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

FORM 10-K

(Mark One)

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2021

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.

Delaware	75-2543540
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1900 Southeast Loop 820 Fort Worth, Texas 76140	76140
(Address of Principal Executive Offices)	(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	Trading Symbol	Name of each exchange on which registered
Common Stock, par value $0.0024	TLFA	OTC Pink Market

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

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 X

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 X No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes X No ☐

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

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

The aggregate market value of the common stock held by non-affiliates of the registrant was approximately $18,217,065 at June 30, 2021 (based on the price at which the common stock was last traded on the last business day of its most recently completed second fiscal quarter).

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. As of March 25, 2022, there were 8,594,757 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

NONE

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PART I

ITEM 1. BUSINESS

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

General

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

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

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

The Company's common shares currently trade on the OTC Pink Market operated by OTC Markets Group under the symbol "TLFA."

Retail Fleet

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

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

Business Strategy

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

Our focus over the last three years has been on three broad strategic initiative areas:

1. Improving our brand proposition, with both Retail and Commercial customers

2. Rebuilding our foundation – the talent, processes, tools and systems needed to serve these customers

3. Position us for long-term growth – creating the vision and roadmap for the future

Despite the unforeseen obstacles of the financial restatement and the COVID-19 pandemic, we have made significant progress against these initiatives. Some key accomplishments include:

- Significantly improving the product quality, breadth of assortment and value
- Reinventing the pricing architecture/strategy to simplify it, provide great everyday value and also the excitement of sale
- Improving the quality, clarity and efficiency of the marketing collateral and mix
- Relaunching and dramatically improving the website; centralizing web fulfillment
- Significantly improving the Retail organization and skills: new team, training, career paths, incentives
- Launching the Commercial Division: a completely new business model tailored to the needs of the largest customers
- Recruiting, developing and retaining the right team for the work ahead; creating a collaborative, performance-based culture
- Building people management infrastructure: performance evaluations, benefits, communications, recognition, incentives, training
- Replacing and significantly upgrading general ledger, warehouse management and point-of-sale systems
- Developing a robust counter-sourcing program for product and supplies
- Reorganizing and improving factory and warehouse capabilities
- Creating a roadmap for future growth

COVID-19 and Outlook

The onset of the COVID-19 pandemic in March 2020 temporarily shifted our strategic focus to company survival and cash preservation. We began closing stores on March 18, 2020, and by April 2, 2020, we temporarily closed all stores to the public. While we pivoted to serve customers only online, the Company experienced significant decreases in demand for its products in the second and third quarters of 2020, negatively impacting net sales.

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

Due to our size, we were not eligible for the Paycheck Protection Program administered through the Small Business Administration. Also, due to our not being current on financial filings with the SEC, we were not able to obtain loans under the Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act. However, under the CARES Act we were eligible to participate in the payroll tax deferral program, and we deferred $0.6 million in payroll tax with $0.3 million to be paid by December 31, 2021, and the remaining $0.3 million to be paid by December 31, 2022. During the second quarter of 2020, the Company borrowed $0.4 million through the Spanish government's Institute of Official Credit Guarantee for Small and Medium-sized Enterprises, a COVID-19 relief program. In Canada, we participated in the Canada Emergency Commercial Rent Assistance ("CECRA") program for rent relief, receiving total rent abatements under the program of $0.05 million.

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

On May 22, 2020, our Fort Worth flagship store reopened to the public, the beginning of a phased approach to reopening our stores with limited hours, new protocols for sanitizing, social distancing, wearing masks and taking daily temperatures of employees. During the third quarter of 2020, all 106 of Tandy's stores had reopened to the public. Since then, various spikes in local infection rates have forced us to sporadically move stores to short-term "curbside only" operations or closures due to local conditions or staffing issues. We expect that at least some further infections and temporary store shutdowns will continue for the foreseeable future.

While we previously fulfilled our web orders out of our retail stores, during the second quarter of 2020, we built a centralized web fulfillment capability in our Fort Worth distribution center and have been and expect to continue to fulfill web orders primarily through Fort Worth going forward. Both our e-commerce business and stores have seen strong sales performance, but the future remains uncertain, and more store closures and/or other ongoing effects of the pandemic on the economy or employment market could cause a material negative impact on future sales.

Customers

Our customers fall into 2 broad categories: those who shop in retail stores and on our website ("Retail Customers") and those whom we serve through our Commercial Division ("Commercial Customers"). Retail Customers range from hobbyists to institutions like schools, camps, and other groups to small businesses. Affinity groups like Military and First Responders and smaller and larger businesses who purchase in our retail stores receive special pricing or general discounts. To be served through our Commercial Division, customers generally need to spend more than $20,000 per year and receive pricing based on their purchasing levels.

Merchandise

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

Operations

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

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

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

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

Distribution

Our stores receive the majority of their inventory from our central distribution center located in Fort Worth, Texas, in weekly or, increasingly, bi-monthly shipments, using third party logistics providers. Occasionally, merchandise is shipped to stores directly from the vendor. We now fulfill all of our U.S. and many of our International web orders from our Fort Worth distribution center. Canada web orders are fulfilled out of our 10 Canada stores, and European web orders are fulfilled out of our Spain store. We have a global customer service team that handles web order inquiries and phone orders. Our goal is to optimize the tradeoff between the sales and market share we realize from having a broad product line against the safety stock required to support those items . We generally maintain higher inventories of imported or long-lead-time items, to ensure a continuous supply. Our inventory levels have grown as we have increased our product assortment to improve conversion and retention of customers and to mitigate out-of-stocks, especially during the supply chain disruptions over the last 2 years. We have also been executing a number of strategic initiatives to test smaller quantities of new items online, buying into them only when we are certain of their success, tailor product assortments to the needs of local customers in each store, and to ship directly from vendors to customers. We carry about 6,500 stock-keeping units (SKUs) in our current product line and continue to refine both the line, the lead times and safety stock levels required to meet customer demand, online vs. in-store assortment, and overall total inventory levels needed to grow sales and market share.

Competition

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

Suppliers

We purchase merchandise and raw materials from over 170 vendors from the United States and approximately 20 foreign countries. In general, our 10 largest vendors account for approximately 60-75% of our inventory purchases.

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

Our supply chain and vendor relationships remain strong. We are focused on continuing to align our product and sourcing strategies to elevate the overall quality, consistency, and agility to meet the diverse needs of our existing consumers and attract new ones to the brand. COVID-19 has had varying impacts on our supply chain, as the course of the disease has impacted countries differently over time. We continue to see product price increases and longer lead-times across most product categories due to container and/or raw material scarcity and labor shortages. We are also beginning to see the impact of higher energy prices on both product and freight costs as well. We invested heavily in inventory of key items, especially in leather and hardware, over the last 12 months at 2020 prices. We believe we will be well-positioned to wait out any short-term price hikes for some months.

Compliance with Environmental Laws

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

Employees

As of December 31, 2021, we employed 593 people, 492 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

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

Foreign Sales

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

Available Information

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

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 Form 10-K.

Information about our Executive Officers

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

Name and Age	Position	Served as Executive Officer Since
Janet Carr, 60	Chief Executive Officer	2018
Michael Galvan, 53	Chief Financial Officer	2021

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

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

ITEM 1A. RISK FACTORS

Risks Related to the COVID-19 Pandemic

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

The COVID-19 pandemic had an unprecedented impact on the U.S. economy as federal, state and local governments react to this public health crisis, which has created significant uncertainties. These uncertainties include, but are not limited to, the material adverse effect of the pandemic on the economy, our supply chain partners, our employees and customers, customer sentiment in general, and our stores. In March 2020, we temporarily closed all of our stores and took other significant actions to mitigate the ongoing impact of the COVID-19 pandemic on our cash flows and to protect our business and associates for the long term in response to the crisis. During the third quarter of 2020, all of our 106 stores reopened. Since that time, we have continued to manage through the pandemic as we continue to see varying levels of infection rates, in various locations and have again been forced periodically to temporarily close certain stores or move certain stores to "curbside only" operations. We are unable to ensure that our sales will meet or exceed current levels or if additional periods of store closures will be needed or mandated. In addition, our merchandise vendors may have been negatively impacted by the pandemic and the financial difficulties of other retailers, thereby creating concerns about our vendors' ability to provide us with payment terms or merchandise that is suitable to our brand. The effects of the pandemic have materially adversely impacted our revenues, earnings, liquidity and cash flows.

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

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

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

Risks Related to Owning our Common Stock

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

Our common stock was previously listed on the Nasdaq Global Market. Because of the Company's inability during its financial restatement to timely file its quarterly and annual financial reports, Nasdaq suspended trading in the Company's stock as of August 13, 2020 and formally delisted it on February 9, 2021. To date, the delisting has not materially affected the trading price of the Company's common stock. The Company has applied for re-listing on Nasdaq; such listing is subject to Nasdaq approval, and we cannot guarantee when or if our application will be approved. Our stock currently trades on the Pink Market operated by OTC Markets Group, where trading volume is typically lower than on exchanges such as Nasdaq. Failure to relist our stock on Nasdaq could adversely affect the market liquidity of our common stock or otherwise impair the value of your investment.

In addition, on September 16, 2020, the SEC adopted final rules amending Securities Exchange Act Rule 15c-211. The amended rule requires that a company have current and publicly available information as a precondition for a broker-dealer to either initiate or continue to quote its securities. Because the Company was not yet current in its periodic reporting with the SEC, in October 2021 our stock was removed from the OTC Pink Market and began trading on a new OTC "Expert Market" for stocks whose trading is restricted by Rule 15c-2-11. When the Company became current again in its financial reporting in December 2021, our stock was elevated to the OTC Pink Market (Current Information). However, trading in our stock has continued to be restricted under Rule 15c-2-11 until such time as a market maker for our stock is approved by the Financial Industry Regulatory Authority (FINRA). A potential market maker has filed an application for approval by FINRA, but we cannot guarantee if or when such an application will be approved. Any continued restrictions on the trading of our common stock would adversely affect the market liquidity of our common stock and might impair the value of your investment.

Material weaknesses in our system of internal controls were identified during our investigation and financial restatement. Some of these material weaknesses are still in the process of remediation. If not remediated, these material weaknesses could result in additional material misstatements in our Consolidated Financial Statements. We may be unable to develop, implement and maintain appropriate controls in future periods.

Section 404 of the Sarbanes-Oxley Act of 2002 requires that public companies evaluate and report on their systems of internal control over financial reporting. As disclosed in Part II, Item 9A, Controls and Procedures of this Form 10-K, our management, including our Chief Executive Officer and our Chief Financial Officer, has determined that we continue to have material weaknesses in the Company's internal control over financial reporting as of December 31, 2021. As a result of the material weaknesses, the Company's management, under the supervision of the Audit Committee and with participation of the Company's Chief Executive Officer and Chief Financial Officer, concluded that the Company's internal control over financial reporting was not effective as of December 31, 2021.

Although we are working to remedy the ineffectiveness of the Company's internal control over financial reporting and disclosure controls and procedures, there can be no assurance as to when the remediation plan will be fully implemented. Until our remediation plan is fully implemented, our management will continue to devote significant time, attention and financial resources to these efforts. If we do not complete our remediation in a timely fashion, or at all, or if our remediation plan is inadequate, there will continue to be an increased risk that our future Consolidated Financial Statements could contain undetected errors. Further and continued determinations that there are one or more material weaknesses in the effectiveness of the Company's internal control over financial reporting could adversely affect our business, reputation, revenues, results of operations, financial condition and stock price and limit our ability to access the capital markets through equity or debt issuances. For more information relating to the Company's internal control over financial reporting, the material weaknesses that existed as of December 31, 2021 and the remediation activities undertaken by us, see Part II, Item 9A, Controls and Procedures of this Form 10-K.

Risks Related to Cash Flow and Capitalization

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

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

Risks Related to Technology, Data Security and Privacy

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

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

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

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

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

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

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

Risks Related to the Macroeconomic Environment

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

Our performance is subject to global economic conditions and their impact on levels of consumer spending that affect not only the ultimate consumer, but also small businesses and other retailers. Specialty retail, and retail in general, is heavily influenced by general economic cycles. Specifically, at the time of filing this Form 10-K, the American and world economies have been acutely affected by a combination of factors resulting from both the COVID-19 pandemic and the war resulting from the invasion of Ukraine by Russian military forces. The current impacts of these events include (but are not limited to) levels of inflation that are the highest in the U.S. in more than 40 years, fuel prices at or near record highs, an extremely tight labor market with rising wages and competition to attract qualified workers, rising real estate prices and increases in interest rates. Purchases of non-essential, discretionary products tend to decline in periods (such as the current one) of recession or uncertainty regarding future economic prospects, as disposable income declines. During these periods of economic uncertainty, we may not be able to maintain or increase our sales to existing customers, make sales to new customers, open and operate new stores, maintain sales levels at our existing stores, maintain or increase our international operations on a profitable basis, maintain our earnings from operations as a percentage of net sales, or generate sufficient cash flows to fund our operational and liquidity needs. As a result, our operating results may be adversely and materially affected by continued downward trends or uncertainty in the United States or global economies.

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

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

We face risks related to the effect of economic uncertainty.

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

Risks Related to Legal, Regulatory and Compliance

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

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

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

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

Risks Related to Our Business Strategy

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

During the fourth quarter of 2018, the Company, under its new management, began to implement a large number of initiatives to transform the Company's business, improve sales long term and improve operational efficiency. These include the realignment of the Company's retail division management structure, the closing of underperforming stores, the formation of a new division focused on serving commercial customers, pricing and marketing initiatives, systems improvements and other changes. The Company believes that long-term growth will be realized through these transformational efforts over time, however there is no assurance that such efforts will be successful. 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;
- embargoes against products originating in countries from which we source;
- increases in the cost of labor, fuel (including volatility in the price of oil), travel and transportation;
- compliance by our independent manufacturers and suppliers with our Code of Business Conduct and Ethics and our Animal Welfare Policy;
- disruptions or delays in shipments;
- loss or impairment of key manufacturing or distribution sites, which also could result in a former manufacturer beginning to produce similar products that compete with ours;
- inability to engage new independent manufacturers that meet the Company's cost-effective sourcing model;
- product quality issues;
- political unrest;
- unforeseen public health crises, such as pandemic (e.g., the COVID-19 pandemic) and epidemic diseases;
- natural disasters or other extreme weather events, whether as a result of climate change or otherwise; and
- acts of war or terrorism and other external factors over which we have no control.

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

The prices we pay our suppliers for our products are dependent in part on the market price for leather, metals, and other products. The cost of these items may fluctuate substantially, depending on a variety of factors, including demand, supply conditions, transportation and fuel costs, government regulation, economic climates, war or other 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, would 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 under long-term and non-cancelable leases. We may be unable to renew leases on acceptable terms. If we close a leased retail space, we might remain obligated under the applicable lease.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

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

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

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

As a result of the COVID-19 pandemic and resulting legal requirements in most of our markets, we temporarily closed all of our stores to the public during March 2020. We have continued to manage through the pandemic during intermittent spikes in COVID-19 infections, continue to see varying levels of infection rates, and have at times been forced to temporarily close or move certain stores to "curbside only" operations. As of the date of filing this Form 10-K, most of our stores have reopened fully, and preventive measures are in place in most stores but are not believed to be materially impacting store sales. However, some stores have had to temporarily close due to COVID-19, especially with the rise of the Delta variant in the third quarter of 2021, which has negatively impacted sales for those stores.

ITEM 3. LEGAL PROCEEDINGS

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

We are periodically involved in various litigation that arises in the ordinary course of business and operations. There are no such matters pending that we expect to have a material impact on our financial position or operating results. See discussion of Legal Proceedings in Note 8, *Commitments and Contingencies* of the Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Our common stock trades on the Pink Market operated by OTC Markets Group under the symbol "TLFA."

There were approximately 286 stockholders of record on February 25, 2022.

We did not sell any shares of our equity securities during our fiscal year ended December 31, 2021 that were not registered under the Securities Act.

Our Board of Directors did not authorize any dividends during the fiscal years ended December 31, 2021 or 2020. Our Board of Directors may consider future cash dividends after giving consideration to our profitability, cash flow, capital requirements, current and forecasted liquidity, as well as financial and other business conditions existing at the time. This policy is subject to change based on future industry and market conditions, as well as other factors.

The following table summarizes repurchases of our common stock occurring in fourth quarter 2021:

Period (2)	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Dollar value of shares that may yet be purchased under the plans or programs (1)
October 1 – October 31, 2021	-	$ -	-	$ 5,000,000
November 1 – November 30, 2021	-	$ -	-	$ 5,000,000
December 1 – December 31, 2021	214,581	$ 5.00	-	$ 5,000,000
Total	214,581	$ 5.00	-	

(1) On August 9, 2020, the Company's Board of Directors approved a new stock repurchase program allowing the Company to repurchase up to $5 million value of shares of our common stock on or prior to July 31, 2022.

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

(3) On Decmber 8, 2021, we entered into an agreement with an institutional shareholder of the Company to repurchase 212,690 shares of our common stock in a private transaction separate from our share repurchase program. The purchase price was $5.00 per share for a total of $1.1 million. The closing of the repurchase took place on December 17, 2021, and these shares were subsequently cancelled. Prior to the repurchase, the shares represented approximately 2.4% of our outstanding common stock.

ITEM 6. SELECTED FINANCIAL DATA

We are a smaller reporting company as defined in Item 10(f)(1) of SEC Regulation S-K and are not required to provide information under this item.

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

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

Summary

The Business and Strategy

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

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

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

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

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

Our focus over the last three years has been on three broad strategic initiative areas:

1. Improving our brand proposition, with both Retail and Commercial customers

2. Rebuilding our foundation – the talent, processes, tools and systems needed to serve these customers

3. Position us for long-term growth – creating the vision and roadmap for the future

COVID-19

The onset of the COVID-19 pandemic in March 2020 temporarily shifted our strategic focus to company survival and cash preservation. We began closing stores on March 18, 2020, and by April 2, 2020, we temporarily closed all stores to the public. While we pivoted to serve customers only online, the Company experienced significant decreases in demand for its products in the second and third quarters of 2020, negatively impacting net sales.

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

Due to our size, we were not eligible for the Paycheck Protection Program administered through the Small Business Administration. Also, due to our not being current on financial filings with the SEC, we were not able to obtain loans under the Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act. However, under the CARES Act we were eligible to participate in the payroll tax deferral program, and we deferred $0.6 million in payroll tax with $0.3 million to be paid by December 31, 2021, and the remaining $0.3 million to be paid by December 31, 2022. During the second quarter of 2020, the Company borrowed $0.4 million through the Spanish government's Institute of Official Credit Guarantee for Small and Medium-sized Enterprises, a COVID-19 relief program. In Canada, we participated in the Canada Emergency Commercial Rent Assistance ("CECRA") program for rent relief, receiving total rent abatements under the program of $0.05 million.

During the third quarter of 2020, all of Tandy's stores reopened to the public, and the store re-openings were well received by our employees and customers. We have continued to manage through the pandemic during intermittent spikes in COVID-19 infections, continued to see varying levels of infection rates, and have at time been forced to temporarily close or move certain stores to "curbside only" operations. We expect that at least some further infections and temporary store shutdowns will continue for the foreseeable future.

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

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

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

Results of Operations

The following table presents selected financial data:

(in thousands)	2021	2020	$ Change	% Change
Sales	$ 82,661	$ 64,084	$ 18,577	29.0%
Gross profit	46,999	36,058	10,941	30.3%
Gross margin percentage	56.9%	56.3%		0.6%
Operating expenses	44,699	41,328	3,371	8.2%
Impairment expense	-	1,078	(1,078)	(100.0)%
Income (loss) from operations	$ 2,300	$ (6,348)	$ 8,648	136.2%

Net Sales

Consolidated net sales increased by $18.6 million, or 29.0%, from 2021 to 2020. This sales growth is a reflection of continued strong demand from customers in all channels of distribution: retail stores, our website and our Commercial Division. While staffing challenges and sporadic store closures due to COVID-19 limited sales upside in some areas, consumers continued to invest COVID-era stimulus payments in their leatherworking interests, especially in our retail stores. At the same time, we believe our improved product quality, broader assortment, improved in-store expertise and service, and focused and efficient marketing communications were continuing to work together to drive sales.

Our store footprint consisted of 106 stores at both December 31, 2021 and December 31, 2020.

Gross Profit

Gross profit increased by $10.9 million, or 30.3%, from 2021 to 2020 as a result of higher net sales as well as improved gross margin. Our gross margin percentage for the year ended December 31, 2021 increased to 56.9%, versus 56.3% in the same period in 2020. This increase was a result of a combination of factors, including product and customer mix shifts as well as refining the process we use to capitalize cost into our inventory value for freight, warehousing and handling expenditures, updating from a manual, higher-level process to a more automated mechanism using our new ERP system, partially offset by higher costs for warehouse handling and freight costs.

Operating Expenses

(in thousands)	2021	2020
Operating expenses	$ 44,699	$ 41,328
Non-routine items related to restatement	(1,252)	(3,587)
Non-routine items related to CFO transition	-	(388)
Adjusted operating expenses	$ 43,447	$ 37,353
Operating expenses % of sales	54.1%	64.5%
Adjusted operating expenses % of sales	52.6%	58.3%

Operating expenses increased by $3.4 million in 2021 as compared to the corresponding prior year. This was mostly as a result of recalling store employees who had been furloughed while stores were closed in 2020 due to the COVID pandemic as well as sales-driven expenses like credit card fees and sales-based incentives, partially offset by $2.3 million in higher costs associated with the restatement of our financial statements and $0.4 million higher CFO transition costs in the prior year period. Adjusted operating expenses, which excludes the non-routine items related to the restatement and CFO turnover, increased $6.1 million or 16.3% for the reasons noted above. Adjusted operating expenses excluding non-routine items as shown above is a non-GAAP measure, included here to provide additional information regarding the Company's financial performance on a recurring basis. Non-routine items are primarily legal and accounting fees associated with the restatement and recruiting fees, exit costs, interim CFO-related expenses, and expenses for a number of other contract accounting professionals associated with the turnover of our CFO in 2020.

Impairment Expense

During the first quarter of 2020, we determined the economic impact from the COVID-19 pandemic created a triggering event for our fleet of stores, and we performed recoverability testing at the store level with 26 stores failing recoverability testing and resulting in impairment expense of $1.1 million during the 2020 year. For the year ended December 31, 2021, no impairment expense was recognized. See Note 2, *Significant Accounting Policies – Impairment of long-lived assets* of the Notes to the Consolidated Financial Statements included in Item 8, Financial Statements and Supplementary Data of this Form 10-K for further detail.

Other (Income) Expense

Other (income) expense consists primarily of interest expense, interest income and foreign currency (gain) loss. For the year ended December 31, 2021, we recognized other expense of $0.1 million. During the year ended December 31, 2020, we recognized other income of $0.1 million. We incurred higher levels of interest expense in 2021 as compared to the prior year as a result of a $0.4 million loan provided for by the Spanish government as part of a COVID-19 relief program.

Provision for Income Taxes

Our effective tax rate was 38.3% and (21.9%) for the years ended December 31, 2021 and 2020, respectively. For 2021 and 2020, the difference between our statutory rates and our effective rate are primarily due to state income taxes, the difference in tax rates for loss carryback periods, items that are nondeductible for income tax purposes, and the change in valuation allowance against U.S. deferred tax assets and certain foreign net operating losses.

Capital Resources, Liquidity and Financial Condition

We require cash principally for day-to-day operations, to purchase inventory and to finance capital investments. We expect to fund our operating and liquidity needs primarily from a combination of current cash balances and cash generated from operating activities. Any excess cash will be invested as determined by our Board of Directors in accordance with its approved investment policy. Our cash balance as of December 31, 2021 totaled $10.2 million.

Spain Loan

During the second quarter of 2020, the Company borrowed $0.4 million from Banco Santander S.A. under the Institute of Official Credit Guarantee for Small and Medium-sized Enterprises in order to facilitate the continuation of employment and to attenuate the economic effects of the COVID-19 virus. This loan was provided for by the Spanish government as part of a COVID-19 relief program. The term of the agreement is five years, and the interest rate is fixed at 1.5%. Based on the terms of the loan agreement, we are required to make monthly interest-only payments for the first two years and monthly principal and interest payments for the remainder of the term of the agreement.

Share Repurchase Program

On August 9, 2020, the Board of Directors approved a new program to repurchase up to $5.0 million of our common stock between August 9, 2020 and July 31, 2022. The Company's previous share repurchase program expired in August 2020. As of December 31, 2021 and 2020, the full $5.0 million of our common stock remained available for repurchase under this program.

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

On December 8, 2021, we entered into an agreement with an institutional shareholder of the Company to repurchase 212,690 shares of our common stock, par value $0.0024 in a private transaction. The purchase price was $5.00 per share for a total of $1.1 million. The closing of the repurchase took place on December 16, 2021, and these shares were subsequently cancelled. Prior to the repurchase, the shares represented approximately 2.4% of our outstanding common stock. These share repurchases were separately authorized by our Board of Directors and did not reduce the remaining amount authorized to be repurchased under the plan described in the previous paragraph.

Cash Flows

(amounts in thousands)	**2021**	**2020**
Net cash provided by (used in) operating activities	$ 3,716	$ (12,527)
Net cash provided by (used in) investing activities	(1,001)	6,256
Net cash provided by (used in) financing activities	(2,777)	416
Effect of exchange rate changes on cash and cash equivalents	(112)	279
Net decrease in cash and cash equivalents	**$ (174)**	**$ (5,576)**

For 2021, we generated $3.7 million of cash from operations driven by net income of $1.4 million, non-cash expenses of $5.2 million, including depreciation, amortization, and stock-based compensation, a reduction to income tax receivable of $1.8 million due to a federal income tax refund of $1.0 million related to the 2019 tax year and $0.8 million in income tax expense from expected taxable income generation in 2021, and $1.6 million of other changes in operating assets and liabilities mostly attributable to an increase in accounts payable and accrued liabilities of $1.9 million, and partially offset by the net buildup of inventory of $2.8 million and a reduction in lease liabilities of $3.4 million. We invested $1.0 million in capital expenditures for the purchase of store fixtures and systems implementations. We used cash in financing activities to repurchase 712,690 shares of Tandy common stock in two private purchases totaling $2.7 million at an average price of $3.84 per share. The activities above, in addition to the effect of exchange rate changes, resulted in a net decrease in cash of $0.2 million.

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

We believe that cash flow from operations and our existing cash reserves will be adequate to fund our operations through 2022, taking into account the current effects of the COVID-19 pandemic on our business and cash flow and our current business performance. In addition, we anticipate that this cash flow and our current cash reserves will enable us to meet our contractual obligations and commercial commitments throughout 2022. There can be no assurance, however, that the COVID-19 pandemic would not result in further restrictions on our business operations in a manner that would more materially impact our cash flow.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements during 2021 or 2020, and we do not currently have any such arrangements.

Summary of Critical Accounting Policies

The preparation of the Company's Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States requires the use of estimates that affect the reported value of assets, liabilities, revenues and expenses. These estimates are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for the Company's conclusions. The Company continually evaluates the information used to make these estimates as the business and the economic environment changes. Actual results may differ from these estimates, and estimates are subject to change due to modifications in the underlying conditions or assumptions. The policies discussed below require estimates that contain a significant degree of judgement. The use of estimates is pervasive throughout the Consolidated Financial Statements, but the accounting policies and estimates considered most critical are as follows.

Revenue Recognition. Our revenue is earned from sales of merchandise and generally occurs via three methods: (1) at the store counter, (2) shipment of product generally via web sales, and (3) sales of product directly to commercial customers. We recognize revenue when we satisfy the performance obligation of transferring control of product merchandise over to a customer. At the store counter, our performance obligation is met and revenue is recognized when a sales transaction occurs with a customer. When merchandise is shipped to a customer, our performance obligation is met and revenue is recognized when control passes to the customer. Shipping terms are normally free on board ("FOB") shipping point and control passes when the merchandise is shipped to the customer. Sales tax and comparable foreign tax is excluded from net sales, while shipping charged to our customers is included in net sales. Net sales are based on the amount of consideration that we expect to receive, reduced by estimates for future merchandise returns. The sales return allowance is based each year on historical customer return behavior and other known factors and reduces net sales and cost of sales, accordingly. Under our sales returns policy, merchandise may be returned, under most circumstances, up to 60 days after date of purchase. As merchandise is returned, the company records the sales return against the sales return allowance. We record a gift card liability for the unfulfilled performance obligation on the date we issue a gift card to a customer. We record revenue and reduce the gift card liability as the customer redeems the gift card. In addition, for gift card breakage, we recognize a proportionate amount for the expected unredeemed gift cards over the expected customer redemption period, which is one year.

Inventory. Inventory is stated at the lower of cost (first-in, first-out) or net realizable value. Finished goods held for sale includes the cost of merchandise purchases, the costs to bring the merchandise to our Texas distribution center, warehousing and handling expenditures, and distributing and delivering merchandise to our stores. These costs include depreciation of long-lived assets utilized in acquiring, warehousing and distributing inventory. Manufacturing inventory including raw materials and work-in-process is valued on a first-in, first-out basis using full absorption accounting which includes material, labor, and other applicable manufacturing overhead. Carrying values of inventory are analyzed and, to the extent that the cost of inventory exceeds the net realizable value, provisions are made to reduce the carrying amount of the inventory. We regularly review all inventory items to determine if there are (i) damaged goods (e.g., for leather, excessive scars or damage from ultra-violet ("UV") light), (ii) items that need to be removed from our product line (e.g., slow-moving items, inability of a supplier to provide items of acceptable quality or quantity, and to maintain freshness in the product line) and (iii) pricing actions that need to be taken to adequately value our inventory at the lower of cost or net realizable value. Since the determination of net realizable value of inventory involves both estimation and judgement with regard to market values and reasonable costs to sell, differences in these estimates could result in ultimate valuations that differ from the recorded asset. The majority of inventory purchases and commitments are made in U.S. dollars in order to limit the Company's exposure to foreign currency fluctuations. Goods shipped to us are recorded as inventory owned by us when the risk of loss shifts to us from the supplier. Inventory is physically counted twice annually in the Texas distribution center. At the store level, inventory is physically counted each quarter. Inventory is then adjusted in our accounting system to reflect actual count results.

Leases. We lease certain real estate for our retail store locations and warehouse equipment for our Texas distribution center, both under long-term lease agreements. Starting in 2019, with the adoption of Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842), once we have determined an arrangement is a lease, at inception we recognize a lease asset and lease liability at commencement date based on the present value of the lease payments over the lease term. For our operating leases, the present value of our lease payments may include: (1) rental payments adjusted for inflation or market rates, and (2) lease terms with options to renew the lease when it is reasonably certain we will exercise such an option. The exercise of lease renewal options is generally at our discretion. Payments based on a change in an index or market rate are not considered in the determination of lease payments for purposes of measuring the related lease liability. We discount lease payments using our incremental borrowing rate based on information available as of the measurement date. Rent expense is recorded in operating expenses. The net excess of rent expense over the actual cash paid has been recorded as accrued expenses and other liabilities in the accompanying consolidated balance sheets. For finance leases, our right-of-use assets are amortized on a straight-line basis over the earlier of the useful life of the right-of-use asset or the end of the lease term with rent expense recorded to operating expenses. We adjust the lease liability to reflect lease payments made during the period and interest incurred on the lease liability using the effective interest method. The incurred interest expense is recorded in interest expense on the consolidated statements of comprehensive income (loss). As of December 31, 2021, we have no sublease agreements and no lease agreements in which we are named as a lessor. Subsequent to the recognition of our operating lease assets and lease liabilities, we recognize lease expense related to our operating leases on a straight-line basis over the lease term. The depreciable life of related leasehold improvements is based on the shorter of the useful life or the lease term. We also perform interim reviews of our operating lease assets for impairment when evidence exists that the carrying value of an asset group, including a lease asset, may not be recoverable.

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

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

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

ITEM 8. CONSOLIDATED 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, 2021 and 2020, and the related consolidated statements of operations and comprehensive income (loss) and cash flows for each of the two years in the period ended December 31, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

Critical Audit Matters

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

Valuation of Inventory

The Company's accounting policy for the recognition of inventory and cost of sales is described in Note 2 to the consolidated financial statements. The Company has recorded an inventory balance of approximately $38.1 million and cost of sales of approximately $35.7 million as of and for the year ended December 31, 2021. Additionally, Note 3 to the consolidated financial statements provides further detail of the components of the year-end inventory balance.

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

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

How the Critical Audit Matter Was Addressed in the Audit

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

- We obtained an understanding of the controls over the valuation of inventory.
- We tested the inventory costs incurred by the Company by reviewing supplier invoices and ensuring that appropriate application of the first-in first-out principle was followed.
- We evaluated the appropriateness and consistency of management's methodology and assumptions used in calculating the capitalizable overhead costs allocation ratio.
- We evaluated the appropriateness of the capitalized overhead costs by analyzing them against actual overhead costs incurred during the year.
- We tested the mathematical accuracy of the Company's inventory obsolescence reserve calculation.
- We evaluated the appropriateness and consistency of management's methodology and assumptions used in developing its estimate of the inventory obsolescence reserve.
- We performed analytical procedures on the current year reserve rates (by product category) by comparing them to prior year rates and then obtaining corroborating evidence for any significant fluctuations.
- We tested on a sample basis, sales subsequent to yearend of the written-down items to ensure that the net realizable value was not lower than the previously written down value.

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

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

Oklahoma City, Oklahoma
March 31, 2022

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

	December 31, 2021	December 31, 2020
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 10,155	$ 10,329
Accounts receivable-trade, net of allowance for doubtful accounts of $24 and $14 at December 31, 2021 and 2020, respectively	614	350
Inventory	38,084	36,779
Income tax receivable	972	2,753
Prepaid expenses	483	536
Other current assets	141	265
Total current assets	50,449	51,012
Property and equipment, at cost	27,750	27,468
Less accumulated depreciation	(15,989)	(15,078)
Property and equipment, net	11,761	12,390
Operating lease assets	10,438	11,772
Financing lease assets	37	44
Deferred income taxes	-	82
Other intangibles, net of accumulated amortization of $548 at December 31, 2021 and 2020	6	6
Other assets	394	387
TOTAL ASSETS	**$ 73,085**	**$ 75,693**
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable-trade	$ 4,786	$ 5,737
Accrued expenses and other liabilities	4,302	3,642
Current portion of operating lease liabilities	3,025	3,530
Current portion of finance lease liabilities	15	14
Current maturities of long-term debt	79	-
Total current liabilities	12,207	12,923
Uncertain tax positions	415	393
Other non-current liabilities	417	463
Operating lease liabilities, non-current	8,194	9,245
Finance lease liabilities, non-current	15	29
Long-term debt, net of current maturities	336	446
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.10 par value; 20,000,000 shares authorized; none issued or outstanding; attributes to be determined on issuance	-	-
Common stock, $0.0024 par value; 25,000,000 shares authorized; 9,971,711 and 10,575,182 shares issued at December 31, 2021 and 2020, respectively; 8,547,335 and 9,150,806 shares outstanding at December 31, 2021 and 2020, respectively	24	25
Paid-in capital	3,959	5,924
Retained earnings	58,664	57,310
Treasury stock at cost (1,424,376 shares at December 31, 2021 and 2020)	(9,773)	(9,773)
Accumulated other comprehensive loss, net of tax	(1,373)	(1,292)
Total stockholders' equity	51,501	52,194
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 73,085**	**$ 75,693**

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

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

	For the Years Ended December 31,	
	2021	**2020**
Net sales	$ 82,661	$ 64,084
Cost of sales	35,662	28,026
Gross profit	46,999	36,058
Operating expenses	44,699	41,328
Impairment expense	-	1,078
Income (loss) from operations	2,300	(6,348)
Other (income) expense:		
Interest expense	16	7
Other, net	91	(76)
Total other (income) expense	107	(69)
Income (loss) before income taxes	2,193	(6,279)
Income tax provision (benefit)	839	(1,378)
Net income (loss)	$ 1,354	$ (4,901)
Foreign currency translation adjustments, net of tax	(81)	(211)
Comprehensive income (loss)	$ 1,273	$ (5,112)
Net income (loss) per common share:		
Basic	$ 0.16	$ (0.54)
Diluted	$ 0.16	$ (0.54)
Weighted average number of shares outstanding:		
Basic	8,709,866	9,062,598
Diluted	8,720,469	9,062,598

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

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

	For the Years Ended December 31, 2021	2020
Cash flows from operating activities:		
Net income (loss)	$ 1,354	$ (4,901)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,105	1,021
Operating lease asset amortization	3,202	3,193
Impairment of goodwill and long-lived assets	-	1,078
Loss (gain) on disposal of assets	(8)	59
Stock-based compensation	797	887
Deferred income taxes	83	442
Exchange (gain) loss	23	(5)
Changes in operating assets and liabilities:		
Accounts receivable-trade	(325)	86
Inventory	(2,777)	(12,686)
Prepaid expenses	83	675
Other current assets	(8)	1,574
Accounts payable-trade	1,143	(440)
Accrued expenses and other liabilities	743	1,022
Income taxes, net	1,775	(1,120)
Other assets	(52)	(41)
Operating lease liabilities	(3,422)	(3,371)
Total adjustments	2,362	(7,626)
Net cash provided by (used in) operating activities	3,716	(12,527)
Cash flows from investing activities:		
Purchase of property and equipment	(1,001)	(1,313)
Proceeds from sales of short-term investments	-	7,523
Proceeds from sales of assets	-	46
Net cash provided by (used in) investing activities	(1,001)	6,256
Cash flows from financing activities:		
Proceeds from long-term debt	-	416
Payments of capital lease obligations	(14)	-
Repurchase of common stock	(2,738)	-
Purchase of vested stock for employee payroll tax	(25)	-
Net cash provided by (used in) financing activities	(2,777)	416
Effect of exchange rate changes on cash and cash equivalents	(112)	279
Net decrease in cash and cash equivalents	(174)	(5,576)
Cash and cash equivalents, beginning of period	10,329	15,905
Cash and cash equivalents, end of period	$ 10,155	$ 10,329

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

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

	For the Years Ended December 31,	
	2021	**2020**
Supplemental disclosures of cash flow information:		
Interest paid during the period	$ 16	$ 17
Income tax paid (refunded) during the period, net	$ (994)	$ 56
Supplemental disclosures of non-cash activity:		
Change in accruals related to property and equipment	$ -	$ (105)
Operating lease assets obtained in exchange for lease liabilities, net	$ 1,853	$ 1,702

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

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

	Number of Shares Common Stock Outstanding	Par Value	Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2019	**9,022,187**	**$ 25**	**$ 5,037**	**$ (9,773)**	**$ 62,211**	**$ (1,081)**	**56,419**
Stock-based compensation expense	-	-	887	-	-	-	887
Issuance of restricted stock	128,619	-	-	-	-	-	-
Net loss	-	-	-	-	(4,901)	-	(4,901)
Foreign currency translation adjustments, net of tax	-	-	-	-	-	(211)	(211)
Balance, December 31, 2020	**9,150,806**	**$ 25**	**$ 5,924**	**$ (9,773)**	**$ 57,310**	**$ (1,292)**	**$ 52,194**
Stock-based compensation expense	-	-	797	-	-	-	797
Issuance of restricted stock	114,075	-	-	-	-	-	-
Purchase of vested stock for employee payroll tax	(4,856)	-	(25)	-	-	-	(25)
Repurchase of common stock	(712,690)	(1)	(2,737)	-	-	-	(2,738)
Net income	-	-	-	-	1,354	-	1,354
Foreign currency translation adjustments, net of tax	-	-	-	-	-	(81)	(81)
Balance, December 31, 2021	**8,547,335**	**$ 24**	**$ 3,959**	**$ (9,773)**	**$ 58,664**	**$ (1,373)**	**$ 51,501**

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

TANDY LEATHER FACTORY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020

1. DESCRIPTION OF BUSINESS

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

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

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

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

The Company's common shares currently trade on the OTC Pink Market operated by OTC Markets Group under the symbol "TLFA."

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

COVID-19

The onset of the COVID-19 pandemic in March 2020 temporarily shifted our strategic focus to company survival and cash preservation. We began closing stores on March 18, 2020, and by April 2, 2020, we temporarily closed all stores to the public. While we pivoted to serve customers only online, the Company experienced significant decreases in demand for its products in the second and third quarters of 2020, negatively impacting net sales.

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

Due to our size, we were not eligible for the Paycheck Protection Program administered through the Small Business Administration. Also, due to our not being current on financial filings with the SEC, we were not able to obtain loans under the Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act. However, under the CARES Act we were eligible to participate in the payroll tax deferral program, and we deferred $0.6 million in payroll tax with $0.3 million paid on December 31, 2021, and the remaining $0.3 million to be paid by December 31, 2022. During the second quarter of 2020, the Company borrowed $0.4 million through the Spanish government's Institute of Official Credit Guarantee for Small and Medium-sized Enterprises, a COVID-19 relief program. The term of the agreement is for five years and the interest rate is fixed at 1.5%. Based on the terms of the loan agreement, we make interest-only payments for the first two years and monthly principal and interest payments for the remainder of the term of the agreement. In Canada, we participated in the Canada Emergency Commercial Rent Assistance ("CECRA") program for rent relief, receiving total rent abatements under the program of $0.05 million.

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

During the third quarter of 2020, all of Tandy's stores reopened to the public. While customer response to our store reopening has been good, since then, various spikes in local infection rates and the "wave" created by the Delta variant of COVID-19 in the summer of 2021 have forced us to sporadically move stores to short-term "curbside only" operations or closures due to local conditions or staffing issues. We expect that at least some further infections and temporary store shutdowns will continue for the foreseeable future.

While we previously fulfilled our web orders out of our retail stores, during the second quarter of 2020, we built a centralized web fulfillment capability in our Fort Worth distribution center and have been and expect to continue to fulfill web orders primarily through Fort Worth going forward. Both our e-commerce business and stores have seen strong sales performance, but the future remains uncertain, and more store closures and/or other ongoing effects of the pandemic on the economy or employment market could cause a material negative impact on future sales.

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

2. SIGNIFICANT ACCOUNTING POLICIES

Management estimates and reporting

The preparation of the Company's Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States ("GAAP") requires the use of estimates that affect the reported value of assets, liabilities, revenues and expenses. These estimates are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for the Company's conclusions. The Company continually evaluates the information used to make these estimates as the business and the economic environment changes. Actual results may differ from these estimates, and estimates are subject to change due to modifications in the underlying conditions or assumptions. The policies discussed below require estimates that contain a significant degree of judgement. The use of estimates is pervasive throughout the Consolidated Financial Statements, but the accounting policies and estimates considered most significant are as follows.

Principles of consolidation

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

Cash and cash equivalents

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

Accounts Receivable and Expected Credit Losses

Our receivables primarily arise from the sale of merchandise to customers that have applied for and been granted credit. Accounts receivable are stated at amounts due, net of an allowance for doubtful accounts. Accounts receivable are generally due within 30 days of invoicing. We estimate expected credit losses based on factors such as the composition of accounts receivable, the age of the accounts, historical bad debt experience, and our evaluation of the financial condition and past collection history of each customer. Management believes that the historical loss information it has compiled is a reasonable base on which to determine expected credit losses for trade receivables held at December 31, 2021, because the composition of the trade receivables at that date is consistent with that used in developing the historical credit-loss percentages (i.e., the similar risk characteristics of its customers and its credit practices have not changed significantly over time).

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 are recorded in stockholders' equity, net of tax. For the years ended December 31, 2021 and 2020, we recorded foreign currency translation loss adjustments of $0.1 million and $0.2 million, respectively.

Gains and losses resulting from foreign currency transactions are recorded in other, net within the statements of operations and comprehensive income (loss). We did not recognize a foreign currency transaction gain or loss in the years ended December 31, 2021 and 2020.

Revenue recognition

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

The sales return allowance is based each year on historical customer return behavior and other known factors and reduces net sales and cost of sales, accordingly. The sales return allowance included in accrued expense and other liabilities was $0.2 million as of December 31, 2021 and 2020. The estimated value of merchandise expected to be returned included in other current assets was $0.1 million as of December 31, 2021 and 2020.

We record a gift card liability for the unfulfilled performance obligation on the date we issue a gift card to a customer. We record revenue and reduce the gift card liability as the customer redeems the gift card. In addition, for gift card breakage, we recognize a proportionate amount for the expected unredeemed gift cards over the expected customer redemption period, which is one year. As of December 31, 2021 and 2020, our gift card liability, included in accrued expenses and other liabilities, was $0.4 million and $0.3 million, respectively. We recognized gift card revenue of $0.2 million during 2021 from the December 31, 2020 deferred revenue balance and $0.2 million during 2020 from the December 31, 2019 deferred revenue balance.

For the years ended December 31, 2021 and 2020, we recognized $0.7 million and $0.6 million, respectively, in net sales associated with gift cards.

Disaggregated revenue

In the following table, revenue for the years ended December 31, 2021 and 2020 is disaggregated by geographic areas as follows:

(in thousands)		**2021**		**2020**
United States	$	73,546	$	56,877
Canada		7,470		5,798
Spain		1,645		1,409
Net sales	**$**	**82,661**	**$**	**64,084**

Geographic sales information is based on the location of the store. Excluding Canada, no single foreign country had net sales greater than 2.2% of our consolidated net sales in 2021 or 2020.

Discounts

We offer a single retail price level, plus three volume-based levels for commercial customers. Discounts from those price levels are offered to Business, Military/First Responder and Employee customers. Such discounts do not convey a material right to these customers since the discounted pricing they receive at the point of sale is not dependent upon any previous or subsequent purchases. As a result, sales are reported after deduction of discounts at the point of sale. We do not pay slotting fees or make other payments to resellers.

Operating expense

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

Property and equipment, net of accumulated depreciation

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

Inventory

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

We regularly review all inventory items to determine if there are (i) damaged goods (e.g., for leather, excessive scars or damage from ultra-violet ("UV") light), (ii) items that need to be removed from our product line (e.g., slow-moving items, inability of a supplier to provide items of acceptable quality or quantity, and to maintain freshness in the product line) and (iii) pricing actions that need to be taken to adequately value our inventory at the lower of cost or net realizable value. Since the determination of net realizable value of inventory involves both estimation and judgement with regard to market values and reasonable costs to sell, differences in these estimates could result in ultimate valuations that differ from the recorded asset.

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

Inventory is physically counted twice annually in the Texas distribution center. At the store level, inventory is physically counted each quarter. Inventory is then adjusted in our accounting system to reflect actual count results.

Leases

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

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

We recognize rent expense related to our operating leases on a straight-line basis over the lease term.

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

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

None of our lease agreements contain contingent rental payments, material residual value guarantees or material restrictive covenants. We have no sublease agreements and no lease agreements in which we are named as a lessor. Refer to Note 4, *Leases* for further discussion of the Company’s leases.

Impairment of long-lived assets

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

During the first quarter of 2020, we determined the economic impact from the COVID-19 pandemic created a triggering event for our fleet of stores, and we performed recoverability testing at the store level with 26 stores failing recoverability testing and resulting in impairment expense of $1.1 million during the 2020 year. For the year ended December 31, 2021, no impairment expense was recognized

Earnings per share

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

(in thousands, except share data)	**2021**	**2020 (1)**
Numerator:		
Net income (loss)	$ 1,354	$ (4,901)
Denominator:		
Basic weighted-average common shares ouststanding	8,709,866	9,062,598
Dilutive effect of service-based restricted stock awards granted to Board of Directors under the Plan	10,603	-
Diluted weighted-average common shares outstanding	8,720,469	9,062,598

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

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

Other intangibles

All our intangible assets are definite-lived intangibles and are subject to amortization. The weighted average amortization period is 15 years for trademarks and copyrights. Amortization expense related to other intangible assets was less than $0.01 million in each of 2021 and 2020 and was recorded in operating expenses. Based on the current amount of intangible assets subject to amortization, we estimate amortization expense to be less than $0.01 million annually over the next five years.

Fair value of financial instruments

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

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

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

Our principal financial instruments held consist of accounts receivable, accounts payable, and long-term debt. As of December 31, 2021 and 2020, the carrying values of our financial instruments, included in our Consolidated Balance Sheets, approximated their fair values. There were no transfers into or out of Levels 1, 2 and 3 during the years ended December 31, 2021 and 2020.

Short-term investments

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

Income taxes

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

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

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

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

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

Stock-based compensation

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

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

Comprehensive income (loss)

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

Shipping and handling costs

Costs to ship products from our stores to our customers are included in operating expenses on the Consolidated Statements of Operations and Comprehensive Income (Loss). These costs totaled $3.1 million and $3.2 million for the years ended December 31, 2021 and 2020, respectively.

Advertising

Advertising costs include the cost of print, digital, direct mail, community events, trade shows, and our e-commerce platform. Advertising costs are expensed as incurred. Total advertising expense was $1.0 million and $1.1 million in 2021 and 2020, respectively.

Recently Adopted Accounting Pronouncements

Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued ASU 2019-12, *Income Taxes* (Topic 740): *Simplifying the Accounting for Income Taxes*, which simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. We adopted this ASU on January 1, 2021; the adoption of this ASU did not have a material effect on the Company’s financial condition, results of operations or cash flows.

3. BALANCE SHEET COMPONENTS

Inventory

(in thousands)	December 31, 2021	December 31, 2020
On hand:		
Finished goods held for sale	$ 34,928	$ 32,654
Raw materials and work in process	828	828
Inventory in transit	2,328	3,297
TOTAL	**$ 38,084**	**$ 36,779**

Property and Equipment

(in thousands)	December 31, 2021	December 31, 2020
Building	$ 9,257	$ 9,240
Land	1,451	1,451
Leasehold improvements	1,833	1,853
Equipment and machinery	7,704	7,361
Furniture and fixtures	7,350	7,339
Vehicles	155	224
	27,750	27,468
Lesss: accumulated depreciation	(15,989)	(15,078)
TOTAL	**$ 11,761**	**$ 12,390**

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

(in thousands)	December 31, 2021	December 31, 2020
United States	$ 11,508	$ 12,077
Canada	252	309
United Kingdom	-	2
Spain	1	2
	$ 11,761	**$ 12,390**

Depreciation expense was $1.1 million and $1.0 million for the years ended December 31, 2021 and 2020, respectively.

Short-term Liabilities

Accrued Expenses and Other Liabilities	December 31, 2021	December 31, 2020
(in thousands)		
Accrued employee related costs	2,508	1,121
Unearned gift card revenue	351	301
Estimated returns	242	241
Sales and payroll taxes payable	987	935
Accrued vendor payables	214	1,044
TOTAL	**$ 4,302**	**$ 3,642**

4. LEASES

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

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

The Company performs interim reviews of its operating and finance lease assets for impairment when evidence exists that the carrying value of an asset group, including a lease asset, may not be recoverable. The Company recognized no impairment expense related to its lease assets during the year ended December 31, 2021. During the years ended December 31, 2020, the Company recognized impairment expense of approximately $0.6 million associated with certain operating lease assets.

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

Leases	**Balance Sheet Classification**	**December 31, 2021**	**December 31, 2020**
(in thousands)			
Assets:			
Operating	Operating lease assets	$ 10,438	$ 11,772
Finance	Financing lease assets	37	44
Total assets		**$ 10,475**	**$ 11,816**
Liabilities:			
Current			
Operating	Current portion of operating lease liabilities	$ 3,025	$ 3,530
Finance	Current portion of finance lease liabilities	15	14
Non-current			
Operating	Operating lease liabilities, non-current	8,194	9,245
Finance	Finance lease liabilities, non-current	15	29
Total lease liabilities		**$ 11,249**	**$ 12,818**

Lease Cost	**Income Statement Classification**	**December 31, 2021**	**December 31, 2020**
(in thousands)			
Operating lease cost	Operating expenses	$ 3,664	$ 3,809
Operating lease cost	Impairment expense	-	601
Short-term lease cost	Operating expenses	45	-
Variable lease cost (1)	Operating expenses	946	937
Finance: (2)			
Amortization of lease assets	Operating expenses	7	-
Interest on lease liabilities	Interest expense	2	-
Total lease cost		**$ 4,664**	**$ 5,347**

(1) Variable lease cost includes payment for certain real estate taxes, insurance, common area maintenance, and other charges related to lease agreements, which are not included in the measurement of the operating lease liabilities.
(2) Finance lease costs were less than $1,000 during the 2020 year.

Maturity of Lease Liabilities	December 31, 2021 Operating Leases	December 31, 2021 Finance Leases
(in thousands)		
2022	$ 3,488	$ 17
2023	2,665	$ 15
2024	2,021	$ -
2025	1,386	$ -
2026	1,114	$ -
Thereafter	2,218	$ -
Total lease payments	$ 12,892	$ 32
Less: Interest	(1,673)	(2)
Present value of lease liabilities	**$ 11,219**	**$ 30**

Other Information	December 31, 2021	December 31, 2020
(in thousands)		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows used in operating leases	$ 3,876	$ 3,866
Operating cash flows used in finance leases	2	-
Financing cash flows used in finance leases	14	-
Operating lease assets obtained in exchange for lease obligations		
Operating leases, initial recognition	1,653	317
Operating leases, modifications and remeasurements	200	1,340
Finance leases, initial recognition	-	45

Lease Term and Discount Rate	December 31, 2021	December 31, 2020
Weighted-average remaining lease term (years):		
Operating leases	5.3	5.9
Finance leases	1.9	2.9
Weighted-average discount rate:		
Operating leases	4.5%	4.4%
Finance leases	6.5%	6.5%

5. NOTES PAYABLE AND LONG-TERM DEBT

During the second quarter of 2020, the Company borrowed $0.4 million from Banco Santander S.A. under the Institute of Official Credit Guarantee for Small and Medium-sized Enterprises in order to facilitate the continuation of employment and to attenuate the economic effects of the coronavirus ("COVID-19”) virus. This loan was provided for by the Spanish government as part of a COVID-19 relief program and was denominated in Euros. The term of the agreement is five years and the interest rate is fixed at 1.5%. Based on the terms of the loan agreement, we are required to make monthly interest-only payments for the first two years and monthly principal and interest payments for the remainder of the term of the agreement.

On April 2, 2020, the Company’s primary bank, BOKF, NA d/b/a Bank of Texas, terminated a $6.0 million working capital line of credit facility secured by inventory and a $15.0 million credit facility secured by the Company’s owned real estate as a result of the failure to provide timely quarterly financial statements and compliance certificates required under the facilities. The delay was the result of the need to restate previously filed financial statements and file subsequent delinquent filings with the SEC. As of the date of the termination, Tandy had no borrowings outstanding under these line of credit facilities or with any other lending institution.

The amount outstanding under the above agreement consisted of the following with changes in the year over year balance solely due to foreign currency translation:

(in thousands)	2021	2020
Institute of Official Credit ("ICO") Guarantee for Small and Medium-sized Enterprises with Banco Santander S.A. (Spain) as described more fully above - interest due monthly at 1.50%; matures June 4, 2025	$ 336	$ 446
	$ 336	$ 446
Less current maturities	79	-
TOTAL	**$ 415**	**$ 446**

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 2021 and 2020, we matched 100% of the pretax employee contributions on the first 3% of eligible earnings and 50% of the pretax employee contributions on the next 2% of eligible earnings that are contributed by employees. For the years ended December 31, 2021 and 2020, we recorded employer match expense of $0.3 million and $0.2 million, respectively.

The plan allows employees who meet the age requirements and reach the plan contribution limits to make a catch-up contribution. The catch-up contributions are not eligible for matching contributions. In addition, the plan provides for discretionary matching contributions as determined by the Board of Directors. There were no discretionary matching contributions made in 2021 or 2020.

We offer no postretirement or postemployment benefits to our employees.

7. INCOME TAXES

The provision for income taxes consists of the following:

(in thousands) **Income Tax Benefit**	**Year Ended December 31,** **2021**	**2020**
Current provision (benefit):		
Federal	$ 640	$ (1,385)
State	98	65
Foreign	-	6
Related to UTP	19	20
	757	**(1,294)**
Deferred provision (benefit):		
Federal	-	(62)
State	-	(3)
Foreign	82	(19)
	82	(84)
Total tax provision (benefit)	**$ 839**	**$ (1,378)**

We have $2.2 million of net operating loss ("NOL") carryovers which will begin to expire in 2025.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, permits net operating loss ("NOL") carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOLs incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. The Company has evaluated the impact of the CARES Act and estimates the NOL carryback provision of the CARES Act will result in a cash tax benefit in excess of $1.0 million.

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

(in thousands) **Income (Loss) Before Income Taxes**	**Year Ended December 31,** **2021**	**2020**
United States	$ 2,552	$ (6,222)
Spain	(135)	161
Canada	(229)	(204)
Australia	(1)	(7)
United Kingdom	6	(7)
TOTAL	**$ 2,193**	**$ (6,279)**

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

Deferred income tax assets:		**2021**		**2020**
(in thousands)				
Inventory	$	464	$	498
Stock-based compensation		59		63
Accounts receivable		4		4
Sales returns		125		105
Foreign currency translation gain/loss in OCI		342		323
Goodwill and other intangible assets amortization		-		5
Net operating loss		646		665
Accrued expenses		359		170
Leases		195		250
Other		2		1
Total deferred income tax assets		**2,196**		**2,084**
Less: valuation allowance		**(1,489)**		**(1,320)**
Total deferred income tax assets, net of valuation allowance	**$**	**707**	**$**	**764**
Property and equipment depreciation	$	707	$	682
Total deferred income tax liabilities		**707**		**682**
Net deferred tax asset (liability)	**$**	**-**	**$**	**82**

We are required to reduce deferred tax assets by a valuation allowance if, based on the weight of the available evidence, it is more likely than not that all or a portion of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences are deductible. We determined a $0.2 million increase to the valuation allowance for deferred income tax assets was necessary as of December 31, 2021, as compared to 2020. Our evaluation considered, among other things, the nature, frequency, and severity of losses, forecasts of future profitability and the duration of statutory carryforward periods.

Our effective tax rate differs from the federal statutory rate primarily due to U.S. state income tax expense, the difference in tax rates for loss carryback periods for the 2020 tax year, foreign income/loss positions, expenses that are nondeductible for tax purposes, the change in our valuation allowance associated with our deferred tax assets, and differences in tax rates. Below is a reconciliation of our effective tax rate from the statutory rate:

	Year Ended December 31,	
	2021	2020
Statutory rate – Federal U.S. income tax	21%	21%
State and local taxes	9%	3%
Permanent book/tax differences	3%	(2)%
Difference in tax rates in loss carryback periods	0%	8%
Change in valuation allowance	6%	(10)%
Rate differential on UTP reversals	1%	0%
Other, net	(2)%	2%
Effective rate	**38%**	**22%**

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 2017. Depending on the jurisdiction, we are no longer subject to state examinations by tax authorities for years prior to the December 2015 and December 2016 tax years. We file tax returns in a limited number of foreign jurisdictions. With few exceptions, we are no longer subject to non-U.S. income tax examinations for years before 2015.

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

	2021	2020
UTP at beginning of the year	$ 393	$ 296
Gross increase to tax positions in current period	3	77
Interest expense	19	20
UTP at end of year	**$ 415**	**$ 393**

Included in the balance of UTPs as of December 31, 2021 and 2020 are $0.1 million of tax benefits that, if recognized, would affect the effective tax rate. Also included in the balance of UTPs as of December 31, 2021 and 2020 are $0.3 million of tax benefits that, if recognized, would result in adjustments primarily to deferred taxes.

8. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

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

SEC Investigation

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

Delisting of the Company's Common Stock

As previously disclosed, the Company was unable to timely file the delinquent Exchange Act filings due to the process of restating its financial statements as described above. Because the restatement process was not complete, Nasdaq suspended trading in our stock on Nasdaq as of August 13, 2020, and subsequently delisted it in February 2021. Since August 13, 2020, our stock has traded on the Pink Market operated by OTC Markets Group under the symbol "TLFA." We have reapplied for Nasdaq listing but cannot be certain when or if that application will be approved.

9. SIGNIFICANT BUSINESS CONCENTRATIONS AND RISK

Major Customers

Our revenues are derived from a diverse group of customers, from hobbyist crafters to small and large businesses across a wide variety of industries. No single customer accounted for more than 0.7% of our consolidated revenues in 2021 or 2020, and sales to our five largest customers represented 2.0% and 1.1%, 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 Suppliers

We purchase merchandise and raw materials from over 170 vendors from the United States and approximately 20 foreign countries. In general, our 10 largest vendors account for approximately 60-75% of our inventory purchases.

Credit Risk

Due to the large number of customers comprising our customer base, concentrations of credit risk with respect to customer receivables are limited, although as of December 31, 2021 and 2020, two customers' balances represented 23.7% and 29.9% 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.

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10. STOCKHOLDERS' EQUITY

Equity Compensation Plans

Restricted Stock Plan

The Tandy Leather Factory, Inc. 2013 Restricted Stock Plan (the "2013 Plan") was adopted by our Board of Directors in January 2013 and approved by our stockholders in June 2013. The 2013 Plan initially reserved up to 300,000 shares of our common stock (of which, there were 591,138 shares available for future awards as of December 31, 2021) for restricted stock and restricted stock unit ("RSU") awards, on or prior to June 2018, to our executive officers, non-employee directors and other key employees. In June 2020, our stockholders approved an increase to the plan reserve to 800,000 shares of our common stock and extended the 2013 Plan through June 2023. Awards granted under the 2013 Plan may be service-based awards or performance-based awards, and may be subject to a graded vesting schedule with a minimum vesting period of four years, unless otherwise determined by the Compensation Committee of the Board of Directors that administers the plan. In February and May 2021, as part of their annual director compensation, certain of our non-employee directors were granted a total of 21,673 and 3,415 service-based RSUs, respectively, under the 2013 Plan, which will vest ratably over the next four years provided that the participant is still on the board on the vesting date.

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

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

Balance, January 1, 2021	522	$	7.11
Granted	25		3.88
Forfeited	(10)		3.53
Vested	(114)		7.00
Balance, December 31, 2021	**423**	**$**	**7.03**

The Company's stock-based compensation relates to restricted stock and RSU awards. For these service-based awards, our stock-based compensation expense, included in operating expenses, was $0.8 million and $0.9 million in 2021 and 2020, respectively.

As of December 31, 2021, the Company has concluded it is not probable that the performance conditions related to performance-based RSUs will be achieved, and as a result no compensation expense related to performance-based RSUs has been recorded.

As of December 31, 2021, there was unrecognized compensation cost related to non-vested, service-based awards of $1.4 million which will be recognized over 1.6 weighted average years in each of the following years:

Unrecognized Expense		
2022	$	784
2023		537
2024		24
2025		5
	$	**1,350**

We issue shares from authorized shares upon the lapsing of vesting restrictions on restricted stock and RSUs. In 2021 and 2020, we issued 114,075 and 128,619 shares, respectively, resulting from the vesting of restricted stock and RSUs. We do not use cash to settle equity instruments issued under stock-based compensation awards.

Share Repurchase Program

On August 9, 2020, the Board of Directors approved a new program to repurchase up to $5.0 million of its common stock between August 9, 2020 and July 31, 2022. The Company's previous share repurchase program expired in August 2020. As of December 31, 2021 and 2020, the full $ 5.0 million of our common stock remained available for repurchase under this program.

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

On December 8, 2021, we entered into an agreement with an institutional shareholder of the Company, to repurchase 212,690 shares of our common stock, par value $0.0024 in a private transaction. The purchase price was $5.00 per share for a total of $1.1 million. The closing of the repurchase took place on December 16, 2021, and these shares were subsequently cancelled. Prior to the repurchase, the shares represented approximately 2.4% of our outstanding common stock. These share repurchases were separately authorized by our Board of Directors and did not reduce the remaining amount authorized to be repurchased under the plan described in the previous paragraph.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As part of the filing of this Form 10-K for the period ended December 31, 2021, our management, with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), evaluated the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). As a result of this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were not effective due to the material weaknesses described below.

Management's Annual Report on Internal Control over Financial Reporting

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

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

A material weakness is defined as a deficiency, or combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. Based on this definition, our management, with the participation of our CEO and CFO, evaluated the effectiveness and design of our internal control over financial reporting against the COSO Framework and concluded that our internal control over financial reporting was not effective as of December 31, 2021 due to material weaknesses arising from flaws in our control environment, risk oversight measures, control activities, information processing and communication and our monitoring systems, each of which is described in more detail below.

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

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

Control activities. We concluded that we did not have effective control activities in the following areas: (i) selecting and developing control activities to mitigate risks, including the development of alternative control activities that address segregation of duties issues; (ii) selecting and implementing information technology and related systems supportive to our internal control over financial reporting; and (iii) deploying control activities through policies and establishing procedures that put these policies into action, including timely review of account reconciliations and methodologies used to calculate and report financial information and results, as well as timely periodic management reviews of financial information and results that would help identify misstatements.

Information and communication. We identified deficiencies associated with information and communication within our internal control framework. Specifically, we did not effectively assign responsibility to personnel for gathering required information nor did we periodically communicate objectives and internal control responsibilities throughout the organization which contributed to inadequate documentation of processes, untimely review of account reconciliations and calculations involving judgement and delays in the accounting close cycle, hindering timely communication with management, the Board of Directors and our independent auditors.

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

Remediation Efforts to Address Material Weaknesses

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

During 2020, 2021 and through the filing date of this Form 10-K, we have taken the following measures, among others:

i. Replaced critical roles within our accounting team with contract accounting resources and continue to search for full-time employees with expertise in GAAP accounting, SEC reporting and disclosure, internal audit and internal controls;
ii. Replaced our legacy accounting systems with an integrated enterprise resource planning ("ERP") solution which includes general ledger, warehouse management and factory production modules designed to calculate inventory on a FIFO basis;
iii. Implemented a new point-of-sale system for 94 U.S. stores that is fully integrated with our new ERP system (the remaining 12 stores will be converted during the remainder of 2022);
iv. Created a risk controls matrix which includes, among other things, a comprehensive list of key and mitigating controls, a description of the risk the control is designed to mitigate, the individual responsible for each control, the frequency in which the control is performed, and a mapping of each control to the five COSO Framework components (control environment, risk assessment, control activities, information and communication, or monitoring activities);
v. Established a greater sense of accountability by requiring sub-certifications below the CEO and CFO level for certain key accounting, finance and operations personnel.

Our continuing plan and additional steps for remediation include:

i. Ongoing recruitment and hiring of permanent, qualified public-company accounting personnel;
ii. Converting the remaining 12 stores onto our new point-of-sale system;
iii. Redesigning our accounting procedures and activities to align with our new ERP system that will include built-in controls to improve upon the reliability of financial reporting and the preparation of financial statements in accordance with GAAP;
iv. Continuing to improve the accounting close process, including periodic review and update of our accounting close checklists for completeness of duties, accuracy of owners and deadlines to maintain accountability, timely review of account reconciliations and calculations involving judgement, and timely reporting of financial results;
v. Updating process narrative documentation in the following areas: (i) financial reporting, (ii) inventory, (iii) purchasing and accounts payable, (iv) revenue, (v) fixed assets and lease accounting, (vi) general accounting, treasury and financial planning & analysis, (vii) tax, (viii) information technology (IT) governance, and (ix) HR and payroll;
vi. Periodically reviewing of our risk controls matrix and process narrative documentation to ensure changes such as personnel, information sources, processes, systems, and frequency in performing the control are properly reflected in a timely manner;
vii. Reporting the progress and results of our remediation plan to the Audit Committee on a recurring basis, including the identification, status, and resolution of internal control deficiencies; and
viii. Creating a comprehensive approach to regularly evaluate the operating effectiveness of our disclosure controls and procedures and our internal control over financial reporting using the COSO Framework as a guide.

Control Environment

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

- Recurring meetings with leadership, finance and accounting and other key functional areas to train staff on processes for oversight and emphasize each individual’s accountability for internal control compliance, and to create a pattern of regular discussion of such controls.
- Periodic communications from the CEO, CFO and other key senior leaders on the Company’s mission, core values, Code of Business Conduct and Ethics, whistleblower policies, and each employee’s individual responsibility for internal control compliance.
- Reorganization of the finance and accounting team to address segregation of duties issues, oversight and review of work, and recruiting and hiring qualified, competent employees with relevant experience for the roles.
- Regular performance evaluations to include position-specific criteria for functional competence, including performance of internal control responsibilities.

Risk Oversight Measures

We continue to identify risks and enhance risk oversight measures. In late 2019, we developed an annual strategic planning process designed to identify specific operating objectives for the organization and to conduct an assessment across the organization of the risks to meeting those objectives, including the risk of fraud. Furthermore, on a quarterly basis, management will review our periodic filings to ensure that identified risks have been appropriately disclosed. In the areas of reporting and compliance objectives, we are also developing a process to conduct monthly business reviews by functional area that would include risk assessments of reporting accuracy based on complexity and transaction levels as well as compliance with GAAP and other regulatory requirements, in order to evaluate whether our existing control activities appropriately mitigate such risks or if additional controls need to be employed.

Control Activities

We continue to redesign and implement our internal control activities. Specifically, we are conducting detailed working sessions to document our current and prior finance and accounting policies, procedures and step-by-step activities. These sessions are expected to identify specific areas that require improvement and redesign of processes, structure, authorities and controls, and those actions include:

- Completing the implementation of our new point-of-sale system, which is fully integrated with our ERP system, for our remaining 12 stores during the remainder of 2022.
- Continuing to implement functionality in our ERP system to improve on our internal controls over financial reporting, such as implementing the ERP's bank reconciliation module.
- Creating and implementing newly-designed processes, structures, delegation of authority and controls, in accordance with the COSO Framework, including:
  - Quarterly updates for the CFO regarding upcoming accounting pronouncement and proposed changes to GAAP accounting standards, tax regulations, and other requirements that may impact the Company's financial reporting;
  - Timely reviews each quarter of the most significant accounting estimates and judgements;
  - Validation of results through detailed variance analyses and reconciliation of account balances performed on a timely basis;
  - Monthly business review of actual financial performance compared to forecasts with participation from leadership across the organization; and
  - Establishing a disclosure committee comprised of key management throughout the different areas of the organization to evaluate the appropriateness of disclosures in the Company's periodic filings on Forms 10-K and 10-Q and to support the CEO and CFO with the certification process.

Information Processing and Communication

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

Monitoring Activities

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

Cybersecurity

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

Changes in Internal Control Over Financial Reporting

As discussed in the remediation section above, we implemented the warehouse management, factory production system and general ledger systems modules as part of our new ERP system implementation which had a go-live date of September 1, 2020, and we implemented our new point-of-sale system, which is fully integrated with our ERP system, in 94 of our U.S. stores with the remaining 12 stores to be converted during the remainder of 2022. Although we had not fully remediated all material weaknesses in our internal control over financial reporting as of December 31, 2021, as the phased implementation of this system continues, we are experiencing certain changes to our processes and procedures which, in turn, result in changes to our internal control over financial reporting. While we expect our new ERP system to strengthen our internal financial controls by automating certain manual processes and standardizing business processes and reporting across our organization, management will continue to evaluate and monitor our internal controls as each of the affected areas evolves.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE*

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 2022 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 Form 10-K:

1. Financial Statements

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

- Report of Independent Registered Public Accounting Firm (PCAOB ID Number 410)
- Consolidated Balance Sheets as of December 31, 2021 and 2020
- Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2021 and 2020
- Consolidated Statements of Cash Flows for the years ended December 31, 2021 and 2020
- Consolidated Statements of Stockholders' Equity for the years ended December 31, 2021 and 2020

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

10.7	Form of Stand-Alone Restricted Stock Unit Agreement dated October 2, 2018 between the Company and Janet Carr, filed as Exhibit 10.3 to Tandy Leather Factory Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 5, 2018 and incorporated by reference herein.
10.8	Form of Stock Purchase Agreement dated January 28, 2021 between the Company and Central Square Management, filed as Exhibit 10.14 to the Tandy Leather Factory, Inc.'s 2019 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on June 22, 2021 and incorporated by reference herein.
*10.9	Form of Stock Purchase Agreement dated December 8, 2021 between the Company and Right Lane I, LP.
14.1	Code of Business Conduct and Ethics of Tandy Leather Factory, Inc., adopted by the Board of Directors on December 4, 2018, filed as Exhibit 14.1 to Tandy Leather Factory, Inc.'s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on June 22, 2021 and incorporated by reference herein.
*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, as amended.
*31.2	Certification by the Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended.
*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, as amended, the Registrant has duly caused this Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

TANDY LEATHER FACTORY, INC.
By:
/s/ Janet Carr
Janet Carr
Chief Executive Officer

Dated: March 31, 2022

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

Signature	Title	Date
/s/ Jefferson Gramm Jefferson Gramm	Chairman of the Board	March 31, 2022
/s/ Janet Carr Janet Carr	Chief Executive Officer, Director (principal executive officer)	March 31, 2022
/s/ Michael Galvan Michael Galvan	Chief Financial Officer (principal financial officer and principal accounting officer)	March 31, 2022
/s/ William M. Warren William M. Warren	Director	March 31, 2022
/s/ James Pappas James Pappas	Director	March 31, 2022
/s/ Vicki Cantrell Vicki Cantrell	Director	March 31, 2022
/s/ Sharon M. Leite Sharon M. Leite	Director	March 31, 2022
/s/ Sejal Patel Sejal Patel	Director	March 31, 2022
/s/ Elaine D. Crowley Elaine D. Crowley	Director	March 31, 2022

Exhibit 10.9

STOCK PURCHASE AGREEMENT

THIS AGREEMENT is dated as of the 8th day of December, 2021, by and between Tandy Leather Factory, Inc., a Delaware corporation having its principal address at 1900 SE Loop 820, Fort Worth, TX 76104 (hereinafter referred to as "Purchaser"), and Right Lane I, LP, a Delaware Limited Liability Company (hereinafter referred to as "Seller").

Statement of Facts:

A. Seller is the beneficial owner of 212,690 shares of common stock of Purchaser (the "Shares").

B. Purchaser desires to the Shares from Seller, and Seller desires to sell the Shares to Purchaser under the terms and conditions set forth herein below.

NOW, THEREFORE, in consideration of the mutual promises set forth herein, the parties agree and stipulate as follows:

1. **Purchase and Sale**. Purchaser shall purchase the Shares from Seller (the "Purchase"), and Seller shall sell the Shares to Purchaser for the price and upon the other terms set forth herein.

2. **Purchase Price**. Purchaser shall pay Seller $5.00 per Share for a total purchase price for the Shares of $1,063,450.00 (the "Purchase Price").

3. **Closing**. The closing shall occur on or before the 17th day of December, 2021 (the "Closing Date"), at the offices of Purchaser or at such time and place and Purchaser and Seller may otherwise agree (which may include an online "virtual" closing).

4. **Delivery and Payment for Shares**. On the Closing Date, Purchaser shall wire the Purchase Price to Seller in accordance with written wire transfer instructions provided to Purchaser by Seller on or before the Closing Date. Upon receipt of the Purchase Price, Seller shall deliver the Shares to Purchaser electronically through DTC in accordance with written instructions provided by Purchaser to Seller on or before the Closing Date.

5. **Representations and Warranties of Seller**. Seller hereby represents and warrants to Purchaser as follows: (i) upon receipt of the Purchase Price as provided in this Agreement, Seller will deliver good and valid title to the Shares, free and clear from all liens, claims and encumbrances of any nature whatsoever, other than any liens, claims and encumbrances created by Purchaser, (ii) the execution, delivery and performance of this Agreement has been duly authorized by all necessary action on the part of Seller and this Agreement has been duly executed and delivered on behalf of Seller, and (iii) Seller has the power and authority to execute, deliver and perform this Agreement.

6. **Representations and Warranties of Purchaser**. Purchaser hereby represents and warrants to Seller as follows:

(a) Power; Due Authorization; Binding Agreement . Purchaser is a limited corporation duly organized, validly existing and in good standing under the laws of Delaware. The execution, delivery and performance of this Agreement has been duly authorized by all necessary action on the part of Purchaser, and Purchaser has the full power and authority to execute and deliver this Agreement, to perform its obligations under this Agreement and to consummate the transactions contemplated hereby. This Agreement has been duly executed and delivered on behalf of Purchaser and constitutes a valid and binding agreement of Purchaser.

(b) No Conflicts. The execution and delivery of this Agreement by Purchaser does not, and the performance of the terms of this Agreement by Purchaser will not, (i) contravene or conflict with any organizational documents of Purchaser, (ii) require Purchaser to obtain the consent or approval of, or make any filing with or notification to, any governmental body, agency or official of any country or political subdivision of any country, including any federal, national, supranational, state, provincial, local or other government, governmental, regulatory or administrative authority, agency or commission or any court, tribunal, or judicial or arbitral body ("Governmental Authority"), other than any required filing under U.S. federal securities laws, (iii) require the consent or approval of any other person pursuant to any agreement, obligation or instrument binding on Purchaser or its properties and assets, (iv) conflict with or violate any law, rule, regulation, order, judgment or decree applicable to Purchaser or pursuant to which any of its assets are bound or (v) violate any other agreement to which Purchaser is a party.

(c) Material Non-Public Information. To its knowledge, Purchaser has not provided any material non-public information regarding Purchaser to Seller that has not been disclosed to the public prior to the date hereof.

(d) Accredited Investor. Purchaser is an "accredited investor" as that term is defined under Securities and Exchange Commission Regulation D.

(e) Acquisition of the Shares for Own Account. Purchaser is acquiring the Shares for its own account and not with a view to, or for resale in connection with, any distribution or public offering thereof within the meaning of the Securities Act of 1933, as amended.

(f) Private, Negotiated Transaction. Purchaser is aware and hereby acknowledges that the purchase and sale of the Shares and the transactions contemplated by this Agreement are being made in a private, negotiated transaction between the parties.

(g) No Reliance. Purchaser hereby acknowledges and agrees that Seller has not made any representation or warranty, express or implied, regarding any aspect of the transactions contemplated by this Agreement except as explicitly set forth in this Agreement, and Seller is not relying on any representation or warranty not contained in this Agreement.

7. **Securities Law Representations, Warranties, Covenants, and Releases**. In connection with the Purchase, Seller hereby represents, warrants and agrees as follows:

(a) Purchaser has informed Seller that Purchaser possesses non-public information (the "Non-Public Information") concerning Purchaser. Seller is aware that (1) Purchaser has not filed its regular quarterly reports for the third fiscal quarter of 2021 with the Securities and Exchange Commission, and (3) Purchaser is in possession of material non-public information regarding its past and present and future operations, results of operations and financial condition, including, without limitation, with respect to Purchaser's current fiscal quarter ending December 31, 2021, and Purchaser is precluded from disclosing such information to Seller (the "Non-Disclosure");

(b) the Non-Public information may be (1) indicative of a value of the Shares that is higher than the purchase price reflected in the Purchase and/or (2) otherwise material to a reasonable investor such as Seller when making investment disposition decisions, including the decision to enter into this Agreement;

(c) Seller is an experienced and sophisticated investor that would qualify as an "accredited investor" as defined in Rule 501 of Regulation D, Seller is engaged in the business of assessing and assuming investment risks with respect to securities such as the Shares, and Seller is knowledgeable in trading equity securities and understands the disadvantage to which Seller is subject on account of the disparity of information as between Purchaser and Seller;

(d) Seller is not relying on any representations, warranties or disclosure from Purchaser or any person acting on Purchaser's behalf in connection with the Purchase;

(e) Seller acknowledges that Purchaser is relying on this Agreement and Seller's representations herein (including, but not limited to Seller's acknowledgement that Purchaser is privy to the Non-Public Information) in purchasing the Shares and would not purchase the Shares in the absence of this Agreement; and

(f) Seller hereby waives, releases and forever discharges Purchaser from and against any and all claims, demands, causes of action and liabilities whatsoever, whether known or unknown, both at law and at equity, that it may have against Purchaser on account of the Non-Disclosure or Purchaser's possession of the Non-Public Information, including, without limitation, under Federal and state securities laws, including Section 10(b) or Rule 10b-5 of the Securities Exchange Act of 1934, as amended.

8. **Further Assurances**. Purchaser and Seller shall execute and deliver any further documents of whatsoever nature which may be reasonably necessary to effectuate and consummate the transaction set forth in this Agreement.

9. **Survival**. The representations and warranties contained in this Agreement shall survive indefinitely.

10. **Applicable Law**. This Agreement shall be subject to and governed by the laws of the State of Texas without regard to conflicts of law principles. The Parties acknowledge and consent to the personal jurisdiction of federal and state courts sitting in Tarrant County in the State of Texas for the adjudication of any disputes arising hereunder.

11. **Binding Effect**. This Agreement shall bind the parties hereto, their legal representatives, their successors and assigns.

12. **Counterparts and Facsimiles**. This Agreement may be executed by facsimile and/or electronic signature and/or in multiple counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same document.

13. **Entire Agreement**. This Agreement constitutes the entire Agreement among the parties with respect to the subject matter hereof and supersedes all other prior and contemporaneous agreements or representations and understandings.

14. **Severability**. If any provision of this Agreement or the application of any such provision to any person or circumstance shall be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision hereof and all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the essential economic or legal substance of the transactions contemplated hereby is not affected. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to affect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the greatest extent possible.

15. **Modification**. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties.

16. **Waiver.** No waiver of any of the provisions of this Agreement shall be deemed, or will constitute, a waiver of any other provision, whether or not similar, nor will any waiver constitute a continuing waiver. No waiver shall be binding unless executed in writing by the party making the waiver.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed on the day and year first above written.

PURCHASER:

TANDY LEATHER FACTORY, INC.

By:/s/ Janet Carr

Name:Janet Carr

Title: CEO

SELLER:

RIGHT LANE I, LP

By:/s/ Eric Mara

Name:Eric Mara

Title: Managing Member

EXHIBIT 21.1

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 the Registration Statement on Form S-8 No. 333-190389 of Tandy Leather Factory, Inc. of our report dated March 31, 2022, relating to our audits of the consolidated financial statements of Tandy Leather Factory, Inc. as of and for the years ended December 31, 2021 and 2020 appearing in this Form 10-K.

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

Oklahoma City, Oklahoma
March 31, 2022

EXHIBIT 31.1

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 31, 2022

/s/ Janet Carr

Janet Carr
Chief Executive Officer
(principal executive officer)

EXHIBIT 31.2

RULE 13a-14(a) CERTIFICATION

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

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

Date: March 31, 2022

/s/ Michael Galvan

Michael Galvan
Chief Financial Officer
(principal financial officer and principal accounting officer)

EXHIBIT 32.1

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

In connection with the annual report on Form 10-K of Tandy Leather Factory, Inc. (the "Company") for the fiscal year ended December 31, 2021 as filed with the United States Securities and Exchange Commission on the datehereof (the "Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: March 31, 2022	By: /s/ Janet Carr **Janet Carr** **Chief Executive Officer**
Date: March 31, 2022	By: /s/ Michael Galvan **Michael Galvan** **Chief Financial Officer**