows. This impairment charge is included in operating expenses on the accompanying Consolidated Statements of Comprehensive Income. There were no impairment charges in 2017 and 2016.

Earnings per share

Basic earnings per share are computed based on the weighted average number of common shares outstanding during the period. Diluted earnings per share includes, to the extent inclusion of such shares would be dilutive to earnings per share, the effect of outstanding options and warrants, computed using the treasury stock method.

	2018	2017	2016
BASIC			
Net income	\$ 1,963,828	\$ 4,451,751	\$ 6,402,259
Weighted average common shares outstanding	9,185,203	9,242,092	9,301,867
Earnings per share – basic	\$ 0.21	\$ 0.48	\$ 0.69
DILUTED			
Net income	\$ 1,963,828	\$ 4,451,751	\$ 6,402,259
Weighted average common shares outstanding	9,185,203	9,242,092	9,301,867
Effect of restricted stock awards and assumed exercise of stock options	459	14,718	19,691
Weighted average common shares outstanding, assuming dilution	9,185,662	9,256,810	9,321,558
Earnings per share - diluted	\$ 0.21	\$ 0.48	\$ 0.69
Outstanding options and restricted stock awards excluded as anti-dilutive	657,717	17,632	31,477

For additional disclosures regarding the restricted stock awards and the employee stock options, see Note 10. The net effect of converting stock options and restricted stock grants to purchase 12,779, 19,169 and 90,085 shares of common stock at option prices less than the average market prices has been included in the computations of diluted EPS for the years ended December 31, 2018, 2017, and 2016, respectively.

Goodwill and other intangibles

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in a business combination. Goodwill is required to be evaluated for impairment on an annual basis, absent indicators of impairment during the interim. Application of the goodwill impairment test requires exercise of judgment, including the estimation of future cash flows, determination of appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment for each reporting unit. Goodwill is not amortized, but is evaluated at least annually for impairment. We completed our annual goodwill impairment analysis as of December 31 for each of the years ended December 31, 2018, 2017, and 2016 and determined that no adjustment to the carrying value of goodwill was required.

The only change in our goodwill for 2018 and 2017 resulted from foreign currency translation gains (losses) of \$8,184 and \$6,748, respectively.

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

	As of December 31, 2018		
	Gross	Accumulated Amortization	Net
Trademarks, Copyrights	\$ 554,369	\$ 546,702	\$ 7,667
Non-Compete Agreements	175,316	166,483	8,833
	<u>\$ 729,685</u>	<u>\$ 713,185</u>	<u>\$ 16,500</u>
	As of December 31, 2017		
	Gross	Accumulated Amortization	Net
Trademarks, Copyrights	\$ 554,369	\$ 545,897	\$ 8,472
Non-Compete Agreements	175,316	164,566	10,750
	<u>\$ 729,685</u>	<u>\$ 710,463</u>	<u>\$ 19,222</u>

Amortization of intangible assets (excluding goodwill) of \$2,722 in 2018, \$1,618 in 2017, and \$6,442 in 2016 was recorded in operating expenses. The weighted average amortization period is 15 years for trademarks and copyrights. Based on the current amount of intangible assets subject to amortization, we estimate amortization expense to be less than \$3,000 annually over the next five years.

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 (unadjusted) for identical assets or liabilities in active markets.

Level 2 – include other inputs that are directly or indirectly observable in the marketplace.

Level 3 – significant unobservable inputs which are supported by little or no market activity.

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 certificates of deposit, accounts receivable, accounts payable, and long-term debt. The carrying value of certificates of deposit, accounts receivable and accounts payable approximate their fair value due to the relatively short-term nature of the accounts. The terms of the long-term debt are considered reasonable for this type of financing; therefore, the carrying amount approximates fair value.

Income taxes

We account for income taxes using the asset and liability method. Under this method, the amount of taxes currently payable or refundable is accrued, and deferred tax assets and liabilities are recognized for the estimated future tax consequences of temporary differences that currently exist between the tax basis and the financial reporting basis of our assets and liabilities.

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 position 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 judgment 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.

Share-based compensation

We have one stock option plan that expired in March 2017. This plan permitted annual stock option grants to non-employee directors with an exercise price equal to the fair market value of the shares at the date of grant. These options vest and become exercisable six months from the option grant date. Under this plan, no stock options were awarded in 2015 or after, therefore, we did not recognize any share based compensation expense for these options during those periods.

The Company's stock-based compensation relates to restricted stock 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 restricted 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 time-based awards typically vest ratably over the requisite service period provided that the participant is employed on the vesting date. The performance-based shares vest, if at all, upon the Company satisfying certain performance targets. The Company records compensation expense for these awards with a performance condition when it is probable that the condition will be achieved. The compensation expense ultimately recognized, if any, related to these performance-based awards will equal the grant date fair value for the number of shares for which the performance condition has been satisfied.

Comprehensive income

Comprehensive income includes net income and certain other items that are recorded directly to Stockholders' Equity. The Company's only source of other comprehensive income is foreign currency translation adjustments.

Shipping and handling costs

Costs to ship products from our stores to our customers are included in operating expenses on the statements of income. These costs totaled approximately \$1,818,000, \$1,965,000, and \$1,982,000 for the years ended December 31, 2018, 2017, and 2016, respectively.

Advertising

Advertising costs include the cost of print, digital, direct mail, community events, trade shows, and our ecommerce platform. With the exception of catalog costs, advertising costs are expensed as incurred. Catalog costs are capitalized and expensed over the estimated useful life of the particular catalog in question, which is typically twelve months. Such capitalized costs are included in other current assets and totaled \$239,000 and \$203,000 at December 31, 2018 and 2017, respectively. Total advertising expense was \$3,889,000 in 2018; \$4,956,000 in 2017; and \$4,759,000 in 2016.

Cash flows presentation

For purposes of the statement of cash flows, we consider all highly liquid investments with initial maturities of three months or less from the date of purchase to be cash equivalents.

Revisions

The Company revised the Consolidated Statement of Cash Flows for the years ended December 31, 2017 and 2016 to correct the presentation of exchange rate changes on cash. This revision resulted in an increase (decrease) in cash provided by operating activities and corresponding increase/decrease to effect of exchange rate changes on cash in the amount of (\$853,822) and \$181,891 for the years ended December 31, 2017 and 2016, respectively. These revisions do not impact the Consolidated Balance Sheets, the Consolidated Statements of Comprehensive Income, or the Consolidated Statements of Stockholders' Equity. The Company has concluded that the effect of this revision is not material to any of our previously issued financial statements

3. VALUATION AND QUALIFYING ACCOUNTS

Allowance for uncollectible accounts

We maintain allowances for bad debts 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. Write-offs have historically not been material, but receivables are evaluated for write off as they are deemed uncollectible based on a periodic review of accounts. Our allowance for doubtful accounts was approximately \$15,700 and \$22,600 at December 31, 2018 and 2017, respectively.

Sales returns and defective merchandise

Product returns are generally recorded directly against sales as those returns occur. At December 31, 2018, we have established a sales return reserve of \$184,000 based on historical customer return behavior, included in Accrued Expenses and Other Liabilities, while an estimated value of the merchandise expected to be returned of \$111,000 has been included in Inventory in the accompanying Consolidated Balance Sheet.

4. BALANCE SHEET COMPONENTS

	December 31, 2018	December 31, 2017
INVENTORY		
On hand:		
Finished goods held for sale	\$ 31,718,769	\$ 34,824,728
Raw materials and work in process	917,966	1,138,316
Inventory in transit	1,119,541	1,348,153
Merchandise expected to be returned	111,000	-
TOTAL	\$ 33,867,276	\$ 37,311,197
PROPERTY AND EQUIPMENT		
Building	\$ 9,257,066	\$ 9,257,066
Land	1,451,132	1,451,132
Leasehold improvements	1,845,767	1,615,464
Equipment and machinery	6,594,487	6,447,776
Furniture and fixtures	8,335,926	7,907,704
Vehicles	521,185	539,339
	28,005,563	27,218,481
Less: accumulated depreciation	(13,606,266)	(11,750,639)
TOTAL	\$ 14,399,297	\$ 15,467,842

Depreciation expense was \$1,797,000, \$1,873,000, and \$1,718,000 for the years ended December 31, 2018, 2017, and 2016, respectively.

Loss (gain) from abandonment and/or disposal of assets, which is included in operating expenses, is as follows, by segment:

Year ended December 31	North America	International	Total
2018	\$ (992)	\$ 2,313	\$ 1,321
2017	2,378	761	3,139
2016	17,699	(714)	16,985

ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31, 2018	December 31, 2017
Accrued bonuses	\$ 1,158,899	\$ 1,748,236
Accrued payroll	711,818	630,259
Deferred revenue	647,277	905,657
Unearned gift card revenue	195,901	-
Estimated returns	184,000	-
Sales and payroll taxes payable	491,775	524,184
Inventory in transit	763,350	1,067,143
Exit obligations	150,529	-
Accrued severance	367,837	-
Other accrued expenses	268,443	77,998
TOTAL	\$ 4,939,829	\$ 4,953,477

In September 2018, we closed our Northampton, UK store and in November 2018, made the decision to close three underperforming stores including Irving, TX; Fort Wayne, IN; and Minto, Australia in early 2019. We have accrued \$151,000 of expenses associated with these store closures, primarily related to involuntary termination benefits and lease exit obligations.

In October 2018, we announced certain leadership changes, including the appointment of a new Chief Executive Officer and departures of our former Chief Executive Officer and our former President. In connection with those changes, we entered into a separation agreement and release with each of our former officers. The agreements included accelerated vesting of restricted stock units, as well as severance payments and other benefits which resulted in a non-recurring, one-time charge of \$608,000 included in operating expenses in the consolidated statement of comprehensive income. At December 31, 2018, \$368,000 of remaining severance payments have been accrued related to these agreements.

5. NOTES PAYABLE AND LONG-TERM DEBT

On September 18, 2015, we executed a Promissory Note and Business Loan Agreement with BOKF, NA d/b/a Bank of Texas ("BOKF") which provides us with a working capital line of credit facility of up to \$6,000,000 and is 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%. The Business Loan Agreement contains covenants that require 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 are calculated quarterly on a trailing four quarter basis. For the years ended December 31, 2018 and 2017, there were no amounts drawn on this line.

Also, on September 18, 2015, we executed a Promissory Note and Business Loan Agreement with BOKF which provides us with a line of credit facility of up to \$10,000,000 for the purpose of repurchasing shares of our common stock pursuant to our stock repurchase program, announced in August 2015 and subsequently amended, which permits us to repurchase up to 2.2 million shares of our common stock at prevailing market prices through August 2019. Subsequently, this line of credit was amended to increase the availability from \$10,000,000 to \$15,000,000 for the repurchase of shares of our common stock pursuant to our stock repurchase program through the earlier of August 25, 2019 or the date on which the entire amount is drawn. In addition, this promissory note was amended on August 20, 2018 to reduce the interest rate by 0.35%. During the draw down period, we are required to make monthly interest-only payments. At the end of this draw down period, the principal balance rolls into a 4-year term note. This Promissory Note is secured by a Deed of Trust on the real estate located at 1900 SE Loop 820, Fort Worth, Texas. There were no amounts drawn on this line during in 2017. During the year ended December 31, 2018, we drew approximately \$1.6 million on this line which was used to purchase approximately 235,052 shares of our common stock pursuant to our stock repurchase program. At December 31, 2018, the unused portion of the line of credit was approximately \$6.0 million.

Prior to August 20, 2018, amounts drawn under either Promissory Note accrue interest at the London interbank Eurodollar market rate for U.S. dollars (commonly known as "LIBOR") plus 1.85% (3.351% at December 31, 2017). Beginning after August 20, 2018, the notes accrue interest at LIBOR plus 1.5% (4.0% at December 31, 2018).

At December 31, the amount outstanding under the above agreements consisted of the following:

	<u>2018</u>	<u>2017</u>
Business Loan Agreement with BOKF – collateralized by real estate; payable as follows:		
Line of Credit Note, as amended, in the maximum principal amount of \$15,000,000 with features as more fully described above – interest due monthly at LIBOR plus 1.5%; matures September 18, 2023	\$ 8,968,018	\$ 7,371,730
Line of Credit Note, as amended, in the maximum principal amount of \$6,000,000 with revolving features as more fully described above – interest due monthly at LIBOR plus 1.5%; matures September 18, 2020	-	-
	\$ 8,968,018	\$ 7,371,730
Less current maturities	<u>747,335</u>	<u>614,311</u>
	<u>\$ 8,220,683</u>	<u>\$ 6,757,419</u>

The terms of the above lines of credit contain various covenants for which we were in compliance as of December 31, 2018 and 2017.

Scheduled maturities of the Company's notes payable and long-term debt are as follows:

2019	\$ 747,335
2020	2,242,004
2021	2,242,004
2022	2,242,004
2023	1,494,671
	<u>\$ 8,968,018</u>

In January 2019, we made the decision to pay down our line of credit note early and the debt was fully repaid in February 2019. There were no prepayment penalties incurred and the line of credit does not carry a commitment fee.

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 2018, 2017, and 2016, 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 2018, 2017 and 2016, we recorded employer match expense of \$361,338, \$326,612 and \$277,753, 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 2018, 2017, or 2016.

We currently offer no postretirement or postemployment benefits to our employees.

7. INCOME TAXES

The provision for income taxes consists of the following:

		<u>2018</u>	<u>2017</u>	<u>2016</u>
Current provision:				
	Federal	\$ 1,607,117	\$ 3,090,997	\$ 3,108,894
	State	223,749	309,249	486,565
		<u>1,830,866</u>	<u>3,400,246</u>	<u>3,595,459</u>
Deferred provision (benefit):				
	Federal	(76,438)	(665,181)	183,520
	State	(14,559)	(23,692)	21,591
		<u>(90,997)</u>	<u>(688,873)</u>	<u>205,111</u>
		<u>\$ 1,739,869</u>	<u>\$ 2,711,373</u>	<u>\$ 3,800,570</u>

On December 22, 2017, Tax Cuts and Jobs Act (the "Tax Act") was enacted which included a number of changes to U.S. tax laws that impact the Company, including beginning in calendar 2018, a reduction of the U.S. corporate tax rate from 35 percent to 21 percent, the repeal of the domestic production activities deduction, new taxes on certain foreign sourced income, and new limitations on certain business deductions. The Tax Act also provided for a one-time transition tax on certain foreign earnings. Because the Tax Act was enacted in 2017, we recorded an estimated \$340,782 of net income tax expense in the fourth quarter of 2017 as follows:

Transition tax on deemed repatriation of certain foreign earnings*	\$ 514,454
Foreign withholding taxes*	290,128
Remeasuring deferred tax position at the lowered income tax rate^	(463,800)
	<u>\$ 340,782</u>

*classified as part of the Federal current provision in 2017

^classified as part of the Federal deferred benefit in 2017

The amounts in 2017 were recorded based on reasonable estimates and our current interpretation of the Tax Act and Staff Accounting Bulletin (SAB) No. 118, which provides SEC staff guidance related to ASC Topic 740, *Income Tax*. In October 2018, we completed our accounting for the income tax effects of the Tax Act, as well as completed the filings of our 2017 tax returns across all of our jurisdictions. This resulted in approximately \$401,000 of additional tax primarily related to an increase in transitional tax as certain of our international net operating losses were subjected to federal limitation rules, additional U. S. federal income recognized related to cross-border intercompany transactions with our Canadian subsidiary, and for certain discrete items that were determined not deductible for tax. Also negatively impacting our effective tax rate in 2018, certain of our international locations incurred operating losses for which no tax benefit was recorded and the Tax Act created new taxes on foreign sourced income while eliminating the domestic manufacturing deduction.

Income before income taxes is earned in the following tax jurisdictions:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
United States	\$ 3,347,690	\$ 6,372,585	\$ 9,070,894
United Kingdom	(385,573)	(171,608)	(81,987)
Canada	680,388	1,055,783	1,034,027
Australia	(2,454)	(88,096)	82,622
Spain	63,646	(5,540)	97,273
	<u>\$ 3,703,697</u>	<u>\$ 7,163,124</u>	<u>\$ 10,202,829</u>

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

	<u>2018</u>	<u>2017</u>
Deferred income tax assets:		
Capitalized inventory costs	\$ 179,535	\$ 198,616
Warrants and share-based compensation	29,047	29,047
Accrued expenses, reserves, and other	39,646	44,075
Total deferred income tax assets	<u>\$ 248,228</u>	<u>\$ 271,738</u>
Deferred income tax liabilities:		
Property and equipment depreciation	\$ 889,719	\$ 1,008,485
Goodwill and other intangible assets amortization	159,435	155,175
Transition tax on deemed repatriation of foreign earnings	507,339	473,298
Total deferred income tax liabilities	<u>\$ 1,556,493</u>	<u>\$ 1,636,958</u>

Our effective tax rate differs from the federal statutory rate primarily due to U.S. state income tax expense, foreign income/loss positions, and the new global intangible low-taxed income tax ("GILTI") for our estimated foreign earnings that was established as part of the Tax Act. Below is a reconciliation of our effective tax rate from the statutory rate:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Statutory rate – Federal U.S. income tax	21%	34%	34%
State and local taxes	5%	6%	6%
Impact of Tax Act	5%	4%	-
Non-U.S. income tax at different rates	17%	(1%)	-
Domestic production activities deduction	-	(2%)	(1%)
Other, net	-	(3%)	(2%)
Effective rate	<u>47%</u>	<u>38%</u>	<u>37%</u>

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 2015. Depending on the jurisdiction, we are no longer subject to state examinations by tax authorities for years prior to the December 2014 and December 2015 tax years.

8. COMMITMENTS AND CONTINGENCIES**Operating Leases**

We lease our store locations under lease agreements that expire on dates ranging from January 2019 to February 2028. Rent expense on all operating leases for the years ended December 31, 2018, 2017, and 2016, was \$4,986,297, \$4,609,724, and \$4,189,225, respectively. None of our store location lease agreements contain variable rental payments, although certain leases require us to pay real estate taxes, insurance, maintenance and other operating expenses associated with the leased premises.

Future minimum lease payments, including fixed executory costs (e.g. real estate taxes, insurance and maintenance) under noncancelable operating leases at December 31, 2018 were as follows:

Year ending December 31:

	2019	\$	4,417,806
	2020		3,750,324
	2021		3,042,779
	2022		2,102,463
	2023		1,289,874
	2024		735,375
	2025		624,970
	2026		420,549
	2027		296,974
	2028		61,350
Total minimum lease payments		\$	16,742,464

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 and operating results. Legal costs associated with the resolution of claims, lawsuits, and other contingencies are expensed as incurred.

9. SIGNIFICANT BUSINESS CONCENTRATIONS AND RISKMajor 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 1/2% of our consolidated revenues in 2018, 2017, or 2016, and sales to our five largest customers represented 1.0%, 1.2%, and 1.4%, 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 at December 31, 2018 and 2017, two customers' balances represented 33.3% and 21.4% 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

a) Equity Compensation Plans

We had a stock option plan that terminated in March 2017, which permitted stock option grants to non-employee directors with an exercise price equal to the fair market value of the shares at the date of grant. Options outstanding and exercisable were granted at a stock option price which was not less than the fair market value of our common stock on the date the option was granted, and no option has a term in excess of ten years.

A summary of stock option transactions for the years ended December 31 is as follows (no amounts shown for 2018, as the plan was terminated in March 2017):

	2017		2016	
	Option Shares	Weighted Average Exercise Price	Option Shares	Weighted Average Exercise Price
Outstanding at January 1	56,400	\$ 5.14	68,400	\$ 5.17
Granted	-	-	-	-
Forfeited or cancelled	(12,000)	5.14	(12,000)	5.30
Exercised	(44,400)	5.14	-	-
Outstanding at December 31	-	\$ -	56,400	\$ 5.14
Exercisable at end of year	-	\$ -	56,400	\$ 5.14
Weighted-average fair value of options granted during year	n/a		n/a	

Because there were no grants of stock options in 2018, 2017 or 2016, there were no amounts of compensation cost recorded. The intrinsic value of stock options exercised in 2017 was \$155,606. Cash received from the exercise of stock options for 2017 was \$223,404.

We have a restricted stock plan that was adopted by our Board of Directors in January 2013 and approved by our stockholders in June 2013. The plan reserves up to 300,000 shares of our common stock for restricted stock awards to our executive officers, non-employee directors and other key employees (of which, there were 178,225 shares available for future awards at December 31, 2018). Awards granted under the plan may be stock awards or performance awards, and may be subject to a graded vesting schedule with a minimum vesting period of four years, unless otherwise determined by the committee that administers the plan.

In addition, in October 2018 we granted (outside of the restricted stock plan) to Janet Carr, our Chief Executive Officer, a total of 644,000 restricted stock units, of which 460,000 vest over a period of five years from the grant date based on Ms. Carr's continued employment in her role as CEO. 92,000 will vest if/when the Company's operating income exceeds \$12 million dollars two fiscal years in a row, and 92,000 will vest if/when the Company's operating income exceeds \$14 million dollars in one fiscal year.

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

	Shares	Grant Fair Value
Balance, January 1, 2017	65,150	\$ 8.03
Granted	9,005	8.05
Forfeited	(4,054)	8.97
Vested	(33,300)	8.97
Balance, December 31, 2017	36,801	\$ 8.03
Balance, January 1, 2018	36,801	\$ 8.03
Granted	654,000	7.39
Vested	(33,084)	7.94
Balance, December 31, 2018	657,717	\$ 7.39

Restricted stock awards are valued at the fair market value of our common stock at the grant date of award. For service awards, we recognize compensation cost over the service period, assuming no forfeitures. For these service awards, our share based compensation expense was \$327,629, \$239,599, and \$199,870 in 2018, 2017 and 2016, respectively, and was included as a component of operating expenses. As of December 31, 2018, there was unrecognized compensation cost related to non-vested, service-based restricted stock awards of \$3,315,366 which will be recognized in each of the following years:

2019	\$ 714,754
2020	711,733
2021	699,088
2022	679,880
2023	509,911

For the performance based awards that were granted to Ms. Carr, no compensation expense has been recorded in 2018.

b) Cash Dividend

Our Board will determine future cash dividends after giving consideration to existing levels of profit and cash flow, capital requirements, current and forecasted liquidity, as well as financial and other business conditions existing at the time.

c) Share Repurchase Program

In August 2015, our Board authorized a share repurchase program pursuant to which we are 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 from 1.2 million to 2.2 million and to extend the program through August 2019. For the year ended December 31, we repurchased the following shares:

Year ended December 31	Total shares repurchased	Average price per share
2018	243,387	\$ 6.79
2017	-	-
2016	520,482	\$ 7.06

At December 31, 2018, there are 907,406 shares that remain available for repurchase under the plan.

11. SEGMENT INFORMATION

We operate in two segments, based on management responsibility and store location: North America and International. Our reportable operating segments have been determined as separately identifiable business units, and we measure segment earnings as operating earnings, defined as income before interest and income taxes.

	North America	International	Total
For the year ended December 31, 2018			
Net Sales	\$ 79,553,353	\$ 3,544,834	\$ 83,098,187
Gross Profit	48,375,877	2,204,314	50,580,191
Operating earnings	4,182,969	(354,506)	3,828,463
Interest expense	304,957	-	304,957
Other (income) expense, net	(150,067)	(30,124)	(180,191)
Income before income taxes	4,028,079	(324,382)	3,703,697
Depreciation and amortization	1,696,656	100,625	1,797,281
Fixed asset additions	1,000,263	91,170	1,091,433
Total assets	\$ 71,578,634	\$ 4,561,500	\$ 76,140,134
For the year ended December 31, 2017			
Net Sales	\$ 78,568,219	\$ 3,753,049	\$ 82,321,268
Gross Profit	49,889,888	2,223,941	52,113,829
Operating earnings	7,498,817	(256,995)	7,241,822
Interest expense	205,555	-	205,555
Other expense, net	(135,011)	8,154	(126,857)
Income before income taxes	7,428,370	(265,246)	7,163,124
Depreciation and amortization	1,790,421	84,681	1,875,102
Fixed asset additions	1,666,171	23,474	1,689,645
Total assets	\$ 70,302,116	\$ 4,612,480	\$ 74,914,596
For the year ended December 31, 2016			
Net Sales	\$ 79,041,920	\$ 3,882,072	\$ 82,923,992
Gross Profit	49,315,003	2,398,239	51,713,242
Operating earnings	10,224,773	75,958	10,300,731
Interest expense	155,189	-	155,189
Other expense, net	(35,290)	(21,997)	(57,287)
Income before income taxes	10,104,873	97,956	10,202,829
Depreciation and amortization	1,631,534	87,620	1,719,154
Fixed asset additions	1,609,829	87,875	1,697,704
Total assets	\$ 66,502,432	\$ 4,150,288	\$ 70,652,720

Net sales by geographic areas were as follows:

	2018	2017	2016
United States	\$ 71,443,246	\$ 70,453,773	\$ 70,886,401
Canada	7,120,452	7,224,894	7,199,155
All other countries	4,534,489	4,642,601	4,838,436
	\$ 83,098,187	\$ 82,321,268	\$ 82,923,992

Geographic sales information is based on the location of the customer. Except for Canada, we had no sales to any single foreign country that was material to our consolidated net sales in 2018, 2017, or 2016. We do not have any significant long-lived assets outside of the United States.

12. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, FASB issued ASU 2016-02, "Leases", a comprehensive new standard that amends various aspects of existing accounting guidance for leases. Under the new guidance, lessees are required to recognize a lease liability, which represents the discounted obligation to make future minimum lease payments, and a corresponding right-of-use asset on the balance sheet for most leases with terms longer than twelve months. The guidance retains the current accounting for lessors and does not make significant changes to the recognition, measurement, and presentation of expenses and cash flows by a lessee. Enhanced disclosures will also be required to give financial statement users the ability to assess the amount, timing and uncertainty of cash flows arising from leases.

We adopted the lease standard as of January 1, 2019 using the modified retrospective transition method, recording a cumulative effect adjustment to our opening balance of retained earnings as of the effective date. We elected the package of practical expedients permitted under the transition guidance, which among other things, allows us to carryforward the historical lease classification. In addition, we elected the hindsight practical expedient to determine the reasonably certain lease term for existing leases. We also made an accounting policy election to keep leases with an initial term of 12 months or less off of the balance sheet, as well as to include executory costs (e.g. real estate taxes, insurance and maintenance) when fixed in the lease contract as part of the minimal lease payments.

We estimate adoption of the standard will result in recognition of additional net lease assets and lease liabilities of approximately \$6.1 million and \$6.5 million, respectively, as of January 1, 2019. The difference between these amounts will be recorded as an adjustment to retained earnings. We do not believe the standard will materially affect our consolidated net income or impact our liquidity. The standard will also have no impact on our debt-covenant compliance under our current agreements.

13. QUARTERLY FINANCIAL DATA (UNAUDITED)

	2018	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales		\$ 20,288,918	\$ 19,177,767	\$ 18,887,099	\$ 24,744,403
Gross profit		12,842,962	13,118,442	11,846,833	12,771,954
Net income (loss)		1,273,619	1,440,092	(121,534)	(628,349)
Net income (loss) per common share:					
Basic		\$ 0.14	\$ 0.15	\$ (0.01)	\$ (0.07)
Diluted		\$ 0.14	\$ 0.15	\$ (0.01)	\$ (0.07)
Weighted average number of common shares outstanding:					
Basic		9,264,446	9,180,076	9,154,209	9,143,746
Diluted		9,264,811	9,180,727	9,155,031	9,143,746
	2017	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales		\$ 20,149,845	\$ 19,280,770	\$ 18,388,381	\$ 24,502,272
Gross profit		12,286,045	12,895,534	11,635,331	15,296,919
Net income		1,231,265	1,027,732	521,414	1,671,340
Net income per common share:					
Basic		\$ 0.13	\$ 0.11	\$ 0.06	\$ 0.18
Diluted		\$ 0.13	\$ 0.11	\$ 0.06	\$ 0.18
Weighted average number of common shares outstanding:					
Basic		9,308,726	9,225,960	9,270,862	9,270,862
Diluted		9,330,919	9,229,129	9,273,950	9,272,330

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated 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) as of the end of the period covered by this report. Based upon their evaluation of these disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective as of the date of such evaluation in ensuring that information required to be disclosed in the reports that we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Our internal control system was designed to provide reasonable assurance to our management and our board of directors regarding the reliability of the preparation and fair presentation of our published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

We have assessed the effectiveness of our internal controls over financial reporting as of December 31, 2018. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commissions (COSO) in *Internal Control – Integrated Framework*. Based on our assessment, we believe that, as of December 31, 2018, our internal control over financial reporting is effective based on that criteria.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report is not subject to attestation by our registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only management's report in this Annual Report on Form 10-K.

Changes in internal control

There was no change in our internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III*

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE*

ITEM 11. EXECUTIVE COMPENSATION*

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

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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES*

* The information required by Items 10, 11, 12, 13, and 14 is or will be set forth in the definitive proxy statement relating to the 2019 Annual Meeting of Stockholders of Tandy Leather Factory, Inc., which is to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended. This definitive proxy statement relates to a meeting of stockholders involving the election of directors and the portions therefrom required to be set forth in this Form 10-K by Items 10, 11, 12, 13, and 14 are incorporated herein by reference pursuant to General Instruction G(3) to Form 10-K.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

1. Financial Statements

The following consolidated financial statements are included in Item 8:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at December 31, 2018 and 2017

Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017, and 2016

Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017, and 2016

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2018, 2017, and 2016

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

Exhibit Number	Description
3.1	Certificate of Incorporation of The Leather Factory, Inc., and Certificate of Amendment to Certificate of Incorporation of The Leather Factory, Inc. filed as Exhibit 3.1 to Tandy Leather Factory, Inc.'s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 12, 2005 and incorporated by reference herein.
3.2	Bylaws of The Leather Factory, Inc. (n/k/a Tandy Leather Factory, Inc.) filed as Exhibit 3.5 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on July 14, 2004 and incorporated by reference herein.
3.3	Certificate of Designations of Series A Junior Participating Preferred Stock of Tandy Leather Factory, Inc. filed as Exhibit 3.1 to Tandy Leather Factory, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on June 10, 2013 and incorporated by reference herein.
10.1	\$6,000,000 Promissory Note, dated August 20, 2018, by and between Tandy Leather Factory, Inc. and BOKF, NA dba Bank of Texas, filed as Exhibit 10.1 to Tandy Leather Factory's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 21, 2018 and incorporated by reference herein.
10.2	\$15,000,000 Promissory Note, dated August 20, 2018, by and between Tandy Leather Factory, Inc. and BOKF, NA dba Bank of Texas, filed as Exhibit 10.2 to Tandy Leather Factory's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 21, 2018 and incorporated by reference herein.
10.3	Deed of Trust, dated as of September 18, 2015, by and among Tandy Leather Factory, Inc., Jeffrey L Season and BOKF, NA dba Bank of Texas, filed as Exhibit 10.1 to Tandy Leather Factory's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 24, 2015 and incorporated by reference herein.
10.4	Form of Change of Control Agreement between the Company and each of Jon Thompson, Shannon Greene and Mark Angus, each effective as of December 3, 2012, filed as Exhibit 10.1 to Tandy Leather Factory's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 6, 2012 and incorporated by reference herein.
10.5	Tandy Leather Factory, Inc. 2013 Restricted Stock Plan, filed as Exhibit 10.1 to Tandy Leather Factory's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2013 and incorporated by reference herein.
10.6	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.
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10.8	Form of Employment Agreement dated October 2, 2018 between the Company and Janet Carr, filed as Exhibit 10.1 to Tandy Leather Factor's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 5, 2018 and incorporated by reference herein.
10.9	Form of Stand Alone Restricted Stock Unit Agreement dated October 2, 2018 between the Company and Janet Carr, filed as Exhibit 10.2 to Tandy Leather Factor's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 5, 2018 and incorporated by reference herein.
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*10.11	Form of Separation Agreement and Release dated October 2, 2018 between the Company and Shannon Greene.
*10.12	Form of Separation Agreement and Release dated October 2, 2018 between the Company and Mark Angus.
*14.1	Code of Business Conduct and Ethics of Tandy Leather Factory, Inc., adopted by the Board of Directors on December 4, 2018.
*21.1	Subsidiaries of Tandy Leather Factory, Inc.
*23.1	Consent of Independent Registered Public Accounting Firm
*31.1	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
*31.2	Certification by the Chief Financial Officer and Treasurer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934
*32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Document
101.DEF	XBRL Taxonomy Extension Definition Document
101.LAB	XBRL Taxonomy Extension Labels Document
101.PRE	XBRL Taxonomy Extension Presentation Document

*Filed Herewith

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, the Registrant has duly caused this Annual Report on 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: March 8, 2019

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

Signature	Title	Date
<u>/s/ Jeff Gramm</u> Jeff Gramm	Chairman of the Board	March 8, 2019
<u>/s/ Janet Carr</u> Janet Carr	Chief Executive Officer, Director (principal executive officer)	March 8, 2019
<u>/s/ Tina L. Castillo</u> Tina L. Castillo	Chief Financial Officer and Treasurer (principal financial officer and principal accounting officer)	March 8, 2019
<u>/s/ William M. Warren</u> William M. Warren	Director	March 8, 2019
<u>/s/ James Pappas</u> James Pappas	Director	March 8, 2019
<u>/s/ Vicki Cantrell</u> Vicki Cantrell	Director	March 8, 2019
<u>/s/ Sharon M. Leite</u> Sharon M. Leite	Director	March 8, 2019
<u>/s/ Sejal Patel</u> Sejal Patel	Director	March 8, 2019
<u>/s/ Brent Beshore</u> Brent Beshore	Director	March 8, 2019

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*Filed Herewith

SEPARATION AGREEMENT AND RELEASE

This Separation Agreement and Release (the "**Agreement**") is dated as of October 2, 2018 by and between Tandy Leather Factory, Inc., a Delaware Corporation (the "**Company**"), and Shannon Greene (the "**Executive**").

WHEREAS, Executive has been serving as interim Chief Executive Officer (CEO) of the Company since February 2016, before the interim designation was removed in June of 2016;

WHEREAS, Executive has been serving as an Inside Director on the Company's Board of Directors (the "**Board**") since 2001;

WHEREAS, Executive has resigned as CEO and Inside Director effective October 2, 2018;

WHEREAS, the Company has accepted Executive's resignation as CEO;

WHEREAS, Executive wishes to resign as Inside Director;

WHEREAS, the Board wishes to accept Executive's resignation as Inside Director;

WHEREAS, the Executive and the Company (collectively, the "**Parties**") desire to resolve amicably all matters between them on a full and final basis;

WHEREAS, the Parties hereto regard the representations by each set forth herein as material and that each Party is relying on these representations in entering into this Agreement;

NOW THEREFORE, expressly incorporating the foregoing recitals as part of the consideration hereof and in further consideration of the mutual terms and conditions herein, intending to be legally bound, the Parties agree as follows

1. **Voluntary Resignation From Company.** Executive has tendered, and the Company has accepted, Executive's resignation as CEO (and any other office or position) of the Company effective as of October 2, 2018 (the "**Separation Date**"). Executive will no longer occupy any positions as an employee, officer, director, manager or board member for the Company or any of its subsidiaries or affiliates, in each case, effective as of the Separation Date. The Separation Date shall be the last day of Executive's employment for all purposes. Except as specifically provided herein, participation in and coverage under all employee benefit plans, programs, and perquisites sponsored by or through the Company, its parents, and its subsidiaries shall terminate in accordance with the generally applicable provisions of such plans or programs, subject to any conversion or continuation rights provided by the terms of such plans or programs or applicable law.

2. **Voluntary Resignation From Board.** Upon execution of this Agreement, Executive will sign the resignation letter attached hereto as Exhibit A and promptly submit it to the Board. If further action is necessary to effectuate Executive's resignation from the Board, Executive will take whatever reasonable steps are necessary to effectuate her resignation from the Board.

3. **Accrued but Unpaid Compensation and Reimbursable Expenses.** The Company shall pay Executive for all salary earned, but not paid through the Separation Date, less any applicable taxes and deductions, no later than the next regularly scheduled payday following the Separation Date. The Company also shall reimburse Executive for any unreimbursed business expenses properly incurred by Executive prior to the Separation Date and submitted for reimbursement in accordance with the Company's applicable reimbursement policy.

4. **Severance Benefits.** In consideration for Executive's signing and non-revocation of this Agreement and her compliance with the terms thereof, including her compliance with the Post-Employment Restrictive Covenants provision contained in Section 10, the Confidentiality and Nondisclosure provision contained in Section 11, and the Full Release contained in Section 6 herein, the Company shall provide Executive with the following benefits (the "**Severance Benefits**"):

(a) The Company shall pay Executive a gross salary at the rate of twenty-seven thousand eighty-three dollars (\$27,083.00) per month for seven (7) months following the Separation Date, less applicable taxes and deductions ("**Severance Payment**"). The Severance Payment shall be payable as salary continuation in accordance with the Company's regular payroll practices, starting on the Company's first payroll date following the eighth (8th) day after Executive signs this Agreement.

(b) Subject to Executive's timely election of continuation of coverage for the Executive (and, to the extent covered immediately prior to the Separation Date, her spouse and dependents) under the Company's health plans pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("**COBRA**"), the Company shall reimburse Executive for all COBRA premiums paid for coverage during the twelve (12) months following the Separation Date, unless Executive shall have secured group medical coverage through another employer before the end of twelve (12) months, at which earlier point the Company's obligation to reimburse Executive for premiums shall cease. The Company's obligation to reimburse Executive for COBRA premiums is subject to Executive providing documentation of premiums paid.

(c) Effective as of the Separation Date, the Company will:

- (i) Exercise its discretion pursuant to the Restricted Stock Agreement between Executive and the Company (the "**2016 Stock Agreement**") to immediately accelerate the vesting of all unvested shares of Restricted Stock granted to Executive in the 2016 Stock Agreement and held by Executive as of the Separation Date. Any remaining unvested stock granted to Executive in the 2016 Stock Agreement will be forfeited pursuant to Section 8(b) of the 2016 Stock Agreement.
- (ii) Exercise its discretion pursuant to the Restricted Stock Agreement between Executive and the Company (the "**2015 Stock Agreement**") to immediately accelerate the vesting of all unvested shares of Restricted Stock granted to Executive in the 2015 Stock Agreement and held by Executive as of the Separation Date. Any remaining unvested stock granted to Executive in the 2015 Stock Agreement will be forfeited pursuant to Section 8(b) of the 2015 Stock Agreement.

(d) The Company will also provide Executive with the following:

- (i) Promptly following the execution of this Agreement, the Company will pay to the Executive the amount of \$10,000 in lieu of any vacation time that the Executive may have accrued but not used during the term of Executive's employment; and
- (ii) The Company shall pay (directly to an agreed-upon firm) the out-of-pocket cost for up to 12 months of outplacement services for the Executive to obtain new employment, up to a maximum aggregate of \$12,500.

5. **Clawback.** If Executive revokes or materially breaches the Agreement as determined by an arbitrator in accordance with Section 12 below, including but not limited to Section 9, Section 10 and Section 11, Executive shall be liable to the Company for the value of the Severance Benefits, including the value of any shares of Restricted Stock that vested according to the terms of Section 4(c) of this Agreement. The Board will determine, in its sole discretion, the method for recouping the Severance Benefits which may include, without limitation: (i) requiring reimbursement of cash Severance Benefits previously paid; (ii) seeking recovery of any gain realized on the vesting, exercise, settlement, sale, transfer or other

disposition of any equity-based awards; and/or (iii) taking any other remedial and recovery action permitted by law, as determined by the Board. Any right of recoupment under this Agreement is in addition to, and not in lieu of, any other remedies or rights of recoupment that may be available to the Company. Notwithstanding the foregoing, the first one thousand dollars (\$1,000) paid in cash Severance Benefits shall be exempt from recoupment under this Agreement. The Parties agree that this \$1,000 payment is fair and adequate consideration for the Full Release in Section 6 of this Agreement, including the release of claims under the Age Discrimination in Employment Act (as amended by the Older Workers Benefit Protection Act).

6. **Full Release.** (a) As a condition to the benefits afforded Executive hereunder and in consideration of the Severance Benefits, which the Parties agree is fair and adequate consideration, Executive, for herself, her heirs, executors, administrators, successors and assigns (hereinafter collectively referred to as the "**Releasors**"), hereby irrevocably, unconditionally and fully releases, acquits, and discharges the Company, its directors, officers, board members, committees, affiliates, insurers, predecessors, successors, and assigns, and their respective predecessors, parents, affiliates, subsidiaries, divisions, committees, equity holders, members, managers, partners, officers, directors, employees, legal advisors, representatives, trustees, benefits plans, lenders, investors and agents (all such persons, firms, corporations and entities are referred to herein as the "**Company Entities**") from any and all actions, causes of action, suits, debts, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, bonuses, pro-rata bonuses, retention bonuses, severance pay, severance benefits, cash equivalent payments for benefits, controversies, agreements, liabilities, promises, claims, obligations, costs, losses, damages and demands of whatsoever character, in law or in equity, whether or not known, suspected or claimed, which the Releasors ever had, have, or may have from the beginning of time through the date of Executive's execution of this Agreement, against the Company Entities arising out of or in any way related to Executive's employment, service, board membership, or affiliation with the Company Entities, or the termination of her employment, service, or affiliation, including, but not limited to, claims arising under any employment agreement, as well as claims arising under the Americans With Disabilities Act, the Age Discrimination in Employment Act (as amended by the Older Workers Benefit Protection Act), the National Labor Relations Act, the Fair Labor Standards Act, the Employee Retirement Income Security Act of 1974, the Equal Pay Act, the Fair Credit Reporting Act, the Genetic Information and Discrimination Act, Title VII of the Civil Rights Act of 1964, as amended, the Civil Rights Acts of 1866, 1871 and 1991, including Section 1981-1988 of the Civil Rights Act, the Labor Management Relations Act, the Vietnam Era Veterans Readjustment Act of 1974, the Rehabilitation Act of 1973, the Worker Adjustment and Retraining Notification Act, Section 806 of the Corporate and Criminal Fraud Accountability Act of 2002, the Immigration Reform Control Act, the Occupational Safety and Health Act, the Family and Medical Leave Act, any and all claims under Texas statutory or common law, including but not limited to claims brought under the Texas Commission on Human Rights Act, the Texas Labor Code, and the Texas Pay Day Law, each as may be amended, and/or any other federal, state, district or local human rights, civil rights, wage-hour, pension, employment, labor or other law, rule, statute, regulation, constitution or ordinance and/or public policy, contract or tort law, or any claim of retaliation under such laws, or any claim of breach of any contract (whether express, oral, written or implied from any source), or any claim of intentional or negligent infliction of emotional distress, tortious interference with contractual relations, wrongful or abusive discharge, discrimination, defamation, prima facie tort, fraud, negligence, loss of consortium, or any action similar thereto against the Company Entities, including any claim for attorneys' fees; provided, however, that the Releasors do not waive any rights or release the Company Entities from (i) its obligations to Executive pursuant to this Agreement, including those set forth on Exhibit A; (ii) any COBRA (or similar district mandated) continuation coverage rights under applicable law (which will be paid for, if elected, by the Company); (iii) indemnification or directors' and officers' insurance rights Executive may have in respect of her service to the Company; and (iv) vested benefits, if any, of Executive under the terms of any employee benefit plan; and further provided, that the Releasors do not release any right to challenge, under the Older Worker's Benefit Protection Act, the knowing and voluntary nature of the release of any age claims in this Agreement, in court or before the Equal Employment Opportunity Commission ("**EEOC**") or any right to file an administrative charge with the EEOC or any other federal, state, or local agency (provided, that any right to recover monetary damages in any such proceeding shall be released and waived), or any claims that cannot be waived by law, including unemployment benefit rights and workers' compensation.

(b) For a period of three years following the Separation Date, the Company shall maintain comparable levels of Directors and Officers Insurance coverage as existed as of the Separation Date with respect to the periods of Executive's service to the Company. In addition, unless otherwise required by law or regulation, for a period of three years following the Separation Date, the Company shall maintain its policies of indemnification of Directors and Officers as existed as of the Separation Date with respect to Executive's service to the Company. The foregoing shall not preclude the Company from making changes to its insurance coverage or indemnification policies to the extent such changes would be applicable to all then-current Directors and Executive Officers of the Company.

7. **Intellectual Property.** Executive agrees that any Inventions made, conceived, or completed by Executive during the term of Executive's service, solely or jointly with others, which are made with the Company's equipment, supplies, facilities, or Confidential Information, or which relate at the time of conception or reduction to purpose of the Invention, to the business of the Company, or the Company's actual or demonstrably anticipated research and development, or which result from any work performed by Executive for the Company, will be the sole and exclusive property of the Company, and all Trade Secrets, Confidential Information, copyrightable works, works of authorship, and all patents, registrations, or applications related thereto, all other intellectual property or proprietary information and all similar or related information (whether or not patentable and copyrightable and whether or not reduced to tangible form or practice) which relate to the business, research and development, or existing or future products or services of the Company and/or its subsidiaries and which are conceived, developed, or made by Executive during Executive's employment with the Company ("**Work Product**") will be deemed to be "work made for hire" (as defined in the Copyright Act, 17 U.S.C. §101 et seq., as amended) and owned exclusively by the Company. To the extent that any Work Product is not deemed to be a "work made for hire" under applicable law, and all right, title, and interest in and to such Work Product have not automatically vested in the Company, Executive hereby (a) irrevocably assigns, transfers, and conveys, and will assign, transfer, and convey, to the fullest extent permitted by applicable law, all right, title, and interest in and to the Work Product on a worldwide basis to the Company (or such other person or entity as the Company may designate), without further consideration; and (b) waives all moral rights in or to all Work Product, and to the extent such rights may not be waived, agrees not to assert such rights against the Company or its respective licensees, successors, or assigns. In order to permit the Company to claim rights to which it may be entitled, Executive agrees to promptly disclose to the Company in confidence all Work Product which Executive makes arising out of Executive's employment with the Company. During the Restricted Period, Executive will assist the Company in obtaining patents on all Work Product patentable by the Company in the United States and in all foreign countries, and will execute all documents and do all things reasonably necessary to obtain letters patent, to vest the Company with full and extensive title thereto, and to protect the same against infringement by others.

8. By executing this Agreement, Executive acknowledges that:

(a) This Agreement does not include claims arising after the Execution Date of this Agreement and shall be effective as of such Execution Date;

(b) Executive acknowledges that she has had twenty-one (21) days to consider this Agreement's terms (commencing from delivery hereof). Executive may accept this Agreement by signing it and returning it to Scott Barnard, Akin Gump Strauss Hauer & Feld LLP, 1700 Pacific Avenue, Suite 4100, Dallas, Texas 75201;

(c) Executive understands that on the eighth (8th) day after the date of execution of this Agreement, this Agreement becomes effective and, as of that date, Executive may not change her decision or seek any other remuneration in any form; provided, however, that she has a seven (7) day revocation period (beginning on the date of execution) that expires at 5:00 pm on such seventh (7th) day. If Executive intends to revoke this Agreement, she must advise Scott Barnard of Akin Gump Strauss Hauer & Feld LLP, 1700 Pacific Avenue, Suite 4100, Dallas, Texas 75201, on or before the expiration of this seven (7) day revocation period by delivering to Scott Barnard at Akin Gump Strauss Hauer & Feld LLP, 1700 Pacific Avenue, Suite 4100, Dallas, Texas 75201, written notification of her intention to revoke this Agreement, which written notification makes specific reference to this Agreement;

(d) By signing this Agreement, Executive acknowledges that she has had a full and fair opportunity to review, consider and negotiate the terms of this release and this Agreement, that she has been advised to seek advice of an independent attorney of her choosing in connection with her decision whether to accept the benefits that have been offered to her under this Agreement, that she has read and understands this Agreement, and that she has signed this Agreement freely and voluntarily, without duress, coercion or undue influence and with full and free understanding of its terms. Moreover, should any provision of this Agreement require interpretation or construction, it is agreed by the Parties that the entity interpreting or construing this Agreement shall not apply a presumption against one Party by reason of the rule of construction that a document is to be construed more strictly against the Party who prepared the document;

(e) The Agreement is not intended, and shall not be construed, as an admission that any of the Parties has violated any federal, state, district or local law (statutory or decisional), ordinance or regulation, breached any contract or committed any wrong whatsoever;

(f) For the purpose of implementing a full, knowing and complete release and discharge of the Company Entities, Executive expressly acknowledges that this Agreement is intended to include in its effect, without limitation, all claims which Executive does not know or suspects to exist in her favor at the time of execution hereof, and that this Agreement contemplates the extinguishment of any such claim or claims;

(g) Executive represents that neither she nor any person acting on her behalf has filed or caused to be filed any lawsuit, complaint, or charge against any of the Company Entities in any court, any municipal, state or federal agency, or any other tribunal. Executive agrees that she will not, to the fullest extent permitted by law, sue or file a complaint, grievance or demand for arbitration in any forum pursuing any claim released under this Agreement or assist or otherwise participate in any claim, arbitration, suit, action,

investigation or other proceeding of any claim released hereunder; provided, however, that Executive does not waive, release or discharge any right to file a charge or participate in any manner in an investigation, hearing, or proceeding by the EEOC or any other federal, state, or local agency (provided, that any right to recover monetary damages in any such proceeding shall be released and waived);

(h) Executive represents and warrants that she has not assigned or conveyed to any other person or entity any part of or interest in any of the claims released in this Agreement. Executive further expressly waives any claim to any monetary or other damages or any other form of recovery in connection with any claim released in this release or any proceeding that violates this Agreement;

(i) Executive affirms that she has not suffered any known workplace injuries or occupational diseases and that she has not been retaliated against for reporting any allegations of wrongdoing by the Company or its subsidiaries or affiliates, or their respective officers or board members, including any allegations of corporate fraud.

9. **Nondisparagement.** Executive represents and warrants that she will refrain from making any negative, false, disparaging or misleading statements to any other person or entity regarding the Company or its agents, including, without limitation, any employee, officer, director or executive of the Company.

10. **Post-Employment Restrictive Covenants.** In exchange for the consideration set forth in this Agreement, Executive's post-employment restrictive covenants regarding unfair competition are set forth in this Section 10.

(a) **Non-Competition.** Executive agrees that the Executive will not, for a period beginning on the Separation Date and ending seven (7) months later (the "**Restricted Period**"), enter into or maintain an employment, contractual, or other business relationship, either directly or indirectly, with Ivan Leathercraft Co., LTD or any of its subsidiaries or affiliates.

(b) **Non-Solicitation Covenants.** During the "Restricted Period" Executive shall not directly or indirectly:

- a. Solicit, induce, recruit, or otherwise cause (regardless of which party initiated initial contact) any current subcontractors, clients, customers, vendors, or suppliers of the Company or its Affiliates to cease or otherwise modify its doing business, in whole or in part, with or through the Company or its affiliates; or
- b. Solicit, induce, encourage, target, or otherwise cause (regardless of which party initiated initial contact) any employee of the Company or its affiliates to: (i) leave the Company's or its affiliates' employ; (ii) deviate from full-time employment and devotion of full-time effort in such employee's employment with the Company or its affiliates; or (iii) otherwise directly or indirectly, own, manage, operate, control, be employed by, perform any services for, consult with, solicit business for, participate in, or be connected with the ownership, management, operation, or control of any business, other than that of the Company and its affiliates, or assist any person, in any manner, in so doing. Notwithstanding the foregoing, general solicitations not specifically targeting such restricted employees (such as through the placing of a classified ad in a newspaper) shall not be a breach of this provision.

(c) Executive acknowledges that if the Executive were to breach any of the covenants in this Section 10, such breach would result in immediate and irreparable harm to Company, its parents, subsidiaries, affiliates or related entities that cannot be adequately or reasonably compensated at law. Notwithstanding any other provisions in this Agreement to the contrary, should the Company determine that Executive violated any of the terms of Section, any and all remaining Severance Benefits from Company to Executive shall cease as of the date of such determination by the Company and the Severance Benefits provided to Executive would be subject to clawback pursuant to Section 5.

11. **Confidentiality and Nondisclosure.** Executive agrees to comply with the terms of the Confidentiality and Trade Secret Agreement that she previously signed (the "**Confidentiality Agreement**"), the terms of which are hereby expressly incorporated by reference. The terms of the Confidentiality Agreement shall survive the termination of Executive's employment. Executive represents and warrants that Executive has delivered to the Company all originals and all duplicates and/or copies of all documents, records, notebooks, and similar repositories of or containing confidential information or subject matter in Executive's possession, whether prepared by Executive or not. Executive will not disclose, use, or otherwise trade on any confidential, proprietary, or trade secret information of the Employer. Executive further agrees that she will not disclose, or cause to be disclosed in any way, the terms of this Agreement or the fact that this Agreement exists, except for the purpose of enforcing this Agreement, should that ever be necessary. This provision does not prohibit Executive from providing this information on a confidential and privileged basis to her current spouse or to her attorneys, tax or financial advisors or insurers, so long as she ensures that these parties maintain the strict confidentiality of the Agreement. Executive may also reveal information relating to this Agreement in response to any court order or subpoena or other direction by a court or administrative agency mandating such disclosure.

12. **Arbitration.** Any dispute, controversy or claim arising out of or related to in any way to the Parties' employment relationship or termination of that relationship, including this Agreement or any breach of this Agreement, shall be submitted to and decided by binding arbitration in Tarrant County, Texas. Arbitration shall be administered under the laws of the American Arbitration Association ("**AAA**") in accordance with the AAA Employment Arbitration Rules in effect at the time the arbitration is commenced. The arbitration shall be conducted by a single arbitrator, who shall be an attorney who specializes in the field of employment law and who shall have prior experience arbitrating employment disputes. The award of the arbitrator shall be final and binding on the parties, and judgment on the award may be confirmed and entered in any state or federal court. In the event of any court proceeding to challenge or enforce an arbitrator's award, the Parties hereby consent to the exclusive jurisdiction of the courts in the State of Texas and agree to venue in that jurisdiction. The Parties shall split the costs of any such arbitrator, who shall have the authority to award reasonable attorneys' fees and expenses to the prevailing Party (including any share of the fees and expenses for such arbitrator), provided, that, the Company will pay the costs of any arbitrator if it is a condition precedent to enforcing this arbitration obligation.

13. **Return of Company Property.** The Executive agrees that, within a reasonable time following the execution of this Agreement, the Executive shall return or shall have returned all property of the Company, including, but not limited to, Company issued/owned phones, iPads, computers, laptops, peripheral electronic equipment (e.g., printers, cameras, projectors, computer docking stations, etc.), Blackberry or other personal digital assistants (PDAs), credit cards, keys, door cards, tools, equipment on loan, and any other Company books, manuals, and journals. The Company shall use reasonable efforts to assist the executive to collect personal items located in the Company's office and to obtain contact files and other electronic files determined to be solely personal that reside on Company systems used by the Executive during Executive's term of employment.

14. Miscellaneous.

(a) This Agreement shall be construed and enforced in accordance with, and the validity and performance hereof shall be governed by, the laws of the State of Texas, excluding Texas's choice-of-law principles.

(b) Nothing in this Agreement is intended to prohibit, or shall be interpreted to prohibit, Executive from reporting possible violations of federal law or regulation to any governmental agency or entity, including but not limited to the Department of Justice, the Securities and Exchange Commission, the Congress, and any agency Inspector General, or making other disclosures that are protected under the whistleblower provisions of federal law or regulation.

(c) If any term or provision of this Agreement (or any portion thereof) is determined by an arbitrator or a court of competent jurisdiction to be invalid, illegal, or incapable of being enforced, all other terms and provisions of this Agreement shall nevertheless remain in full force and effect. Upon a determination that any term or provision (or any portion thereof) is invalid, illegal, or incapable of being enforced, the Company and Executive agree that an arbitrator or reviewing court shall have the authority to "blue pencil," modify or reform this Agreement (or the Employment Agreement) so as to render it enforceable and effect the original intent of the Parties to the fullest extent permitted by applicable law.

(d) This Agreement may be executed in identical counterparts, which together shall constitute a single agreement. Facsimile, pdf, and other true and correct photostatic copies of this Agreement shall have the same force and effect as originals hereof.

(e) The headings used in this Agreement are included solely for convenience and shall not affect or be used in connection with the interpretation of this Agreement. Wherever the context so requires, the masculine gender includes the feminine or neuter, and the singular number includes the plural and conversely.

(f) This Agreement represents the entire agreement between the Parties with respect to the subject matter hereof (with the exception of Restricted Stock Agreements to the extent applicable to benefits described under Section 4 above) and may not be amended except in a writing signed by the Company and Executive.

(g) This Agreement shall be binding on the executors, heirs, administrators, successors and assigns of Executive and the successors and assigns of the Company and shall fully inure to the benefit of the respective executors, heirs, administrators, successors and assigns of the Company Entities and to the surviving spouse, estate, heirs, executors, administrators and/or successors and assigns of Executive (including, without limitation, with respect to any rights (and the enforcement thereof) under this Agreement and/or against an insurer of any long term disability insurance policy for which premiums due and payable were fully paid). The Company Entities are intended third-party beneficiaries.

(h) Nothing in this Agreement shall be construed as an admission of wrongdoing or liability on the part of the Company Entities or the Executive.

(i) No provision of this Agreement may be amended or modified unless such amendment or modification is agreed to in writing and signed by Executive and the Company. No waiver by either of the Parties of any breach by the other Party hereto of any condition or provision of this Agreement to be performed by the other Party hereto shall be deemed a waiver of any similar or dissimilar provision or condition at the same or any prior or subsequent time, nor shall the failure of or delay by either of the Parties in exercising any right, power or privilege hereunder operate as a waiver thereof to preclude any other or further exercise thereof or the exercise of any other such right, power or privilege.

(j) Executive acknowledges and agrees that her continued employment through the Separation Date together with the payments and benefits set forth in this Agreement (including the Severance Benefits): (i) are in full discharge of any and all liabilities and obligations of the Company to Executive, monetarily or with respect to her employment; and (ii) exceed any payment, benefit, or other thing of value to which Executive might otherwise be entitled.

(k) Executive acknowledges and agrees that she is solely and entirely responsible for the payment and discharge of all federal, state and local taxes, if any, that she owes under any federal, state and/or local laws as a result of the payments and other consideration provided pursuant to the Agreement. The Company will make appropriate withholdings from all payments made pursuant to this Agreement, as required by applicable law.

(l) Executive agrees to make herself available to cooperate reasonably and in good faith with the Company Entities in all matters related to her service to the Company Entities, in connection with any litigation or other legal proceedings in which the Company or its affiliates are involved (provided Executive and the Company Entities are not adverse parties or otherwise have a conflict of interest in regards to such litigation or legal proceeding). The Company agrees that, in requesting and scheduling any cooperation hereunder, that it shall use its reasonable best efforts to accommodate and not interfere with Executive's other professional and personal scheduling demands and obligations (including in connection with any employment Executive may have). The Company further agrees that it will reimburse (or pay directly on Executive's behalf) for any reasonable out-of-pocket expenses incurred by Executive, at the direction of the Company Entities, in connection with providing such cooperation, but Executive will not be entitled to additional compensation for such cooperation unless agreed upon in writing with the Company Representative. The Company agrees to cooperate reasonably and in good faith with Executive in connection with any tax or insurance benefit matters that may arise out of or be related to Executive's employment as CEO with, or separation from, the Company (including, but not limited to, providing Executive with written notice of a request relating to any tax or insurance benefit matters at least seven business days within receiving such request and allowing Executive a reasonable opportunity to review and provide input on any written or electronic response or materials that the Company intends to submit in response to such inquiry). Notwithstanding anything to the contrary, nothing shall require (i) Executive on the one hand and the Company on the other to provide any inaccurate or false information or testimony in connection with any matter, litigation, proceeding or otherwise in connection with matters on which they are obligated to cooperate hereunder or (ii) the Company to reply to any tax or insurance benefit matter inquiry (or similar circumstance) in the manner directed by Executive or with respect to Executive's input.

(m) Executive will notify the Company in writing to Scott Barnard, Akin Gump, Strauss Hauer & Feld LLP, 1700 Pacific Avenue, Suite 4100, Dallas, Texas 75201, if at any time within seven (7) months after the Separation Date, Executive performs any work or takes any paid position as an employee, consultant, agent, contractor or other representative for: (1) any entity that was a vendor to the Company within the past two years; (2) any competitor in the industry or similar industry as that of the Company; or (3) any competitor that offers a similar product or service as that of the Company.

(n) For purposes of this Agreement, the connectives "and" and "or" shall be construed either disjunctively or conjunctively as necessary to bring within the scope of a sentence all facts or information that might otherwise be construed to be outside of its scope.

(o) It is the intent of the Parties to this Agreement that no payments under the Agreement be subject to the additional tax on deferred compensation imposed by Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"). Notwithstanding the foregoing, the Company does not guarantee, nor do any of the Company Entities guarantee, that any payment hereunder complies with or is exempt from Section 409A of the Code and neither the Company nor the Company Entities, nor their executives, directors, officers, employees, members or affiliates shall have any liability with respect to any failure of any payments or benefits herein to comply with or be exempt from Section 409A of the Code.

[SIGNATURE PAGE FOLLOWS]

BY SIGNING BELOW, EXECUTIVE REPRESENTS AND WARRANTS THAT SHE HAS CAREFULLY READ AND FULLY UNDERSTANDS THE PROVISIONS OF THIS AGREEMENT AND SHE HAS HAD AN OPPORTUNITY TO CONSULT WITH LEGAL COUNSEL. SHE SIGNS HER NAME VOLUNTARILY AND WITH A FULL UNDERSTANDING OF ITS LEGAL CONSEQUENCES. EXECUTIVE HEREBY ACCEPTS AND AGREES TO ALL OF THE TERMS OF THIS AGREEMENT KNOWINGLY AND VOLUNTARILY.

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of October 30, 2018.

On behalf of Tandy Leather Factory, Inc.

By: /s/ Janet Carr
Janet Carr, CEO

On behalf of Executive

By: /s/ Shannon Greene
Shannon Greene

SEPARATION AGREEMENT AND RELEASE

This Separation Agreement and Release (the "Agreement") is dated as of October 2, 2018 by and between Tandy Leather Factory, Inc., a Delaware Corporation (the "Company"), and Mark Angus (the "Executive").

WHEREAS, Executive has been serving as interim President of the Company since February 9, 2016 before the interim designation was removed on June 6, 2016;

WHEREAS, Executive has been serving as an Inside Director on the Company's Board of Directors (the "Board") since 2009;

WHEREAS, Executive has resigned as President effective October 2, 2018;

WHEREAS, the Company has accepted Executive's resignation as President;

WHEREAS, Executive wishes to resign as Inside Director;

WHEREAS, the Board wishes to accept Executive's resignation as Inside Director;

WHEREAS, the Executive and the Company (collectively, the "Parties") desire to resolve amicably all matters between them on a full and final basis;

WHEREAS, the Parties hereto regard the representations by each set forth herein as material and that each Party is relying on these representations in entering into this Agreement;

NOW THEREFORE, expressly incorporating the foregoing recitals as part of the consideration hereof and in further consideration of the mutual terms and conditions herein, intending to be legally bound, the Parties agree as follows

1. **Voluntary Resignation From Company.** Executive has tendered, and the Company has accepted, Executive's resignation as President (and any other office or position) of the Company effective as of October 2, 2018 (the "Separation Date"). Executive will no longer occupy any positions as an employee, officer, director, manager or board member for the Company or any of its subsidiaries or affiliates, in each case, effective as of the Separation Date. The Separation Date shall be the last day of Executive's employment for all purposes. Except as specifically provided herein, participation in and coverage under all employee benefit plans, programs, and perquisites sponsored by or through the Company, its parents, and its subsidiaries shall terminate in accordance with the generally applicable provisions of such plans or programs, subject to any conversion or continuation rights provided by the terms of such plans or programs or applicable law.

2. **Voluntary Resignation From Board.** Upon execution of this Agreement, Executive will sign the resignation letter attached hereto as Exhibit A and promptly submit it to the Board. If further action is necessary to effectuate Executive's resignation from the Board, Executive will take whatever reasonable steps are necessary to effectuate his resignation from the Board.

3. **Accrued but Unpaid Compensation and Reimbursable Expenses.** The Company shall pay Executive for all salary earned, but not paid through the Separation Date, less any applicable taxes and deductions, no later than the next regularly scheduled payday following the Separation Date. The Company also shall reimburse Executive for any unreimbursed business expenses properly incurred by Executive prior to the Separation Date and submitted for reimbursement in accordance with the Company's applicable reimbursement policy.

4. **Severance Benefits.** In consideration for Executive's signing and non-revocation of this Agreement and his compliance with the terms thereof, including his compliance with the Post-Employment Restrictive Covenants provision contained in Section 10, the Confidentiality and Nondisclosure provision contained in Section 11, and the Full Release contained in Section 6 herein, the Company shall provide Executive with the following benefits (the "Severance Benefits"):

(a) The Company shall pay Executive a gross salary at the rate of twenty-five thousand dollars (\$25,000.00) per month for seven (7) months following the Separation Date, less applicable taxes and deductions ("Severance Payment"). The Severance Payment shall be payable as salary continuation in accordance with the Company's regular payroll practices, starting on the Company's first payroll date following the eighth (8th) day after Executive signs this Agreement.

(b) Subject to Executive's timely election of continuation of coverage for the Executive (and, to the extent covered immediately prior to the Separation Date, his spouse and dependents) under the Company's health plans pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), the Company shall reimburse Executive for all COBRA premiums paid for coverage during the twelve (12) months following the Separation Date, unless Executive shall have secured group medical coverage through another employer before the end of twelve (12) months, at which earlier point the Company's obligation to reimburse Executive for premiums shall cease. The Company's obligation to reimburse Executive for COBRA premiums is subject to Executive providing documentation of premiums paid.

(c) Effective as of the Separation Date, the Company will:

- (i) Exercise its discretion pursuant to the Restricted Stock Agreement between Executive and the Company (the "2016 Stock Agreement") to immediately accelerate the vesting of all unvested shares of Restricted Stock granted to Executive in the 2016 Stock Agreement and held by Executive as of the Separation Date. Any remaining unvested stock granted to Executive in the 2016 Stock Agreement will be forfeited pursuant to Section 8(b) of the 2016 Stock Agreement.
- (ii) Exercise its discretion pursuant to Restricted Stock Agreement between Executive and the Company (the "2015 Stock Agreement") to immediately accelerate the vesting of all unvested shares of Restricted Stock granted to Executive in the 2015 Stock Agreement and held by Executive as of the Separation Date. Any remaining unvested stock granted to Executive in the 2015 Stock Agreement will be forfeited pursuant to Section 8(b) of the 2015 Stock Agreement.

(d) The Company will also provide Executive with the following:

- (i) Promptly following the execution of this Agreement, the Company will pay to the Executive the amount of \$10,000 in lieu of any vacation time that the Executive may have accrued but not used during the term of Executive's employment; and
- (ii) The Company shall pay (directly to an agreed-upon firm) the out-of-pocket cost for up to 12 months of outplacement services for the Executive to obtain new employment, up to a maximum aggregate of \$12,500.

5. **Clawback.** If Executive revokes or materially breaches the Agreement as determined by an arbitrator in accordance with Section 12 below, including but not limited to Section 9, Section 10 and Section 11, Executive shall be liable to the Company for the value of the Severance Benefits, including the value of any shares of Restricted Stock that vested according to the terms of Section 4(c) of this Agreement. The Board will determine, in its sole discretion, the method for recouping the Severance Benefits which may include, without limitation: (i) requiring reimbursement of cash Severance Benefits previously paid; (ii) seeking recovery of any gain realized on the vesting, exercise, settlement, sale, transfer or other disposition of any equity-based awards; and/or (iii) taking any other remedial and recovery action permitted by law, as determined by the Board. Any right of recoupment under this Agreement is in addition to, and not in lieu of, any other remedies or rights of recoupment that may be available to the Company. Notwithstanding the foregoing, the first one thousand dollars (\$1,000) paid in cash Severance Benefits shall be exempt from recoupment under this Agreement. The Parties agree that this \$1,000 payment is fair and adequate consideration for the Full Release in Section 6 of this Agreement, including the release of claims under the Age Discrimination in Employment Act (as amended by the Older Workers Benefit Protection Act).

6. **Full Release.** (a) As a condition to the benefits afforded Executive hereunder and in consideration of the Severance Benefits, which the Parties agree is fair and adequate consideration, Executive, for himself, his heirs, executors, administrators, successors and assigns (hereinafter collectively referred to as the "**Releasers**"), hereby irrevocably, unconditionally and fully releases, acquits, and discharges the Company, its directors, officers, board members, committees, affiliates, insurers, predecessors, successors, and assigns, and their respective predecessors, parents, affiliates, subsidiaries, divisions, committees, equityholders, members, managers, partners, officers, directors, employees, legal advisors, representatives, trustees, benefits plans, lenders, investors and agents (all such persons, firms, corporations and entities are referred to herein as the "**Company Entities**") from any and all actions, causes of action, suits, debts, dues, sums of money, accounts, reckonings, bonds, bills, specialties, covenants, contracts, bonuses, pro-rata bonuses, retention bonuses, severance pay, severance benefits, cash equivalent payments for benefits, controversies, agreements, liabilities, promises, claims, obligations, costs, losses, damages and demands of whatsoever character, in law or in equity, whether or not known, suspected or claimed, which the Releasers ever had, have, or may have from the beginning of time through the date of Executive's execution of this Agreement, against the Company Entities arising out of or in any way related to Executive's employment, service, board membership, or affiliation with the Company Entities, or the termination of his employment, service, or affiliation, including, but not limited to, claims arising under any employment agreement, as well as claims arising under the Americans With Disabilities Act, the Age Discrimination in Employment Act (as amended by the Older Workers Benefit Protection Act), the National Labor Relations Act, the Fair Labor Standards Act, the Employee Retirement Income Security Act of 1974, the Equal Pay Act, the Fair Credit Reporting Act, the Genetic Information and Discrimination Act, Title VII of the Civil Rights Act of 1964, as amended, the Civil Rights Acts of 1866, 1871 and 1991, including Section 1981-1988 of the Civil Rights Act, the Labor Management Relations Act, the Vietnam Era Veterans Readjustment Act of 1974, the Rehabilitation Act of 1973, the Worker Adjustment and Retraining Notification Act, Section 806 of the Corporate and Criminal Fraud Accountability Act of 2002, the Immigration Reform Control Act, the Occupational Safety and Health Act, the Family and Medical Leave Act, any and all claims under Texas statutory or common law, including but not limited to claims brought under the Texas Commission on Human Rights Act, the Texas Labor Code, and the Texas Pay Day Law, each as may be amended, and/or any other federal, state, district or local human rights, civil rights, wage-hour, pension, employment, labor or other law, rule, statute, regulation, constitution or ordinance and/or public policy, contract or tort law, or any claim of retaliation under such laws, or any claim of breach of any contract (whether express, oral, written or implied from any source), or any claim of intentional or negligent infliction of emotional distress, tortious interference with contractual relations, wrongful or abusive discharge, discrimination, defamation, prima facie tort, fraud, negligence, loss of consortium, or any action similar thereto against the Company Entities, including any claim for attorneys' fees; provided, however, that the Releasers do not waive any rights or release the Company Entities from (i) its obligations to Executive pursuant to this Agreement, including those set forth on Exhibit A; (ii) any COBRA (or similar district mandated) continuation coverage rights under applicable law (which will be paid for, if elected, by the Company); (iii) indemnification or directors' and officers' insurance rights Executive may have in respect of his service to the Company; and (iv) vested benefits, if any, of Executive under the terms of any employee benefit plan; and further provided, that the Releasers do not release any right to challenge, under the Older Worker's Benefit Protection Act, the knowing and voluntary nature of the release of any age claims in this Agreement, in court or before the Equal Employment Opportunity Commission ("**EEOC**") or any right to file an administrative charge with the EEOC or any other federal, state, or local agency (provided, that any right to recover monetary damages in any such proceeding shall be released and waived), or any claims that cannot be waived by law, including unemployment benefit rights and workers' compensation.

(b) For a period of three years following the Separation Date, the Company shall maintain comparable levels of Directors and Officers Insurance coverage as existed as of the Separation Date with respect to the periods of Executive's service to the Company. In addition, unless otherwise required by law or regulation, for a period of three years following the Separation Date, the Company shall maintain its policies of indemnification of Directors and Officers as existed as of the Separation Date with respect to Executive's service to the Company. The foregoing shall not preclude the Company from making changes to its insurance coverage or indemnification policies to the extent such changes would be applicable to all then-current Directors and Executive Officers of the Company.

7. **Intellectual Property.** Executive agrees that any Inventions made, conceived, or completed by Executive during the term of Executive's service, solely or jointly with others, which are made with the Company's equipment, supplies, facilities, or Confidential Information, or which relate to the time of conception or reduction to purpose of the Invention, to the business of the Company, or the Company's actual or demonstrably anticipated research and development, or which result from any work performed by Executive for the Company, will be the sole and exclusive property of the Company, and all Trade Secrets, Confidential Information, copyrightable works, works of authorship, and all patents, registrations, or applications related thereto, all other intellectual property or proprietary information and all similar or related information (whether or not patentable and copyrightable and whether or not reduced to tangible form or practice) which relate to the business, research and development, or existing or future products or services of the Company and/or its subsidiaries and which are conceived, developed, or made by Executive during Executive's employment with the Company ("**Work Product**") will be deemed to be "work made for hire" (as defined in the Copyright Act, 17 U.S.C. §101 et seq., as amended) and owned exclusively by the Company. To the extent that any Work Product is not deemed to be a "work made for hire" under applicable law, and all right, title, and interest in and to such Work Product have not automatically vested in the Company, Executive hereby (a) irrevocably assigns, transfers, and conveys, and will assign, transfer, and convey, to the fullest extent permitted by applicable law, all right, title, and interest in and to the Work Product on a worldwide basis to the Company (or such other person or entity as the Company may designate), without further consideration; and (b) waives all moral rights in or to all Work Product, and to the extent such rights may not be waived, agrees not to assert such rights against the Company or its respective licensees, successors, or assigns. In order to permit the Company to claim rights to which it may be entitled, Executive agrees to promptly disclose to the Company in confidence all Work Product which Executive makes arising out of Executive's employment with the Company. During the Restricted Period, Executive will assist the Company in obtaining patents on all Work Product patentable by the Company in the United States and in all foreign countries, and will execute all documents and do all things reasonably necessary to obtain letters patent, to vest the Company with full and extensive title thereto, and to protect the same against infringement by others.

8. By executing this Agreement, Executive acknowledges that:

(a) This Agreement does not include claims arising after the Execution Date of this Agreement and shall be effective as of such Execution Date;

(b) Executive acknowledges that he has had twenty-one (21) days to consider this Agreement's terms (commencing from delivery hereof). Executive may accept this Agreement by signing it and returning it to Scott Barnard, Akin Gump Strauss Hauer & Feld LLP, 1700 Pacific Avenue, Suite 4100, Dallas, Texas 75201;

(c) Executive understands that on the eighth (8th) day after the date of execution of this Agreement, this Agreement becomes effective and, as of that date, Executive may not change his decision or seek any other remuneration in any form; provided, however, that he has a seven (7) day revocation period (beginning on the date of execution) that expires at 5:00 pm on such seventh (7th) day. If Executive intends to revoke this Agreement, he must advise Scott Barnard, Akin Gump Strauss Hauer & Feld LLP, 1700 Pacific Avenue, Suite 4100, Dallas, Texas 75201, on or before the expiration of this seven (7) day revocation period by delivering to Scott Barnard at Akin Gump Strauss Hauer & Feld LLP, 1700 Pacific Avenue, Suite 4100, Dallas, Texas 75201, written notification of his intention to revoke this Agreement, which written notification makes specific reference to this Agreement;

(d) By signing this Agreement, Executive acknowledges that he has had a full and fair opportunity to review, consider and negotiate the terms of this release and this Agreement, that he has been advised to seek advice of an independent attorney of his choosing in connection with his decision whether to accept the benefits that have been offered to him under this Agreement, that he has read and understands this Agreement, and that he has signed this Agreement freely and voluntarily, without duress, coercion or undue influence and with full and free understanding of its terms. Moreover, should any provision of this Agreement require interpretation or construction, it is agreed by the Parties that the entity interpreting or construing this Agreement shall not apply a presumption against one Party by reason of the rule of construction that a document is to be construed more strictly against the Party who prepared the document;

(e) The Agreement is not intended, and shall not be construed, as an admission that any of the Parties has violated any federal, state, district or local law (statutory or decisional), ordinance or regulation, breached any contract or committed any wrong whatsoever;

(f) For the purpose of implementing a full, knowing and complete release and discharge of the Company Entities, Executive expressly acknowledges that this Agreement is intended to include in its effect, without limitation, all claims which Executive does not know or suspects to exist in his favor at the time of execution hereof, and that this Agreement contemplates the extinguishment of any such claim or claims;

(g) Executive represents that neither he nor any person acting on his behalf has filed or caused to be filed any lawsuit, complaint, or charge against any of the Company Entities in any court, any municipal, state or federal agency, or any other tribunal. Executive agrees that he will not, to the fullest extent permitted by law, sue or file a complaint, grievance or demand for arbitration in any forum pursuing any claim released under this Agreement or assist or otherwise participate in any claim, arbitration, suit, action, investigation or other proceeding of any claim released hereunder; provided, however, that Executive does not waive, release or discharge any right to file a charge or participate in any manner in an investigation, hearing, or proceeding by the EEOC or any other federal, state, or local agency (provided, that any right to recover monetary damages in any such proceeding shall be released and waived);

(h) Executive represents and warrants that he has not assigned or conveyed to any other person or entity any part of or interest in any of the claims released in this

Agreement. Executive further expressly waives any claim to any monetary or other damages or any other form of recovery in connection with any claim released in this release or any proceeding that violates this Agreement;

(i) Executive affirms that he has not suffered any known workplace injuries or occupational diseases and that he has not been retaliated against for reporting any allegations of wrongdoing by the Company or its subsidiaries or affiliates, or their respective officers or board members, including any allegations of corporate fraud.

9. **Nondisparagement.** Executive represents and warrants that he will refrain from making any negative, false, disparaging or misleading statements to any other person or entity regarding the Company or its agents, including, without limitation, any employee, officer, director or executive of the Company.

10. **Post-Employment Restrictive Covenants.** In exchange for the consideration set forth in this Agreement, Executive's post-employment restrictive covenants regarding unfair competition are set forth in this Section 10.

(a) **Non-Competition.** Executive agrees that the Executive will not, for a period beginning on the Separation Date and ending seven (7) months later (the "Restricted Period"), enter into or maintain an employment, contractual, or other business relationship, either directly or indirectly, with Ivan Leathercraft Co., LTD or any of its subsidiaries or affiliates.

(b) **Non-Solicitation Covenants.** During the "Restricted Period" Executive shall not directly or indirectly:

a. Solicit, induce, recruit, or otherwise cause (regardless of which party initiated initial contact) any current subcontractors, clients, customers, vendors, or suppliers of the Company or its Affiliates to cease or otherwise modify its doing business, in whole or in part, with or through the Company or its affiliates; or

b. Solicit, induce, encourage, target, or otherwise cause (regardless of which party initiated initial contact) any employee of the Company or its affiliates to: (i) leave the Company's or its affiliates' employ; (ii) deviate from full-time employment and devotion of full-time effort in such employee's employment with the Company or its affiliates; or (iii) otherwise directly or indirectly, own, manage, operate, control, be employed by, perform any services for, consult with, solicit business for, participate in, or be connected with the ownership, management, operation, or control of any business, other than that of the Company and its affiliates, or assist any person, in any manner, in so doing. Notwithstanding the foregoing, general solicitations not specifically targeting such restricted employees (such as through the placing of a classified ad in a newspaper) shall not be a breach of this provision.

(c) Executive acknowledges that if the Executive were to breach any of the covenants in this Section 10, such breach would result in immediate and irreparable harm to Company, its parents, subsidiaries, affiliates or related entities that cannot be adequately or reasonably compensated at law. Notwithstanding any other provisions in this Agreement to the contrary, should the Company determine that Executive violated any of the terms of Section, any and all remaining Severance Benefits from Company to Executive shall cease as of the date of such determination by the Company and the Severance Benefits provided to Executive would be subject to clawback pursuant to Section 5.

11. **Confidentiality and Nondisclosure.** Executive agrees to comply with the terms of the Confidentiality and Trade Secret Agreement that he previously signed (the "**Confidentiality Agreement**"), the terms of which are hereby expressly incorporated by reference. The terms of the Confidentiality Agreement shall survive the termination of Executive's employment. Executive represents and warrants that Executive has delivered to the Company all originals and all duplicates and/or copies of all documents, records, notebooks, and similar repositories of or containing confidential information or subject matter in Executive's possession, whether prepared by Executive or not. Executive will not disclose, use, or otherwise trade on any confidential, proprietary, or trade secret information of the Employer. Executive further agrees that he will not disclose, or cause to be disclosed in any way, the terms of this Agreement or the fact that this Agreement exists, except for the purpose of enforcing this Agreement, should that ever be necessary. This provision does not prohibit Executive from providing this information on a confidential and privileged basis to his current spouse or to his attorneys, tax or financial advisors or insurers, so long as he ensures that these parties maintain the strict confidentiality of the Agreement. Executive may also reveal information relating to this Agreement in response to any court order or subpoena or other direction by a court or administrative agency mandating such disclosure.

12. **Arbitration.** Any dispute, controversy or claim arising out of or related to in any way to the Parties' employment relationship or termination of that relationship, including this Agreement or any breach of this Agreement, shall be submitted to and decided by binding arbitration in Tarrant County, Texas. Arbitration shall be administered under the laws of the American Arbitration Association ("**AAA**") in accordance with the AAA Employment Arbitration Rules in effect at the time the arbitration is commenced. The arbitration shall be conducted by a single arbitrator, who shall be an attorney who specializes in the field of employment law and who shall have prior experience arbitrating employment disputes. The award of the arbitrator shall be final and binding on the parties, and judgment on the award may be confirmed and entered in any state or federal court. In the event of any court proceeding to challenge or enforce an arbitrator's award, the Parties hereby consent to the exclusive jurisdiction of the courts in the State of Texas and agree to venue in that jurisdiction. The Parties shall split the costs of any such arbitrator, who shall have the authority to award reasonable attorneys' fees and expenses to the prevailing Party (including any share of the fees and expenses for such arbitrator), provided, that, the Company will pay the costs of any arbitrator if it is a condition precedent to enforcing this arbitration obligation.

13. **Return of Company Property.** The Executive agrees that within a reasonable time following the execution of this Agreement, the Executive shall return or shall have returned all property of the Company, including, but not limited to, Company issued/owned phones, iPads, computers, laptops, peripheral electronic equipment (e.g., printers, cameras, projectors, computer docking stations, etc.), Blackberry or other personal digital assistants (PDAs), credit cards, keys, door cards, tools, equipment on loan, and any other Company books, manuals, and journals. The Company shall use reasonable efforts to assist the executive to collect personal items located in the Company's office and to obtain contact files and other electronic files determined to be solely personal that reside on Company systems used by the Executive during Executive's term of employment.

14. **Miscellaneous.**

(a) This Agreement shall be construed and enforced in accordance with, and the validity and performance hereof shall be governed by, the laws of the State of Texas, excluding Texas's choice-of-law principles.

(b) Nothing in this Agreement is intended to prohibit, or shall be interpreted to prohibit, Executive from reporting possible violations of federal law or regulation to any governmental agency or entity, including but not limited to the Department of Justice, the Securities and Exchange Commission, the Congress, and any agency Inspector General, or making other disclosures that are protected under the whistleblower provisions of federal law or regulation.

(c) If any term or provision of this Agreement (or any portion thereof) is determined by an arbitrator or a court of competent jurisdiction to be invalid, illegal, or incapable of being enforced, all other terms and provisions of this Agreement shall nevertheless remain in full force and effect. Upon a determination that any term or provision (or any portion thereof) is invalid, illegal, or incapable of being enforced, the Company and Executive agree that an arbitrator or reviewing court shall have the authority to "blue pencil," modify or reform this Agreement (or the Employment Agreement) so as to render it enforceable and effect the original intent of the Parties to the fullest extent permitted by applicable law.

(d) This Agreement may be executed in identical counterparts, which together shall constitute a single agreement. Facsimile, pdf, and other true and correct photostatic copies of this Agreement shall have the same force and effect as originals hereof.

(e) The headings used in this Agreement are included solely for convenience and shall not affect or be used in connection with the interpretation of this Agreement. Wherever the context so requires, the masculine gender includes the feminine or neuter, and the singular number includes the plural and conversely.

(f) This Agreement represents the entire agreement between the Parties with respect to the subject matter hereof (with the exception of Restricted Stock Agreements to the extent applicable to benefits described under Section 4 above) and may not be amended except in a writing signed by the Company and Executive.

(g) This Agreement shall be binding on the executors, heirs, administrators, successors and assigns of Executive and the successors and assigns of the Company and shall fully inure to the benefit of the respective executors, heirs, administrators, successors and assigns of the Company Entities and to the surviving spouse, estate, heirs, executors, administrators and/or successors and assigns of Executive (including, without limitation, with respect to any rights (and the enforcement thereof) under this Agreement and/or against an insurer of any long term disability insurance policy for which premiums due and payable were fully paid). The Company Entities are intended third-party beneficiaries.

(h) Nothing in this Agreement shall be construed as an admission of wrongdoing or liability on the part of the Company Entities or the Executive.

(i) No provision of this Agreement may be amended or modified unless such amendment or modification is agreed to in writing and signed by Executive and the Company. No

waiver by either of the Parties of any breach by the other Party hereto of any condition or provision of this Agreement to be performed by the other Party hereto shall be deemed a waiver of any similar or dissimilar provision or condition at the same or any prior or subsequent time, nor shall the failure of or delay by either of the Parties in exercising any right, power or privilege hereunder operate as a waiver thereof to preclude any other or further exercise thereof or the exercise of any other such right, power or privilege.

(j) Executive acknowledges and agrees that his continued employment through the Separation Date together with the payments and benefits set forth in this Agreement (including the Severance Benefits): (i) are in full discharge of any and all liabilities and obligations of the Company to Executive, monetarily or with respect to his employment; and (ii) exceed any payment, benefit, or other thing of value to which Executive might otherwise be entitled.

(k) Executive acknowledges and agrees that he is solely and entirely responsible for the payment and discharge of all federal, state and local taxes, if any, that he owes under any federal, state and/or local laws as a result of the payments and other consideration provided pursuant to the Agreement. The Company will make appropriate withholdings from all payments made pursuant to this Agreement, as required by applicable law.

(l) Executive agrees to make himself available to cooperate reasonably and in good faith with the Company Entities in all matters related to his service to the Company Entities, in connection with any litigation or other legal proceedings in which the Company or its affiliates are involved (provided Executive and the Company Entities are not adverse parties or otherwise have a conflict of interest in regards to such litigation or legal proceeding). The Company agrees that, in requesting and scheduling any cooperation hereunder, that it shall use its reasonable best efforts to accommodate and not interfere with Executive's other professional and personal scheduling demands and obligations (including in connection with any employment Executive may have). The Company further agrees that it will reimburse (or pay directly on Executive's behalf) for any reasonable out-of-pocket expenses incurred by Executive, at the direction of the Company Entities, in connection with providing such cooperation, but Executive will not be entitled to additional compensation for such cooperation unless agreed upon in writing with the Company Representative. The Company agrees to cooperate reasonably and in good faith with Executive in connection with any tax or insurance benefit matters that may arise out of or be related to Executive's employment as President with, or separation from, the Company (including, but not limited to, providing Executive with written notice of a request relating to any tax or insurance benefit matters at least seven business days within receiving such request and allowing Executive a reasonable opportunity to review and provide input on any written or electronic response or materials that the Company intends to submit in response to such inquiry). Notwithstanding anything to the contrary, nothing shall require (i) Executive on the one hand and the Company on the other to provide any inaccurate or false information or testimony in connection with any matter, litigation, proceeding or otherwise in connection with matters on which they are obligated to cooperate hereunder or (ii) the Company to reply to any tax or insurance benefit matter inquiry (or similar circumstance) in the manner directed by Executive or with respect to Executive's input.

(m) Executive will notify the Company in writing to Scott Barnard, Akin Gump Strauss Hauer & Feld LLP, 1700 Pacific Avenue, Suite 4100, Dallas, Texas 75201, if at any time within seven (7) months after the Separation Date, Executive performs any work or takes any paid position as an employee, consultant, agent, contractor or other representative for: (1) any entity that was a vendor to the Company within the past two years; (2) any competitor in the industry or similar industry as that of the Company; or (3) any competitor that offers a similar product or service as that of the Company.

(n) For purposes of this Agreement, the connectives "and" and "or" shall be construed either disjunctively or conjunctively as necessary to bring within the scope of a sentence all facts or information that might otherwise be construed to be outside of its scope.

(a) It is the intent of the Parties to this Agreement that no payments under the Agreement be subject to the additional tax on deferred compensation imposed by Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"). Notwithstanding the foregoing, the Company does not guarantee, nor do any of the Company Entities guarantee, that any payment hereunder complies with or is exempt from Section 409A of the Code and neither the Company nor the Company Entities, nor their executives, directors, officers, employees, members or affiliates shall have any liability with respect to any failure of any payments or benefits herein to comply with or be exempt from Section 409A of the Code.

[SIGNATURE PAGE FOLLOWS]

BY SIGNING BELOW, EXECUTIVE REPRESENTS AND WARRANTS THAT HE HAS CAREFULLY READ AND FULLY UNDERSTANDS THE PROVISIONS OF THIS AGREEMENT AND HE HAS HAD AN OPPORTUNITY TO CONSULT WITH LEGAL COUNSEL. HE SIGNS HIS NAME VOLUNTARILY AND WITH A FULL UNDERSTANDING OF ITS LEGAL CONSEQUENCES. EXECUTIVE HEREBY ACCEPTS AND AGREES TO ALL OF THE TERMS OF THIS AGREEMENT KNOWINGLY AND VOLUNTARILY.

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of October 30, 2018.

On behalf of Tandy Leather Factory, Inc.

By: /s/ Janet Carr
Janet Carr, CEO

On behalf of Executive

By: /s/ Mark Angus
Mark Angus

TANDY LEATHER FACTORY, INC.**Code of Business Conduct and Ethics****Adopted by the Board of Directors on December 4, 2018****Introduction**

This Code of Business Conduct and Ethics (this "Code") of Tandy Leather Factory, Inc., a Delaware corporation, and its consolidated subsidiaries (collectively, the "Company") was adopted by the Company's Board of Directors and applies to the Company's employees and executive officers ("employees") and members of its Board of Directors ("directors").

Integrity is at the heart of this Company. We expect the Company's employees and directors to take responsibility for their actions, use sound judgment to help us maintain appropriate compliance procedures and to carry out our business with honesty and in compliance with laws and high ethical standards. Each employee and director is expected to read this Code and demonstrate personal commitment to the standards set forth in this Code. Employees and directors who do not comply with the standards set forth in this Code may be subject to discipline in light of the nature of the violation, including termination of employment.

Any questions about this Code or the appropriate course of conduct in a particular situation should be directed to the Company's General Counsel named below. Any evidence of improper conduct, violations of laws, rules, regulations or this Code should be reported immediately to the Company's General Counsel. It is unlawful and expressly against Company policy for anyone to retaliate against any employee for either reporting violations of the Code or for cooperating with an investigation. The Company will not allow retaliation against an employee or director for a report made in good faith. Anyone who engages in retaliatory conduct against an employee will be subject to discipline, up to and including termination of their employment.

Any waiver of the provisions of this Code for executive officers or directors of the Company may be made only by our Board of Directors or a committee thereof and must be promptly disclosed to our stockholders.

This Code is not intended as a detailed guide for all situations our employees and directors may face. Each employee and director is also expected to comply with our Employee Handbook and other workplace rules we may from time to time communicate, all of which supplement this Code.

Responsibilities**I. Compliance with Laws, Rules and Regulations**

All employees and directors must respect and obey all laws applicable to our business, including federal, state and local laws in every region or country in which the Company operates. Any questions as to the applicability of any law should be directed to the Company's General Counsel.

II. Respectful Conduct

Consistent with our values, including respect for individuals and cultures, the Company is committed to a work place in which everyone is treated with dignity and respect without regard to race, color, religion, sex, gender, gender identity, sexual orientation, marital status, age, ethnic or national origin, disability, veteran status or any other characteristic prohibited by law. Everyone should work in an environment that promotes equal employment opportunities and prohibits discriminatory practices, including harassment.

The Company has adopted a separate policy, the "Tandy Leather Factory, Inc. Insider Trading Policy" (the "Insider Trading Policy") that covers insider trading issues with respect to employees, directors and members of their immediate families. All employees and directors are responsible for being familiar with, and complying with, the Insider Trading Policy. Generally, no employees or directors may buy or sell shares of the Company when they are in possession of material non-public information with respect to the Company. They also are prohibited from passing on such information to others who might make an investment decision based thereon. Employees and directors also may not trade in stocks of other companies about which they learn material non-public information through the course of their employment or service with the Company. Persons who violate these rules not only violate the Insider Trading Policy but also commit a serious crime under federal law. Any questions as to whether information is material or has been adequately disclosed should be directed to the Company's General Counsel.

In addition, the Company's directors and employees (and their family members and controlled entities) are prohibited from trading in the Company's securities during the period that runs from the fifteenth (15th) day of the third month of each fiscal quarter until two (2) trading days after the Company's earnings announcement of its quarterly earnings or (in the case of the fourth quarter) annual earnings. In addition, the Company may impose other "black-outs" on trading as circumstances dictate or as required by law. Nothing contained here shall preclude trades by these persons during these times pursuant to arrangements properly made at other times in accordance with Securities and Exchange Commission (SEC) Rule 10b5-1. The restrictions of this policy also apply to immediate family members of each employee or director and others living in the household of an employee or director. Each applicable employee or director is responsible for their compliance. Even the appearance of improper conduct must be avoided. Accordingly, an employee or director should never make a recommendation to anyone to buy, sell or hold Company securities.

IV. Investor and Media Communications

The Company is a public company that is subject to securities laws regarding disclosures concerning itself. These laws prohibit disclosure of information that is false, misleading or incomplete. Also, the Company cannot disclose material information about itself selectively to certain persons but not to others. In order to assure that the Company meets these requirements, the Company has adopted a separate "Policy Regarding the Disclosure of Company Information". Under that policy, no employees or directors of the Company may communicate with investors or members of the media regarding the Company or its securities, other than the Chairman of the Board, Chief Executive Officer, Chief Financial Officer or persons specifically authorized by them. If another employee or a director receives a request from an investor or a member of the media regarding the Company, the employee or director should decline to give a response and refer the inquiry to an authorized person as described in the policy.

V. Conflicts of Interest

All employees have an obligation to act in the best interests of the Company. Actions must be based on sound business judgment, not motivated by personal interest or gain. A conflict of interest occurs when the private interest of an employee or director interferes, or appears to interfere, with the interests of the Company as a whole. Conflicts of interest can occur when an employee or director takes action or has interests that could reasonably be expected to make it difficult to make objective decisions on behalf of the Company or to perform his or her duties objectively and effectively.

A conflict of interest may arise when doing business with or competing with organizations that employ or are owned (wholly or partially) by our family members or close friends. Any situation, including any relationship or transaction between the Company and any of its employees or family members of employees that creates or appears to create a conflict of interest between personal and Company interests must be avoided.

Conflicts of interest also arise when an employee or director, or a member of his or her family, receives improper personal benefits as a result of his or her position with the company, other than non-cash gifts with a value of less than One Hundred Dollars (\$100.00) and occasional, non-extravagant, business-related entertainment such as meals, attending performances or sporting events, golf and other similar outings. No gift, favor or entertainment should be provided or accepted if it would obligate, or appear to obligate, the recipient.

Except as pre-approved by our Audit Committee, transactions that involve a conflict of interest are prohibited as a matter of corporate policy. All employees and directors have an obligation to immediately disclose any situation that has the potential to be misunderstood by others, including other employees, customers, suppliers and the public. Any employee or director who becomes aware of a conflict or potential conflict, or who has a question about whether a conflict exists, should bring it to the attention of the Company's General Counsel.

VI. Corporate Opportunities

Employees and directors are prohibited from (a) taking for themselves personally any opportunities that arise through the use of corporate property, information or position, (b) using

corporate property, information or position for personal gain, and (c) directly or indirectly competing with the Company. Employees and directors owe a duty to the Company to advance the Company's legitimate interests when the opportunity to do so arises.

VII. Confidentiality

Employees and directors are required to protect and hold confidential all non-public information obtained due to their position with the Company, except when disclosure is authorized by the Company's Board of Directors or legally mandated, in which case such disclosure should be processed, reviewed and approved in advance by the Company's General Counsel. Furthermore, no employee or director shall use confidential information (as defined below) for his or her own personal benefit or to benefit persons outside of the Company.

"Confidential information" includes all non-public information entrusted to or obtained by an employee or director by reason of his or her position with the Company and includes, but is not limited to, information that might be of use to competitors, or harmful to the Company or its customers, if disclosed, such as:

non-public information about the Company's financial condition, prospects or plans, its marketing and sales programs and research and development information, as well as information relating to mergers and acquisitions, stock splits and divestitures;

non-public information concerning possible transactions with other companies or information about the Company's customers, suppliers or joint venture partners, which the Company is under an obligation to maintain as confidential; and

non-public information about discussions and deliberations relating to business issues and decisions, between and among employees and/or directors.

No employee or director may disclose confidential information to any other person, including, without limitation, principals or employees of any business entity that employs such director or which has sponsored such director's election to the Company's Board of Directors. Employees and directors should remember that unauthorized persons may include other Company employees. Accordingly, employees and directors should discuss confidential, non-public and proprietary information only with those persons they know to be authorized to receive, and that have a need to know, the information. Notwithstanding anything herein to the contrary, or in any agreement or communication between the Company and any employee, (a) the non-disclosure obligations in the Code shall not prohibit or restrict any employee or director from initiating communications directly with, or responding to any inquiry from, or providing testimony before, the SEC, any other governmental agency, any self-regulatory organization or any other state or federal regulatory authority, regarding any possible securities law violations, and (b) the Company shall not enforce or threaten to enforce, any confidentiality agreement or other similar agreement, nor take or threaten to take any other action against any employee or director for engaging in the types of communications described in (a) above.

This obligation to protect confidential information does not cease when an employee or director ceases to provide services to the Company. Any questions about whether information is confidential should be directed to the Company's General Counsel.

VIII. Fair Dealing

Each employee and director shall endeavor to deal fairly with our stockholders, competitors, suppliers, customers and employees. No employee or director shall take unfair advantage of any other person through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair practice.

IX. Protection and Proper Use of the Company's Assets

All employees and directors have a duty to protect the Company's assets and ensure the assets' efficient use. Theft, carelessness and waste have a direct impact on the Company's profitability. The Company's assets should be used only for legitimate business purposes of the company, and employees and directors should take measures to ensure against their theft, damage or misuse. These assets include intellectual property such as trademarks, business and marketing plans, salary information and any unpublished financial data and reports. Any unauthorized use or distribution of this information is a violation of this Code.

X. Accuracy of Records and Reporting

All of the Company's books, records, accounts and financial statements must be maintained in reasonable detail, must appropriately reflect the matters to which they relate and must conform both to applicable legal requirements and to the Company's system of internal controls. The making of false or misleading records or documentation is strictly prohibited. The Company complies with all laws and regulations regarding the preservation of records. The Company has established a separate policy, the "Tandy Leather Factory, Inc. Record Retention Policy," and records should be retained or destroyed only in accordance with this policy. Also, in certain cases when litigation is pending or can reasonably be foreseen, the Company may be required to preserve documents and records (including computer records) at times when they might otherwise be destroyed.

You are specifically prohibited from making false or misleading entries in the Company's financial reporting systems. You are responsible for all actions conducted in Company systems or applications using your password. While it is appropriate to delegate tasks to administrative assistants, team members or peers in certain circumstances, you may never delegate tasks within a system or application by sharing your confidential ID or password. Sharing your password with anyone else is a direct violation of this Code.

Any questions about these policies should be directed to the Company's General Counsel.

XI. Disclosure Controls and Procedures

We are required by SEC rules to maintain effective "disclosure controls and procedures" so that financial and non-financial information we are required to report to the SEC is timely and accurately reported both to our senior management and in the filings we make. All employees are expected, within the scope of their employment duties, to support the effectiveness of our disclosure controls and procedures. To that end, every individual involved in creating, transmitting or entering information into the Company's financial and operational records is responsible for doing so fully, accurately and with appropriate supporting documentation. No employee may make any entry that intentionally hides or disguises the true nature of any transaction. It is our policy to promote the full, fair, accurate, timely and understandable disclosure in reports and documents that we file or furnish with the SEC and otherwise communicate to the public.

XII. Fraud

The Company's will not tolerate fraud in any form. Fraud is a dishonest, and in many cases illegal, action. Examples of fraud include, but are not limited to, the following:

knowingly submitting a false report, including (but not limited to) expense, deposit, sales, inventory or payroll information;

falsifying Company, employee and/or customer records;

taking cash from the Company for personal use;

forging or altering checks;

misappropriating assets or misusing Company property;

influencing, coercing, manipulating or misleading the Company's auditor for the purpose of making financial statements misleading;

knowingly falsifying the Company's financial results; and

improperly changing Company financial records or financial statements.

The Company understands that everyone is human, and sometimes mistakes do happen. However, fraud, including theft of money or property, is no mistake and will not be tolerated.

XIII. Interaction with Public Officials

When dealing with public officials, employees and directors must avoid any activity that is or appears illegal or unethical. The giving of gifts, including meals, entertainment, transportation and lodging, to government officials in the various branches of U.S. government, as well as state and local governments, is restricted by law. Employees and directors must obtain pre-approval from the Company's General Counsel before providing anything of value to a government official or employee. The foregoing does not apply to personal lawful political contributions.

In addition, the U.S. Foreign Corrupt Practices Act prohibits giving anything of value, directly or indirectly, to officials of foreign governments or foreign political candidates in order to obtain or retain business. A violation of the FCPA occurs when a payment is made or gift is given to a non-U.S. government official while "knowing" that the payment or gift will be used to unlawfully get or keep business or direct business to anyone else. Under the FCPA, "knowing" includes situations where the circumstances make it fairly obvious that an illegal payment or gift will occur, even if the Company representative did not actually know the payment or gift would be made. Furthermore, the FCPA requires the Company to keep books, records and accounts that accurately and fairly show Company assets and how the Company's monies have been spent. A system of internal accounting controls must be maintained to provide reasonable assurances of adequate corporate supervision over the accounting and reporting activities at all levels. Illegal payments to government officials of any country are strictly prohibited.

The Company's policy is to cooperate with any inquiries by government officials to the full extent required by law. Should you receive any inquiries by government officials regarding the Company or your activities as an employee or director of the Company, you should immediately direct those inquiries to the Company General Counsel. In most instances, the General Counsel shall advise you on how to respond to these inquiries.

XIV. Working Conditions and Workplace Safety

The Company will provide employees with safe and healthy working environments. Practices relating to the use of safety equipment will be strictly enforced. All employees are responsible for observing employment and safety rules and for taking precautions necessary to protect themselves and their co-workers. These precautions include reporting to work free from the influence of alcohol or any substance that could prevent the safe conduct of work activities.

XV. Antitrust Issues

The Company believes in free and open competition and complies with the antitrust and competition laws of countries where we do business. You may not enter into any formal or informal agreement with competitors or re-sellers that fixes price or allocates production, sales, products, customers or suppliers.

XVI. Responsibilities applicable to Executive Officers and Management

The Company's executive officers are responsible for setting the tone of the Company and its workplace environment. This includes a duty (among other things) to:

Promote honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

Promote a reporting and disclosure system designed to provide full, fair, accurate, timely and understandable disclosure in reports and documents that the Company files with, or submits to, the Securities and Exchange Commission and in the Company's other public communications;

Promote compliance with applicable laws, rules and regulations of federal, state and local governmental entities;

Be an example of ethical behavior and fair and respectful treatment of all employees as a responsible leader in the work environment and the community;

Promote and maintain a workplace environment free from unlawful discrimination and harassment;

Share knowledge and maintain skills important and relevant to stockholders' needs;

Create an environment at the Company that (a) encourages employees to talk to supervisors, managers and other appropriate personnel when in doubt about the best course of action in a particular situation; (b) encourages employees to report violations of laws, rules and regulations to appropriate personnel; and (c) informs employees that the Company will not allow retaliation for good faith reports; and

Act in a manner that promotes employee behavior that is consistent with these responsibilities and reasonably deters wrongdoing.

Compliance

We understand that no code or policy can address every scenario or answer every question. To ensure that all employees and directors can obtain prompt answers to their questions and inquiries, we have implemented the following policies and procedures.

I. General Counsel

The Company's General Counsel has been designated with responsibility for overseeing and monitoring compliance with this Code. The General Counsel makes periodic reports to the Company's Audit Committee regarding the implementation and effectiveness of this Code as well as the Company's policies and procedures to ensure compliance with this Code.

The Company's General Counsel may be reached at (817) 532-8437. If you wish to communicate any matter anonymously, we will maintain the confidentiality of your communication to the extent possible under applicable laws. Communications intended to be confidential should be mailed in writing without indicating your name or address to General Counsel, Tandy Leather Factory, Inc., 1900 SE Loop 820, Fort Worth, Texas 76140.

II. Reporting Violations

A special procedure for handling complaints about accounting matters has been established. Complaints regarding accounting, internal accounting controls or auditing matters, including questionable accounting or auditing, shall be reported by calling 866-314-7781. Employees are not required to give their names, and the reports will be handled anonymously if desired. If a violation of the Code by the Chief Executive Officer of the Company has occurred, such violation should be reported to the Chairman of the Audit Committee of the Board of Directors. In other cases, all employees are encouraged to speak with their supervisors, managers or other appropriate personnel when in doubt about the best course of action in a

particular situation. In most other non-accounting cases, employees and directors should address any questions regarding this Code to the Company's General Counsel.

We encourage all employees and directors to report promptly any actual or apparent violations of this Code. The Company does not permit retaliation or discrimination of any kind against employees who reasonably believe there has been possible illegal or unethical conduct and who in good faith report these concerns to us. "Good faith" does not mean that a reported concern must be correct, but it does require that an employee or director be truthful when reporting a concern or asking a question. However, it is a violation of our policy for any employee to communicate a report claiming illegal or unethical conduct which the employee knows to be false.

III. Investigations

Reported violations will be promptly investigated. The person reporting the violation should not conduct an investigation on his or her own. However, employees and directors are expected to cooperate fully with any investigation made by the Company or any of its representatives.

IV. Accountability

This Code forms part of the terms and conditions of your employment. Employees and directors who violate this Code may be subject to disciplinary action, including termination of employment. Knowledge of a violation and failure to promptly report or correct the violation may also subject an employee or director to disciplinary action. Some violations of this Code are illegal and may subject the employee or director to civil and criminal liability.

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

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statement on Form S-8 No. 333-190389 of our report dated March 8, 2019, relating to our audit of the consolidated financial statements of Tandy Leather Factory, Inc. as of December 31, 2018 appearing in this Annual Report on Form 10-K of Tandy Leather Factory, Inc. for the year ended December 31, 2018.

/s/ Weaver and Tidwell, LLP

Fort Worth, Texas
March 8, 2019

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: March 8, 2019

/s/ Janet Carr
Janet Carr
Chief Executive Officer
(principal executive officer)

RULE 13a-14(a) CERTIFICATION

I, **Tina L. Castillo**, 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: March 8, 2019

/s/ Tina L. Castillo
Tina L. Castillo
Chief Financial Officer and Treasurer
(principal financial officer)

**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 year ended December 31, 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; and
- ii. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 8, 2019

By: /s/ Janet Carr

Janet Carr
Chief Executive Officer

By: /s/ Tina L. Castillo

Tina L. Castillo
Chief Financial Officer and Treasurer