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, 2022
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	TLF	The Nasdaq Capital 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, 2022 (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 31, 2023, there were 8,300,627 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. ("TLF") or its management "anticipates," "plans," "estimates," "expects," "believes," "intends," and other similar expressions) that are not statements of historical fact should be considered forward-looking statements and should be read in conjunction with our 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 "TLF," "we," "our," "us," the "Company," "Tandy," or "Tandy Leather" mean Tandy Leather Factory, Inc., together with its subsidiaries.

General

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

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

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

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

Retail Fleet

The Company currently operates a total of 103 retail stores. There are 92 stores in the United States ("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 websites provide inspiration, detailed product descriptions and specifications, educational information and videos, and a convenient place to also purchase product – especially for those who are far from our retail stores, including a growing international customer base. For many of our retail and web customers, leatherworking evolves from a passion to a trade. Our commercial division is tailored to the needs of those customers who build businesses around leather. With dedicated direct account representatives, a direct-from-our-warehouse shipping model, bulk and volume-based competitive pricing, customized product development, and production and pre-production services, we are building long-term, strategic relationships with our largest customers.

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

We made this steady progress to transform and reinvigorate our business even in the face of two very significant obstacles. In 2019, as part of the assessment of the business, we discovered errors in accounting that required a restatement of our financials. This work was costly and time-consuming, but we successfully completed the restatement in 2021 along with implementation of new accounting systems, redesign of processes and controls, and a significant upgrade in the team. In 2020, while making progress against our transformation and still working through our restatement, we temporarily closed all of our retail stores as a result of the COVID-19 pandemic.

With COVID-19-related impacts and the restatement behind us and with many of our initiatives taking hold, we are now focused on improving our financial sustainability and profitability. In the short term, we are managing operating expenses and gross margin to deliver cash from operations and operating income even in the face of possible continued economic headwinds. We will also continue to selectively invest in profitable sales growth where it makes sense, but rebuilding a durable, profitable business model is the highest priority.

COVID-19 and Economic Conditions

At the time of filing this Form 10-K, the American and world economies continue to be acutely affected by a combination of factors arising 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, highly volatile fuel prices, an extremely tight labor market with rising wages and competition to attract qualified workers, supply chain disruption, rising rent and other occupancy costs and increases in interest rates. Purchases of non-essential, discretionary products tend to decline in periods of uncertainty regarding future economic prospects, such as the current one, as disposable income declines. The Company believes that these events have continued to dampen its sales through December 2022. The future remains uncertain, and continued increased labor, freight, product, and other costs as well as weakening customer demand could have a negative impact on the Company’s future financial performance.

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 (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, machines, 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 LeatherTM, Eco-FloTM, CraftoolTM, CraftoolProTM and Dr. Jackson'sTM brands, along with our premium TandyPro® line of 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. 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 transportation 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. In the face of overall supply chain challenges, we have opportunistically taken advantage of some vendor offers on key items, accounting for some increase in inventory. And 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, to 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 130 vendors from the United States and approximately 20 foreign countries. In general, our 10 largest vendors account for approximately 30% of our inventory purchases.

Because leather is sold internationally, market conditions abroad are likely to affect the price of leather in the U.S. 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. The most acute supply chain shocks resulting from the pandemic have mostly moderated, with increases in lead times, product costs and ocean freight costs flattening and even declining in some areas. However, trucking costs and reliability remain volatile and tight labor markets continue to pressure costs across all areas.

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, 2022, we employed 605 people, 494 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, 2022:

Name	Age	Executive Since	Position
Janet Carr	61	2018	Chief Executive Officer

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.

ITEM 1A. RISK FACTORS

Risks Related to our Business and Business Strategy

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

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

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

In 2020, we experienced declines in sales and operating income primarily resulting from the COVID-19 pandemic. In 2022, we also experienced declines primarily resulting the longer-term economic effects of COVID-19 and the added economic impact of the war in Ukraine. 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.

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

Material weaknesses in our system of internal controls were identified during our investigation and financial restatement. 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, has determined that we continue to have material weaknesses in the Company's internal control over financial reporting as of December 31, 2022. 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, 2022.

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, 2022 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. In 2023, we obtained a line of credit facility through JP Morgan Chase Bank to provide working capital as needed; as of the date of this report, we have not borrowed any amounts under this facility. 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 are unable to borrow sufficient 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 cannot guarantee that we will be able to secure all of 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.

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. Since 2020, we have continued to manage through the pandemic as we continue to see varying levels of infection rates in various locations and have at times been forced periodically to temporarily close or limit operations in certain stores. 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 pandemic has had, and may continue to have, a material adverse impact on our financial position, cash flows, liquidity and results of operations. This situation continues to change, and additional impacts may arise that we are not aware of currently.

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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

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

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

U.S. Locations

Alabama	1	Missouri	3
Alaska	1	Montana	1
Arizona	3	Nebraska	1
Arkansas	1	Nevada	2
California	8	New Mexico	2
Colorado	4	New York	1
Connecticut	1	New Jersey	1
Florida	4	North Carolina	3
Georgia	2	Ohio	3
Idaho	1	Oklahoma	2
Illinois	1	Oregon	2
Indiana	1	Pennsylvania	3
Iowa	1	South Dakota	1
Kansas	1	Tennessee	3
Kentucky	1	Texas	16
Louisiana	2	Utah	4
Maryland	1	Washington	3
Massachusetts	1	Wisconsin	1
Michigan	2	Wyoming	1
Minnesota	2		

Canadian locations:

Alberta	3	Ontario	3
British Columbia	1	Saskatchewan	1
Manitoba	1		
Nova Scotia	1	**International locations:**	
		Spain	1

In 2021, we experienced sporadic and limited temporary store closures as a result of COVID-19 staff illnesses. In 2022, temporary store closures as a direct result of COVID-19 illnesses were even more limited. However, the broader economic impact of the pandemic and the war in Ukraine has put pressure on store profitability with higher wages and staffing challenges, rising retail rents, and increases in other retail store operating costs. We regularly review recent and future projected store 4-wall cash flow taking these forecasted costs as well as projected consumer demand, other nearby stores and a number of other factors into consideration when making decisions to close or open stores in a given location. In 2022, we closed four store locations that met a number of the criteria for closure, three of which were at the end of the lease, and one of which we paid a negotiated early lease termination. We renewed leases for 23 existing locations and opened one new location on the Fort Bragg military base, a new format that we are testing.

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 Nasdaq Capital Market under the symbol "TLF."

There were approximately 283 stockholders of record on February 28, 2023.

We did not sell any shares of our equity securities during our fiscal year ended December 31, 2022 that were not registered under the Securities Act.

Our Board of Directors did not authorize any dividends during the fiscal years ended December 31, 2022 or 2021. 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.

We did not repurchase any shares of our common stocks during the fourth quarter of fiscal year 2022.

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

Currently, the Company operates a total of 103 retail stores. There are 92 stores in the United States ("U.S,"), ten stores in Canada and one store in Spain.

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

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

We made this steady progress to transform and reinvigorate our business even in the face of two very significant obstacles. In 2019, as part of the assessment of the business, we discovered errors in accounting that required a restatement of our financials. This work was costly and time-consuming, but we successfully completed the restatement in 2021 along with implementation of new accounting systems, redesign of processes and controls, and a significant upgrade in the team. In 2020, while making progress against our transformation and still working through our restatement, we temporarily closed all of our retail stores as a result of the COVID-19 pandemic.

With COVID-19 and the restatement behind us and with many of our initiatives taking hold, we are now focused on improving our financial sustainability and profitability. In the short-term, we are managing operating expenses and gross margin to deliver free operating cash and operating income even in the face of possible continued economic headwinds. We will also continue to selectively invest in profitable sales growth where it makes sense, but rebuilding a durable, profitable business model is the highest priority.

COVID-19

At the time of filing this Form 10-K, the American and world economies have been acutely affected by a combination of factors arising 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, highly volatile fuel prices, an extremely tight labor market with rising wages and competition to attract qualified workers, supply chain disruption, rising rent and other occupancy costs and increases in interest rates. Purchases of non-essential, discretionary products tend to decline in periods of uncertainty regarding future economic prospects, such as the current one, as disposable income declines. The Company believes that these events have continued to dampen its sales through December 2022. The future remains uncertain, and continued increased labor, freight, product and other costs as well as weakening customer demand could have a negative impact on the Company's future financial performance.

Results of Operations

The following table presents selected financial data:

(in thousands)	2022	2021	$ Change	% Change
Sales	$ 80,335	$ 82,661	$ (2,326)	(2.8)%
Gross profit	46,497	46,999	(502)	(1.1)%
Gross margin percentage	57.9%	56.9%		1.0%
Operating expenses	45,109	44,699	410	0.9%
Income (loss) from operations	$ 1,388	$ 2,300	$ (912)	39.7%

Net Sales

Consolidated net sales decreased by $2.3 million, or 2.8%, from 2021 to 2022. We believe the decrease in sales was due to continued weaker consumer demand as a result of inflation and ongoing uncertainty related to global political, economic and public health concerns.

Our store footprint consisted of 103 stores at December 31, 2022 and 106 stores at December 31, 2021.

Since January 1, 2022, we closed one store in San Bruno, CA in March 2022, one store in Oxnard, CA in July 2022, one store in Miami, FL in October 2022 and one store in Cayce, SC in December 2022. In November 2022, we opened one store on the Fort Bragg military base in North Carolina. We evaluate a number of factors when determining whether to close existing stores, including the 4-wall cash flow trend and longer-term projection for the store, the long-term sales trend, ongoing cost of store operations, date of lease expiration, quality of the store and location, and the size and potential of the trade area including proximity to other existing stores, among other variables. We use similar factors to determine whether to open new stores.

Gross Profit

Gross profit decreased by $0.5 million, or 1.1%, from 2021 to 2022. Our gross margin percentage for the year ended December 31, 2022 increased to 57.9% versus 56.9% in the same period in 2021, due to relatively stronger full-priced selling throughout the year, product and customer mix shifts, and some impact from price increases.

Operating Expenses

(in thousands)	**2022**	**2021**
Operating expenses	$ 45,109	$ 44,699
Non-routine items related to restatement	(246)	(1,252)
Adjusted operating expenses	$ 44,863	$ 43,447
Operating expenses % of sales	56.2%	54.1%
Adjusted operating expenses % of sales	55.8%	52.6%

Operating expenses increased by $0.4 million in 2022 as compared to the prior year. This was in part as a result of the write off of $0.4 million of costs associated with the unsuccessful attempt to build a new web platform. That vendor, DynamicWeb, has been unable to deliver a working product, and while we seek to recover these costs, that recovery is uncertain. In addition, increases in operating expenses in the areas of wages, primarily of hourly employees in retail stores, and corporate marketing and merchandising, equity compensation associated with executive bonus, our store manager conference and other expenses were offset by decreases in cash bonus and credit card fees related to lower sales, contract labor and rent. Adjusted operating expenses, which exclude the non-routine items related to the restatement and CFO turnover, increased $1.4 million 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.

Other (Income) Expense

Other (income) expense consists primarily of interest expense, interest income and foreign currency (gain) loss. For the year ended December 31, 2022, we recognized other income of $0.1 million. During the year ended December 31, 2021, we recognized other expense of $0.1 million.

Provision for Income Taxes

Our effective tax rate was 12.9% and 38.3% for the years ended December 31, 2022 and 2021, respectively. Our effective tax rate differs from the federal statutory rate primarily due to U.S. state income tax expense, 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.

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, 2022 totaled $8.0 million.

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

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. During the second quarter of 2022, we repaid this loan in full.

Share Repurchase Program

On August 9, 2020, the Board of Directors approved a program to repurchase up to $5.0 million of the Company's common stock on the open market between August 9, 2020 and July 31, 2022. This program expired in July 2022. As of December 31, 2021, the full $5.0 million of our common stock remained available for repurchase under this program. On August 8, 2022, the Board of Directors approved a new program to repurchase up to $5.0 million of the Company's common stock on the open market between that date and August 31, 2024. As of December 31, 2022, $5.0 million remained available for repurchase under this new program.

On April 11, 2022, we entered into an agreement with two institutional shareholders of the Company, to repurchase 359,500 shares of our common stock, par value $0.0024 in a private transaction. The purchase price was $5.00 per share for a total of $1.8 million. The closing of the repurchases took place on April 22, 2022, and these shares were subsequently cancelled. Prior to the repurchase, the shares represented approximately 4.2% of our outstanding common stock.

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.

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.

The direct share repurchases described above were separately authorized by our Board of Directors and did not reduce the remaining amount authorized to be repurchased under the open-market plan described in the first paragraph of this subsection. In July 2022, the Company repurchased 600 shares of stock under the open market plan.

Cash Flows

(amounts in thousands)		**2022**		**2021**
Net cash from operating activities	$	1,154	$	3,716
Net cash used in investing activities		(625)		(1,001)
Net cash used in financing activities		(2,171)		(2,777)
Effect of exchange rate changes on cash and cash equivalents		(538)		(112)
Net decrease in cash and cash equivalents	**$**	**(2,180)**	**$**	**(174)**

For 2022, we generated $1.1 million of cash from operations driven by net income of $1.2 million, the add-back of non-cash expenses of $5.5 million, including depreciation, amortization, and stock-based compensation, a $0.9 million decrease in income taxes, net due to collecting $1.4 million of refunds from NOL carryback claims that partially offset current year installment payments and recording the current year income tax provision, and a decrease in accounts receivable of $0.2 million among other changes, offset by the increase of inventory of $0.3 million (including currency effects), a decrease in accounts payable and accrued expenses of $3.3 million and a decrease in operating lease liabilities of $3.4 million. We invested $0.6 million in capital expenditures for the purchase of store fixtures and systems implementations. We used cash in financing activities to repurchase 360,100 shares of Tandy common stock in purchases totaling $1.8 million at an average price of $5.00 per share, and to repay the loan from Spain in the amount of $0.4 million. The activities above, in addition to the effect of exchange rate changes, resulted in a net decrease in cash of $2.2 million.

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.

We believe that cash flow from operations and our existing cash reserves will be adequate to fund our operations through 2023, taking into account the current effects of the inflationary pressure 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 2023. There can be no assurance, however, that the current global economic conditions 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 2022 or 2021, 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 first-in, first-out ("FIFO") cost or net realizable value, and FIFO layers are maintained at the location level. Finished goods held for sale includes the cost of merchandise purchases, the costs to bring the merchandise to our Texas distribution center, warehousing and handling expenditures, and distributing and delivering merchandise to our stores. These costs include depreciation of long-lived assets utilized in acquiring, warehousing and distributing inventory. Manufacturing inventory including raw materials and work-in-process is valued on a FIFO basis using full absorption accounting which includes material, labor, and other applicable manufacturing overhead. Carrying values of inventory are analyzed and, to the extent that the cost of inventory exceeds the net realizable value, provisions are made to reduce the carrying amount of the inventory.

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

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

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

Leases. We lease 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. We elected not to record leases with an initial term of 12 months or less on the balance sheet for all our asset classes.

For our operating leases, the present value of our lease payments 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.

We recognize rent expense related to our operating leases on a straight-line basis over the lease term. Rent expense is recorded in operating expenses. The net adjustment between rent expense and the actual cash paid during the fiscal year has been recorded as accrued expenses and other liabilities in the accompanying consolidated balance sheets.

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 operating lease assets for impairment when evidence exists that the carrying value of an asset group, including a lease asset, may not be recoverable.

None of our lease agreements contain material residual value guarantees or material restrictive covenants. As of December 31, 2022, we have no sublease agreements and no lease agreements in which we are named as a lessor. We do not have any contingent rental payment agreements. On September 8, 2022, we entered into a concession agreement for our store on the Fort Bragg military base in which the concession payment is based on a sliding scale percentage of sales.

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

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

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

To the Board of Directors and Shareholders of
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, 2022 and 2021, and the related consolidated statements of operations and comprehensive income and cash flows for each of the two years in the period ended December 31, 2022, 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, 2022 and 2021, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2022, 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 $38.2 million and cost of sales of approximately $33.8 million as of and for the year ended December 31, 2022. 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 by comparing it to the prior year reserve and obtaining corroborating evidence to support any assumptions.
- We tested on a sample basis, sales subsequent to year-end 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, 2023

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

	December 31, 2022	December 31, 2021
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,975	$ 10,155
Accounts receivable-trade, net of allowance for doubtful accounts of $56 and $24 at December 31, 2022 and 2021, respectively	370	614
Inventory	38,227	38,084
Income tax receivable	302	972
Prepaid expenses	272	483
Other current assets	106	141
Total current assets	47,252	50,449
Property and equipment, at cost	28,124	27,750
Less accumulated depreciation	(16,962)	(15,989)
Property and equipment, net	11,162	11,761
Operating lease assets	9,742	10,438
Financing lease assets	31	37
Other intangibles, net of accumulated amortization of $549 and $548 at December 31, 2022 and 2021, respectively	5	6
Other assets	387	394
TOTAL ASSETS	**$ 68,579**	**$ 73,085**
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable-trade	$ 3,082	$ 4,786
Accrued expenses and other liabilities	2,681	4,302
Income taxes payable	211	-
Current portion of operating lease liabilities	2,881	3,025
Current portion of finance lease liabilities	15	15
Current maturities of long-term debt	-	79
Total current liabilities	8,870	12,207
Uncertain tax positions	450	415
Other non-current liabilities	326	417
Operating lease liabilities, non-current	7,469	8,194
Finance lease liabilities, non-current	1	15
Long-term debt, net of current maturities	-	336
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY:		
Common stock, $0.0024 par value; 25,000,000 shares authorized; 9,717,525 and 9,971,711 shares issued at December 31, 2022 and 2021, respectively; 8,293,149 and 8,547,335 shares outstanding at December 31, 2022 and 2021, respectively	23	24
Paid-in capital	3,222	3,959
Retained earnings	59,891	58,664
Treasury stock at cost (1,424,376 shares at December 31, 2022 and 2021)	(9,773)	(9,773)
Accumulated other comprehensive loss, net of tax	(1,900)	(1,373)
Total stockholders' equity	51,463	51,501
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 68,579**	**$ 73,085**

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

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

	For the Years Ended December 31,	
	2022	2021
Net sales	$ 80,335	$ 82,661
Cost of sales	33,838	35,662
Gross profit	46,497	46,999
Operating expenses	45,109	44,699
Income from operations	1,388	2,300
Other (income) expense:		
Interest (income) expense	(9)	16
Other, net	(11)	91
Total other (income) expense	(20)	107
Income before income taxes	1,408	2,193
Income tax provision	181	839
Net income	$ 1,227	$ 1,354
Foreign currency translation adjustments, net of tax	(527)	(81)
Comprehensive income	$ 700	$ 1,273
Net income per common share:		
Basic	$ 0.15	$ 0.16
Diluted	$ 0.15	$ 0.16
Weighted average number of shares outstanding:		
Basic	8,363,390	8,709,866
Diluted	8,394,567	8,720,469

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,	
	2022	**2021**
Cash flows from operating activities:		
Net income	$ 1,227	$ 1,354
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,201	1,105
Operating lease asset amortization	3,230	3,202
Loss (gain) on disposal of assets	9	(8)
Stock-based compensation	1,060	797
Deferred income taxes	(10)	83
Exchange loss	-	23
Changes in operating assets and liabilities:		
Accounts receivable-trade	244	(325)
Inventory	(328)	(2,777)
Prepaid expenses	210	83
Other current assets	34	(8)
Accounts payable-trade	(1,739)	1,143
Accrued expenses and other liabilities	(1,527)	743
Income taxes, net	905	1,775
Other assets	-	(52)
Operating lease liabilities	(3,362)	(3,422)
Total adjustments	(73)	2,362
Net cash from operating activities	1,154	3,716
Cash flows from investing activities:		
Purchase of property and equipment	(635)	(1,001)
Proceeds from sales of assets	10	-
Net cash used in investing activities	(625)	(1,001)
Cash flows from financing activities:		
Payments on long-term debt	(359)	-
Payments of capital lease obligations	(14)	(14)
Repurchase of common stock	(1,798)	(2,738)
Purchase of vested stock for employee payroll tax	-	(25)
Net cash used in financing activities	(2,171)	(2,777)
Effect of exchange rate changes on cash and cash equivalents	(538)	(112)
Net decrease in cash and cash equivalents	(2,180)	(174)
Cash and cash equivalents, beginning of period	10,155	10,329
Cash and cash equivalents, end of period	$ 7,975	$ 10,155

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,	
	2022	**2021**
Supplemental disclosures of cash flow information:		
Interest paid during the period	$ 15	$ 16
Income tax paid (refunded) during the period, net	$ (430)	$ (994)
Supplemental disclosures of non-cash activity:		
Operating lease assets obtained in exchange for lease liabilities, net	$ 3,884	$ 1,853

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, 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**
Stock-based compensation expense	-	-	1,060	-	-	-	1,060
Issuance of restricted stock	140,277	-	-	-	-	-	-
Purchase of vested stock for employee payroll tax	(34,362)	-	-	-	-	-	-
Repurchase of common stock	(360,100)	(1)	(1,797)	-	-	-	(1,798)
Net income	-	-	-	-	1,227	-	1,227
Foreign currency translation adjustments, net of tax	-	-	-	-	-	(527)	(527)
Balance, December 31, 2022	**8,293,150**	**$ 23**	**$ 3,222**	**$ (9,773)**	**$ 59,891**	**$ (1,900)**	**$ 51,463**

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

TANDY LEATHER FACTORY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 and 2021

1. DESCRIPTION OF BUSINESS

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

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

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

The Company currently operates a total of 103 retail stores. There are 92 stores in the United States ("U.S."), ten stores in Canada and one store in Spain.

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

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

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.

Correction of an error in previously issued financial statements

The consolidated financial statements include an out of period adjustment that is the result of unreconciled inventory receipts for in-transit inventory, which were identified in the fourth quarter of 2022. To correct misstatements in the first three quarters of fiscal year 2022, we reduced inventory and accounts payable balances by approximately $0.9 million, and adjusted changes to inventory and accounts payable in the operating activities section of the consolidated statements of cash flows by the same amount. There is no impact of this adjustment to the consolidated statements of operations and comprehensive income or retained earnings.

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. Our accounts receivable balance as of December 31, 2022, December 31, 2021 and January 1, 2021 was $0.4 million, $0.6 million, and $0.4 million, respectively.

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, 2022, because the composition of the trade receivables at that date is consistent with that used in developing the historical credit-loss percentages (i.e., the similar risk characteristics of its customers and its credit practices have not changed significantly over time). Accordingly, the allowance for expected credit losses at December 31, 2022, December 31, 2021, and January 1, 2021 each totaled less than $0.1 million.

Foreign currency translation and transactions

Foreign currency translation adjustments arise from activities of our foreign subsidiaries. Results of operations are translated into U.S. dollars using the average exchange rates during the period, while assets and liabilities are translated using period-end exchange rates. Foreign currency translation adjustments are recorded in stockholders' equity, net of tax. For the years ended December 31, 2022 and 2021, we recorded foreign currency translation loss adjustments of less than $0.5 million and $0.1 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, 2022 and 2021.

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. As of December 31, 2022, we had received approximately $0.2 million in credit card payments that had not shipped as of the end of the year.

The sales return allowance included in accrued expense and other liabilities was $0.1 million, $0.2 million, and $0.1 million as of December 31, 2022 and 2021 and January 1, 2021 respectively. The estimated value of merchandise expected to be returned included in other current assets was less than $0.1 million as of December 31, 2022 and 2021 and January 1, 2021.

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. We include our gift card liability in accrued expenses and other liabilities. On January 1, 2022, the opening balance of the gift card liability was $0.4 million. During 2022, we issued $0.5 million of gift cards, and $0.6 million of gift cards were redeemed and recognized as revenue. At December 31, 2022, our gift card liability balance was $0.3 million. On January 1, 2021, the opening balance of the gift card liability was $0.2 million; we issued $0.4 million of gift cards, and $0.2 million of gift cards were redeemed and recognized as revenue. At December 31, 2021, the ending balance of the gift card liability was $0.4 million

Disaggregated revenue

In the following table, revenue for the years ended December 31, 2022 and 2021 is disaggregated by geographic areas as follows:

(in thousands)		**2022**		**2021**
United States	$	71,665	$	73,546
Canada		7,393		7,470
Other		1,277		1,645
Net sales	**$**	**80,335**	**$**	**82,661**

Geographic sales information is based on the location of where the order was fulfilled.

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

Carrying values of inventory are analyzed and, to the extent that the cost of inventory exceeds the net realizable value, provisions are made to reduce the carrying amount of the inventory.

We regularly review all inventory items to determine if there are (i) damaged goods (e.g., for leather, excessive scars or damage from ultra-violet ("UV") light), (ii) items that need to be removed from our product line (e.g., slow-moving items, inability of a supplier to provide items of acceptable quality or quantity, and to maintain freshness in the product line) and (iii) pricing actions that need to be taken to adequately value our inventory at the lower of cost or net realizable value. 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. Rent expense is recorded in operating expenses. The net adjustment between rent expense and the actual cash paid during the fiscal year has been recorded as accrued expense 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).

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 material residual value guarantees or material restrictive covenants. We do not have any contingent rental payment agreements. On September 8, 2022, we entered into a short-term concession agreement for our store on the Fort Bragg military base, in which the concession payment is based on a sliding scale percentage of sales. 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.

For the years ended December 31, 2022 and 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)	2022 (1)	2021 (1)
Numerator:		
Net income (loss)	$ 1,227	$ 1,354
Denominator:		
Basic weighted-average common shares ouststanding	8,363,390	8,709,866
Dilutive effect of service-based restricted stock awards granted to Board of Directors under the Plan	8,735	10,603
Dilutive effect of service-based restricted stock awards granted to employees under the Plan	22,442	-
Diluted weighted-average common shares outstanding	8,394,567	8,720,469

(1) For the years ended December 31, 2022 and 2021, there were 90,748 and 168,735, respectively, shares excluded from the diluted EPS calculation because the impact of their assumed vesting would be anti-dilutive.

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

Other intangible assets

Our intangible assets and related accumulated amortization relate to trademarks and copyrights that are definite-lived intangibles and are subject to amortization. The weighted average amortization period is 15 years for trademarks and copyrights. Amortization expense related to other intangible assets was less than $0.01 million in each of 2022 and 2021 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 the long-term debt reported in 2021. As of December 31, 2022 and 2021, 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, 2022 and 2021.

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. Total costs were \$3.5 million and \$3.4 million for the years ended December 31, 2022 and 2021, 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 \$1.2 million and \$1.0 million in 2022 and 2021, respectively.

Recently Adopted Accounting Pronouncements

The Company did not adopt any new accounting guidance that was applicable for the year ended December 31, 2022.

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3. BALANCE SHEET COMPONENTS

Inventory

(in thousands)	December 31, 2022	December 31, 2021
On hand:		
Finished goods held for sale	$ 35,234	$ 34,928
Raw materials and work in process	925	828
Inventory in transit	2,068	2,328
TOTAL	**$ 38,227**	**$ 38,084**

Property and Equipment

(in thousands)	December 31, 2022	December 31, 2021
Building	$ 9,266	$ 9,257
Land	1,451	1,451
Leasehold improvements	1,870	1,833
Equipment and machinery	7,931	7,704
Furniture and fixtures	7,471	7,350
Vehicles	135	155
	28,124	27,750
Less: accumulated depreciation	(16,962)	(15,989)
TOTAL	**$ 11,162**	**$ 11,761**

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

(in thousands)	December 31, 2022	December 31, 2021
United States	$ 10,989	$ 11,508
Canada	173	252
Spain	-	1
	$ 11,162	**$ 11,761**

Depreciation expense was $1.2 million and $1.1 million for the years ended December 31, 2022 and 2021, respectively.

Short-term Liabilities

Accrued Expenses and Other Liabilities	December 31, 2022	December 31, 2021
(in thousands)		
Accrued employee related costs	1,432	2,508
Unearned gift card revenue	256	351
Estimated returns	72	242
Sales and payroll taxes payable	693	987
Accrued vendor payables	228	214
TOTAL	**$ 2,681**	**$ 4,302**

4. LEASES

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

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 operating lease assets during the year ended December 31, 2022 or December 31, 2021.

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, 2022	December 31, 2021
(in thousands)			
Assets:			
Operating	Operating lease assets	$ 9,742	$ 10,438
Finance	Financing lease assets	31	37
Total assets		**$ 9,773**	**$ 10,475**
Liabilities:			
Current			
Operating	Current portion of operating lease liabilities	$ 2,881	$ 3,025
Finance	Current portion of finance lease liabilities	15	15
Non-current			
Operating	Operating lease liabilities, non-current	7,469	8,194
Finance	Finance lease liabilities, non-current	1	15
Total lease liabilities		**$ 10,366**	**$ 11,249**

Lease Cost	Income Statement Classification	December 31, 2022	December 31, 2021
(in thousands)			
Operating lease cost	Operating expenses	$ 3,737	$ 3,664
Operating lease cost	Impairment expense	-	-
Short-term lease cost	Operating expenses	38	45
Variable lease cost (1)	Operating expenses	797	946
Finance: (2)			
Amortization of lease assets	Operating expenses	7	7
Interest on lease liabilities	Interest expense	1	2
Total lease cost		$ 4,580	$ 4,664

(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, 2022 Operating Leases	Finance Leases
(in thousands)		
2022	$ 3,482	$ 16
2023	2,821	-
2024	1,930	-
2025	1,499	-
2026	1,080	-
Thereafter	1,357	-
Total lease payments	$ 12,169	$ 16
Less: Interest	(1,819)	-
Present value of lease liabilities	**$ 10,350**	$ 16

Other Information	December 31, 2022	December 31, 2021
(in thousands)		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows used in operating leases	$ 3,871	$ 3,876
Operating cash flows used in finance leases	1	2
Financing cash flows used in finance leases	14	14
Operating lease assets obtained in exchange for lease obligations		
Operating leases, initial recognition	3,122	1,653
Operating leases, modifications and remeasurements	762	200

Lease Term and Discount Rate	December 31, 2022	December 31, 2021
Weighted-average remaining lease term (years):		
Operating leases	4.8	5.3
Finance leases	0.9	1.9
Weighted-average discount rate:		
Operating leases	5.0%	4.5%
Finance leases	6.0%	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 on June 6, 2022, the Company repaid this loan in full.

	December 31, 2022	2021
(in thousands)		
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
	$ -	$ 336
Less current maturities	-	79
TOTAL	**$ -**	**$ 415**

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 2022 and 2021, 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, 2022 and 2021, we recorded employer match expense of $0.3 million and $0.3 million, respectively.

The plan allows employees who meet the age requirements and reach the plan contribution limits to make a catch-up contribution. The catch-up contributions are not eligible for matching contributions. In addition, the plan provides for discretionary matching contributions as determined by the Board of Directors. There were no discretionary matching contributions made in 2022 or 2021.

We offer no postretirement or postemployment benefits to our employees.

7. INCOME TAXES

The provision for income taxes consists of the following:

(in thousands)	Year Ended December 31,	
Income Tax Provision	**2022**	**2021**
Current provision:		
Federal	$ 16	$ 640
State	41	98
Foreign	96	-
Related to UTP	28	19
	181	**757**
Deferred provision:		
Federal	-	-
State	-	-
Foreign	-	82
	-	82
Total tax provision	**$ 181**	**$ 839**

Earnings occurring outside the U.S. are deemed to be indefinitely reinvested outside of the U.S. to support the Company's foreign operations. As a result, if the Company accumulates earnings overseas, they will be used for investment in the Company's businesses outside the U.S. The Company will use cash generated from U.S. operations and short- and long-term borrowings to meet the Company's U.S. cash needs. The determination of unrecognized deferred tax liabilities for temporary differences in investments in foreign subsidiaries is not practicable.

The Company has received $1.4 million in tax refund in 2022 as a result of the CARES Act NOL carryback provision and estimates that we will receive an additional $0.2 million in the future. We have $3.7 million of state tax net operating loss ("NOL") carryovers which will begin to expire in 2025. We also have a full valuation allowance on $0.5 million of foreign tax NOL carryovers that do not expire and therefore no deferred tax assets.

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.

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

(in thousands)	**Year Ended December 31,**	
Income (Loss) Before Income Taxes	**2022**	**2021**
United States	$ 733	$ 2,552
Spain	(83)	(135)
Canada	758	(229)
Australia	-	(1)
United Kingdom	-	6
TOTAL	**$ 1,408**	**$ 2,193**

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:	**2022**	**2021**
(in thousands)		
Inventory	$ 471	$ 464
Stock-based compensation	93	59
Accounts receivable	14	4
Sales returns	47	125
Foreign currency translation gain/loss in OCI	689	342
Goodwill and other intangible assets amortization	-	-
Net operating loss	261	646
Accrued expenses	63	359
Leases	152	195
Other	-	2
Total deferred income tax assets	**1,790**	**2,196**
Less: valuation allowance	**(1,151)**	**(1,489)**
Total deferred income tax assets, net of valuation allowance	**$ 639**	**$ 707**
Property and equipment depreciation	$ 639	$ 707
Total deferred income tax liabilities	**639**	**707**
Net deferred tax asset (liability)	**$ -**	**$ -**

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 $0.3 million decrease to the valuation allowance for deferred income tax assets was necessary as of December 31, 2022, as compared to 2021. 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, 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,	
	2022	**2021**
Statutory rate – Federal U.S. income tax	21.0%	21.0%
State and local taxes	(0.6)%	9.0%
Permanent book/tax differences	11.3%	3.0%
Difference in tax rates in loss carryback periods	0.0%	0.0%
Change in valuation allowance	(20.3)%	6.0%
Rate differential on UTP reversals	2.0%	1.0%
Other, net	(0.5)%	(1.7)%
Effective rate	**12.9%**	**38.3%**

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 2016 and December 2017 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 2016.

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

	2022	2021
UTP at beginning of the year	$ 415	$ 393
Gross increase to tax positions in current period	7	3
Interest expense	28	19
UTP at end of year	**$ 450**	**$ 415**

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

After discovery of the accounting matters described in the previous paragraph and during our resulting financial restatement, the Company did not file its periodic financial reports with the Securities and Exchange Commission. As a result, Nasdaq suspended trading of the Company's stock in August 2020 and formally de-listed the stock from the Nasdaq markets in February 2021. After being de-listed from Nasdaq, the Company's stock traded in the Over The Counter Markets until September l, 2022, when Nasdaq again approved it for listing. The Company's stock currently trades on the Nasdaq Capital Market under the symbol TLF.

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 0.4% of our consolidated revenues in 2022 or 2021, and sales to our five largest customers represented less than 2.0% of consolidated revenues in each of 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 130 vendors from the United States and approximately 20 foreign countries. In general, our 10 largest vendors account for approximately 30% 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. The top 2 customers of December 31, 2022 and 2021, represented 10.0% and 23.7% of net accounts receivable balance, respectively. These top two customers were also current as of these same dates. We do not generally require collateral for accounts receivable, but we do perform periodic credit evaluations of our customers and believe the allowance for doubtful accounts is adequate. It is our opinion that if any one or a group of customer receivable balances should be deemed uncollectable, it would not have a material adverse effect on our results of operations or financial condition.

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

10. STOCKHOLDERS' EQUITY

Equity Compensation Plans

Restricted Stock Plan

The Tandy Leather Factory, Inc. 2013 Restricted Stock Plan (the "2013 Plan") was adopted by our Board of Directors in January 2013 and approved by our stockholders in June 2013. The 2013 Plan initially reserved up to 300,000 shares of our common stock for restricted stock and restricted stock unit ("RSU") awards 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 June 2022, as part of their annual director compensation, certain of our non-employee directors were granted a total of 14,000 service-based RSUs 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:

	Shares (in thousands)	Weighted Average Share Price
Balance, January 1, 2022	423	$ 7.03
Granted	161	5.01
Forfeited	-	-
Vested	(143)	6.56
Balance, December 31, 2022	**441**	**$ 6.46**

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 $1.1 million and $0.8 million in 2022 and 2021, respectively.

As of December 31, 2022, 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, 2022, there was unrecognized compensation cost related to non-vested, service-based awards of $1.1 million which will be recognized over 1.1 weighted average years in each of the following years:

Unrecognized Expense	
2023	$ 752
2024	239
2025	89
2026	7
	$ 1,087

We issue shares from authorized shares upon the lapsing of vesting restrictions on restricted stock and RSUs. In 2022 and 2021, we issued 140,277 and 114,075 shares, respectively net of shares withheld to pay participants' income taxes, 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. This program expired in July 2022. As of December 31, 2021, the full $5.0 million of our common stock remained available for repurchase under this program. On August 8, 2022, the Board of Directors approved a new program to repurchase up to $5.0 million of the Company's common stock between that date and August 31, 2024. As of December 31, 2022, $ 5.0 million remained available for repurchase under this new program.

On April 11, 2022, we entered into an agreement with two institutional shareholders of the Company to repurchase 359,500 shares of our common stock, par value $0.0024 in a private transaction. The purchase price was $5.00 per share for a total of $1.8 million. The closing of the repurchases took place on April 22, 2022, and these shares were subsequently cancelled. Prior to the repurchase, the shares represented approximately 4.2% of our outstanding common stock.

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.

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.

The direct share repurchase transactions were separately authorized by our Board of Directors and did not reduce the remaining amount authorized to be repurchased under the plans described above. In July 2022, the Company repurchased 600 shares of stock under the open market plan.

11. SUBSEQUENT EVENT

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

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, 2022, our management, with the participation of our Chief Executive Officer ("CEO"), 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 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, 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, 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, 2022 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, continues 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:

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

- Replaced critical roles within our accounting team with full-time employees with expertise in GAAP accounting, SEC reporting and disclosure, internal audit and internal controls;

- Replaced our legacy accounting systems with an integrated enterprise resource planning ("ERP") solution which includes general ledger, warehouse management and factory production modules designed to calculate inventory on a FIFO basis;

- Implemented a new point-of-sale system for most of our stores that is fully integrated with our new ERP system. All 12 of the remaining stores will be converted in 2023;

- Implemented new accounting processes and procedures aligned with our new ERP system that incorporate best practices to minimize errors and putting into action control activities that will prevent misstatements and that address appropriate segregation of duties;

- Updated process narrative documentation in the following areas: (i) fixed assets and lease accounting, (ii) information technology (IT) governance, and (iii) HR and payroll;

- Created a risk controls matrix which includes, among other things, a comprehensive list of key and mitigating controls, a description of the risk the control is designed to mitigate, the individual responsible for each control, the frequency in which the control is performed, and a mapping of each control to the five COSO Framework components (control environment, risk assessment, control activities, information and communication, or monitoring activities);

- Established a greater sense of accountability by requiring sub-certifications below the CEO level for certain key accounting, finance and operations personnel.

Our continuing plan and additional steps for remediation include:

- Ongoing recruitment and hiring of permanent, qualified public-company accounting personnel;

- Converting remaining stores onto our new point-of-sale system;

- Continuing to implement new accounting procedures and activities aligned with our new ERP system that improve upon the reliability of financial reporting and the preparation of financial statements in accordance with GAAP;

- 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;

- Continuing to refine and improve narrative documentation in particular in the following areas: (i) financial reporting, (ii) inventory, (iii) purchasing and accounts payable, (iv) revenue, (v) general accounting, treasury, and financial planning & analysis, (vi) tax,

- Periodically reviewing 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;

- 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

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

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

- Regular periodic communications from the CEO and other key senior leaders on the Company's mission, core values, Code of Business Conduct and Ethics, whistleblower policies, and each employee's individual responsibility for internal control compliance.

- Reorganization of the finance and accounting team to address segregation of duties issues, oversight, and review of work, and recruiting and hiring qualified, competent employees with relevant experience for the roles.

- Regular performance evaluations to include position-specific criteria for functional competence, including performance of internal control responsibilities.

Risk Oversight Measures

We continue to identify risks and enhance risk oversight measures. In late 2019, we developed an annual strategic planning process designed to identify specific operating objectives for the organization and to conduct an assessment across the organization of the risks to meeting those objectives, including the risk of fraud. Furthermore, on a quarterly basis, management will review our periodic filings to ensure that identified risks have been appropriately disclosed. In the areas of reporting and compliance objectives, we 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 have conducted detailed working sessions to document our current and prior finance and accounting policies, procedures, and step-by-step activities. These sessions have identified 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.

- 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.

- Continuing to implement newly-designed processes, structures, delegation of authority and controls, in accordance with the COSO Framework, including:

    - Quarterly updates for our Controller regarding upcoming accounting pronouncement and proposed changes to GAAP accounting standards, tax regulations, and other requirements that may impact the Company's financial reporting;

    - Timely reviews each quarter of the most significant accounting estimates and judgments;

    - Validation of results through detailed variance analyses and reconciliation of account balances performed on a timely basis;

    - Monthly business review of actual financial performance compared to forecasts with participation from leadership across the organization; and

    - Establishing a disclosure committee comprised of key management throughout the different areas of the organization to evaluate the appropriateness of disclosures in the Company's periodic filings on Forms 10-K and 10-Q and to support the CEO with the certification process.

Information Processing and Communication

The implementation of our new ERP system eliminated the need for the topside adjustment calculations that had to be performed because our legacy systems were not integrated and many of our accounting processes were manual. This new ERP system allows us to automate certain accounting processes, reducing the risk of management override, and eliminating the need for topside adjustments outside of the system. In addition, management 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. 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, and we implemented our new point-of-sale system, which is fully integrated with our ERP system, in most of our U.S. stores with the remaining stores to be converted in early 2023. Although we had not fully remediated all material weaknesses in our internal control over financial reporting as of December 31, 2022, 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 2023 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, 2022 and 2021

Consolidated Statements of Operations and Comprehensive Income for the years ended December 31, 2022 and 2021

Consolidated Statements of Cash Flows for the years ended December 31, 2022 and 2021

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2022 and 2021

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.
*3.4	Certificate of Amendment of Certificate of Incorporation of Tandy Leather Factory, Inc. dated March 1, 2023.
4.1	Description of Securities filed as Exhibit 4.1 to Tandy Leather Factory, Inc.'s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on June 22, 2021 and incorporated by reference herein.
10.1	Tandy Leather Factory, Inc. 2013 Restricted Stock Plan, filed as Exhibit 10.1 to Tandy Leather Factory's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2013 and incorporated by reference herein.
10.2	Amendment #1 to Tandy Leather Factory, Inc. 2013 Restricted Stock Plan filed as Exhibit 10.5 to Tandy Leather Factory, Inc.'s Quarterly Report on Form 10-Q filed with the Securities and Exchange 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	Credit Agreement dated October 26, 2022 between the Company and JP Morgan Chase Bank, N.A.
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.
*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, 2023

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, 2023
/s/ Janet Carr Janet Carr	Chief Executive Officer, Director (principal executive officer)	March 31, 2023
/s/ William M. Warren William M. Warren	Director	March 31, 2023
/s/ James Pappas James Pappas	Director	March 31, 2023
/s/ Vicki Cantrell Vicki Cantrell	Director	March 31, 2023
/s/ Sejal Patel Sejal Patel	Director	March 31, 2023
/s/ Elaine D. Crowley Elaine D. Crowley	Director	March 31, 2023

Exhibit 3.4

STATE OF DELAWARE
CERTIFICATE OF AMENDMENT OF
CERTIFICATE OF INCORPORATION

TANDY LEATHER FACTORY, INC.

The undersigned corporation, organized and existing under and by virtue of the General Corporation Law of the State of Delaware does hereby certify:

FIRST: That at a meeting of the Board of Directors of Tandy Leather Factory, Inc., a Delaware corporation (the "Corporation"), resolutions were duly adopted setting forth a proposed amendment of the Certificate of Incorporation of the Corporation, declaring said amendment to be advisable and calling for a written consent of stockholders of the Corporation for consideration thereof. The resolution setting forth the proposed amendment is as follows:

Resolved, that the Certificate of Incorporation of this corporation be amended by changing the first sentence of the Article thereof numbered "Fourth" so that, as amended, said first sentence shall be and read as follows:

> Fourth: The total number of shares of stock which the Corporation shall have authority to issue is 15,000,000, 14,000,000 of such shares to be classified as common stock, $0.0024 per value per share (the "Common Stock"), and 1,000,000 shares to be classified as preferred stock, $0.10 par value per share (the "Preferred Stock").

SECOND: That thereafter, pursuant to resolution of its Board of Directors, a written consent of the stockholders of the Corporation was duly obtained in accordance with Section 2.9 of the Corporation's Bylaws and Section 228 of the General Corporation Law of the State of Delaware, in which the necessary number of shares as required by statute were voted in favor of the amendment.

THIRD: That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

FOURTH: That the outstanding capital of the Corporation shall not be reduced under or by reason of said amendment.

IN WITNESS WHEREOF, the Corporation has caused this certificate to be signed this first day of March, 2023.

/s/ Janet Carr
Janet Carr, Chief Executive Officer

Attest:

/s/ Daniel Ross
Daniel Ross, Secretary

Exhibit 10.8

Credit Agreement

This agreement dated as of October 26, 2022 is between JPMorgan Chase Bank, N.A. (together with its successors and assigns, the "**Bank**"), whose address is 420 Throckmorton St, Floor 04, Fort Worth, TX 76102-3700, and TANDY LEATHER FACTORY, INC. (the "**Borrower**"), whose address is 1900 S East Loop 820, Fort Worth, TX 76140.

1. Credit Facilities.

1.1 Scope. This agreement, unless otherwise agreed to in writing by the Bank and the Borrower or prohibited by any Legal Requirement, governs the Credit Facilities as defined below. The Bank has established procedures for the Borrower to obtain advances under any Credit Facilities. Any other procedures that the Bank agrees to regarding obtaining advances, including automatic loan sweeps, shall not change the terms or conditions of this agreement or the other Related Documents regarding the Credit Facilities.

2. Definitions and Interpretations.

2.1 Definitions. As used in this agreement, the following terms have the following respective meanings:

A. "**Affiliate**" means any Person directly or indirectly controlling, controlled by or under common control with, another Person.

B. "**Anti-Corruption Laws**" means all laws, rules, and regulations of any jurisdiction applicable to the Borrower or its Subsidiaries from time to time concerning or relating to bribery or corruption.

C. "**Collateral**" means all Property, now or in the future subject to any Lien in favor of the Bank, securing or intending to secure, any of the Liabilities.

D. "**Credit Facilities**" means all extensions of credit from the Bank to the Borrower, existing or extended with this agreement, or hereafter arising.

E. "**Distributions**" means all dividends and other distributions (whether in cash, securities or other property) with respect to any Equity Interests in the Borrwer, other than salary, bonuses, and other compensation for services expended in the current accounting period.

F. "**Equity Interests**" means equity ownership interests in a business or not for profit entity, and any warrants, options or other rights entitling the holder thereof to purchase or acquire any such equity interest.

G. "**Equity Owner**" means an owner of any Equity Interests.

H. "**GAAP**" means generally accepted accounting principles in effect from time to time in the United States of America, consistently applied.

I. "**Legal Requirement**" means any law, order, Sanctions, regulation (or interpretation of any of the foregoing) of any federal, state or local governmental authority or self regulatory organization having jurisdiction over the Bank, any Obligor or any of its Subsidiaries or their respective Properties or any agreement by which any of them is bound.

J. "**Liabilities**" means all indebtedness, liabilities and obligations of every kind and character of the Borrower to the Bank, whether the obligations, indebtedness and liabilities are individual, joint and several, contingent or otherwise, now or hereafter existing, including, without limitation, all liabilities, interest, costs and fees, arising under or from any note, open account, overdraft, credit card, lease, Rate Management Transaction, letter of credit application, endorsement, surety agreement, guaranty, acceptance, foreign exchange contract or depository service contract, whether payable to the Bank or to a third party and subsequently acquired by the Bank, any monetary obligations (including interest) incurred or accrued during the pendency of any bankruptcy, insolvency, receivership or other similar proceedings, regardless of whether allowed or allowable in such proceeding, and all renewals, extensions, modifications, consolidations, rearrangements, restatements, replacements or substitutions of any of the foregoing.

K. "**Lien**" means any mortgage, deed of trust, pledge, charge, encumbrance, security interest, collateral assignment or other lien or restriction of any kind.

L. "**Maintenance Capital Expenditures**" means an amount equal to 50% of depreciation expense.

M. "**Net Income**" means net income under GAAP, but excluding extraordinary or non-recurring items, as reasonably determined by the Bank.

N. "**Notes**" means all promissory notes, instruments and/or contracts now or hereafter evidencing the Credit Facilities.

O. "**Obligor**" means any Borrower, guarantor, surety, co-signer, endorser, general partner or other Person who may now or in the future be obligated to pay any of the Liabilities, and any Person providing Collateral.

P. "**Organizational Documents**" means, with respect to any Person, certificates of existence or formation, documents establishing or governing the Person including all amendments, and modifications.

Q. "**Person**" means any individual, business or other entity, or any governmental authority.

R. "**Property**" means any interest in any kind of property or asset, whether real, personal or mixed, tangible or intangible.

S. "**Rate Management Transaction**" means any transaction (including an agreement with respect thereto) that is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, forward transaction, currency swap transaction, cross-currency rate swap transaction, currency option, derivative transaction or any other similar transaction (including any option with respect to any of these transactions) or any combination thereof, whether linked to one or more interest rates, foreign currencies, commodity prices, equity prices or other financial measures.

T. "**Related Documents**" means this agreement, and any other instrument or document executed in connection with this agreement or with any of the Liabilities.

U. "**Sanctions**" means economic or financial sanctions or trade embargoes imposed, administered or enforced from time to time by (a) the U.S. government, including those administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the U.S. Department of State, and (b) if the Borrower has operations outside of the United States, the United Nations Security Council, the European Union, any European Union member state, Her Majesty's Treasury of the United Kingdom or other relevant sanctions authority.

V. "**Sanctioned Country**" means, at any time, a country, region or territory which is the subject or target of any Sanctions.

W. "**Sanctioned Person**" means, at any time, (a) any Person listed in any Sanctions-related list of designated Persons maintained by (i) the Office of Foreign Assets Control of the U.S. Department of the Treasury, the U.S. Department of State, and (ii) if the Borrower has operations outside of the United States, the United Nations Security Council, the European Union, any European Union member state, Her Majesty's Treasury of the United Kingdom or other relevant sanctions authority (b) any Person operating, organized or resident in a Sanctioned Country (c) any Person controlled by any such Person or Persons described in the foregoing clauses (a) or (b), or (d) any Person otherwise the subject of any Sanction.

X. "**Subsidiary**" means, as to any particular Person (the "parent"), a Person the accounts of which would be consolidated with those of the parent in the parent's consolidated financial statements if such financial statements were prepared in accordance with GAAP as well as any other Person of which fifty percent (50%) or more of the Equity Interests is directly or indirectly owned, controlled or held, by the parent or by any Person or Persons controlled by the parent, either alone or together with the parent.

2.2 **Interpretations.** If any provision of this agreement cannot be enforced, the remaining portions of this agreement shall continue in effect. The provisions of this agreement shall control in the event of any conflict or inconsistency between this agreement and the provisions of any other Related Documents. Any reference to a particular document includes all modifications, supplements, replacements, renewals or extensions of that document. Whenever the Bank's determination, consent, or approval is required under this agreement or the other Related Documents or whenever the Bank may at its option take or refrain from taking any action under this agreement or the other Related Documents, such decision shall be in the sole discretion of the Bank.

2.3 **Borrowers Generally.** As used in this agreement and the Related Documents, "**Borrower**" means any borrower individually, or all borrowers collectively, as the context may require. For the avoidance of doubt,

(a) the fees, facility amounts, payment amounts, and dollar thresholds and limitations are intended to apply in the aggregate for all borrowers (provided that letter of credit fees shall be payable with respect to each letter of credit, if applicable);

(b) all actions agreed to be taken by (i) any borrower with respect to its property or accounts shall be taken by such borrower and (ii) any group of borrowers with respect to their joint property or accounts shall be taken by such group of borrowers;

(c) all grants to the Bank made by each borrower are made with respect to its respective property or interest therein, real and personal;

(d) all agreements, covenants, representations and warranties, waivers, consents, acknowledgements, appointments, authorizations, releases, ratifications, affirmations or reaffirmations, and requests for advances made in or under this agreement or any Related Document are made by each borrower for itself and its own rights and property, as applicable and unless otherwise expressly specified in this agreement;

(e) all certifications made by any borrower to the Bank on behalf of and with respect to the Borrower are made on behalf of and with respect to all borrowers;

(f) the Bank may exercise its remedies, whether contractual, by law, in equity or otherwise, (i) against the property of any borrower as a result of a breach by any Obligor and (ii) against the property of all or fewer than all of the borrowers, in each case in the Bank's sole discretion;

(g) knowledge of any borrower constitutes knowledge of the Borrower for all purposes of this agreement and the Related Documents;

(h) the unenforceability of this agreement or any Related Document against any borrower does not affect the enforceability of this agreement or such Related Document, as applicable, against any other borrower party hereto or thereto; and

(i) (i) the financial statements delivered under this agreement shall be the consolidated financial statements of the borrower that is the parent entity of the consolidated group of entities, (ii) the officer executing compliance certificates and borrower base certificates, as and to the extent otherwise required under this agreement, shall be an officer of the borrower that is the parent entity of the consolidated group and (iii) references in this agreement and the Related Documents to the fiscal year of the Borrower shall mean the fiscal year of the borrower that is the parent entity of the consolidated group, in each case if applicable and unless otherwise expressly specified in this agreement.

Each borrower agrees that notices and demands made by the Bank to or upon any borrower in accordance with this agreement or any of the Related Documents constitutes notice or demand, as applicable, made by the Bank to or upon all borrowers on the date received by such borrower.

3. **Conditions Precedent to Extensions of Credit.**

3.1 The following conditions must be satisfied before any extension of credit governed by this agreement must be made by the Bank:

A. **Representations.** The Borrower and any other parties, represent that all statements and information contained in the Related Documents is true and accurate as of the date of the request for credit;

B. **No Event of Default.** There has been no default, event of default or event that would constitute a default or event of default (pending giving of notice or a lapse of time or both), of any provision of this agreement, the Notes or any other Related Documents or would result from the extension of credit;

C. Loan Documents. The Notes, and any other documents which the Bank may reasonably require to give effect to the transactions described in this agreement or the other Related Documents have been delivered to the Bank in form and substance satisfactory to the Bank;

D. Organizational and Authorizing Documents. The Organizational Documents and all certificates of authority to transact business, certificates of good standing, borrowing resolutions, appointments, officer's certificates, certificates of incumbency, and other documents which empower and authorize or evidence the power and authority of the Borrower or any Obligor to execute and deliver the Notes and Related Documents (i) are within its powers, (ii) have been duly authorized by all necessary action of its governing body, (iii) do not contravene the terms of its Organizational Documents or other agreement or document governing its affairs, and (iv) have been delivered to the Bank in a form and substance satisfactory to the Bank; and

E. No Prohibition or Onerous Conditions. The making of the extension of credit is not prohibited by and does not subject the Bank, any Obligor, or any Subsidiary of the Borrower to any penalty or onerous condition.

4. Affirmative Covenants. The Borrower agrees to do, and cause each of its Subsidiaries to do, each of the following:

4.1 Insurance. Maintain insurance with financially sound and reputable insurers, that are satisfactory to the Bank. The insurance will cover its Property and business against those casualties and contingencies and in the types and amounts according to sound business and industry practices, and furnish to the Bank, upon request, reports on each existing insurance policy showing such information as the Bank may reasonably request.

4.2 Financial Records. Maintain proper books and records according to GAAP, that are consistent with financial statements previously submitted to the Bank.

4.3 Inspection. Permit the Bank, and its agents to: (a) inspect and photograph its Property, to examine and copy files, books and records, and to discuss its business, operations, prospects, assets, and financial condition with the Borrower's or its Subsidiaries' officers and accountants, at times and intervals as the Bank reasonably determines; (b) perform audits, appraisals or other inspections of the Collateral, including the records and documents related to the Collateral; and (c) confirm with any Person any obligations and liabilities of the Person to the Borrower or its Subsidiaries. The Borrower will, and will cause its Subsidiaries to cooperate with any inspection, appraisal or audit. The Borrower will promptly pay the Bank the reasonable costs and expenses of any audit or inspection of the Collateral (including fees and expenses charged internally by the Bank).

4.4 Other Agreements. Comply with all terms and conditions of all other agreements, whether now or hereafter existing, between it and any other Person.

4.5 Financial Reports. Furnish to the Bank whatever information, statements, books and records the Bank may from time to time reasonably request, including at a minimum:

A. Within sixty (60) days after and as of the end of each fiscal quarter, the consolidated financial statements of the Borrower and its Subsidiaries prepared in accordance with GAAP, including a balance sheet as of the end of that period, and income statement for that period, and, if requested by the Bank, statements of cash flow and retained earnings for that period, all certified as correct by one of its authorized agents.

B. Within ninety (90) days after and as of the end of each of its fiscal years, the consolidated financial statements of the Borrower and its Subsidiaries prepared in accordance with GAAP, including a balance sheet and statements of income, cash flow and retained earnings, such financial statements to be audited by an independent certified public accountant of recognized standing satisfactory to the Bank.

C. Compliance Certificates. Provide the Bank, together with each financial statement required under this agreement and at such other times as the Bank may request, a Compliance Certificate in form satisfactory to the Bank, certified and executed by Borrower's chief financial officer, or other officer satisfactory to the Bank. In the event of a conflict between this agreement and the Compliance Certificate, the terms of this agreement shall control.

4.6 Notices of Claims, Litigation, Defaults, etc. Promptly inform the Bank in writing of: (1) all existing and threatened litigation, claims, investigations, administrative proceedings and similar actions or changes in Legal Requirements affecting it, of which it has knowledge, and could materially affect its business, assets, affairs, prospects or financial condition; (2) the occurrence of any event which gives rise to the Bank's option to terminate the Credit Facilities; (3) any additions to or changes in the locations of its businesses; and (4) any alleged breach by the Bank of any provision of this agreement or of any other Related Document.

4.7 Title to Assets and Property. Maintain good and marketable title to all of its Properties, and defend them against all claims and demands of all Persons at any time claiming any interest in them.

4.8 Additional Assurances. Promptly make, execute and deliver any and all agreements, documents, and instruments that the Bank may request to evidence any of the Credit Facilities, cure any defect in the execution and delivery of any of the Related Documents, perfect any Lien or comply with any Legal Requirement applicable to the Bank or the Credit Facilities.

4.9 Employee Benefit Plans. Maintain each employee benefit plan as to which it may have any liability, in compliance with all Legal Requirements.

4.10 Banking Relationship. Establish and maintain its primary banking depository and disbursement relationship with the Bank.

4.11 Compliance with Anti-Corruption Laws and Sanctions. Maintain in effect and enforce policies and procedures designed to ensure compliance by the Borrower, its Subsidiaries and their respective directors, officers, employees and agents with Anti-Corruption Laws and applicable Sanctions.

5. Negative Covenants.

5.1 Without the Bank's prior written consent, the Borrower will not and no Subsidiary of the Borrower will:

A. Distributions. Redeem, retire, purchase or otherwise acquire, directly or indirectly, any of its Equity Interests, return any contribution to an Equity Owner or, other than stock dividends and dividends paid to the Borrower, declare or pay any Distributions; provided, however, that if there is no existing default under this agreement or any other Related Document and to do so will not cause a default under this agreement or any other Related Document (1) the Borrower may pay Distributions to its Equity Owners, (2) the Borrower may repurchase its Equity Interests so long as the Borrower is in compliance with the Fixed Charge Coverage Ratio requirement set forth in Section 5.2 A and (3) the Borrower may make Distributions, not exceeding $2,000,000 during any fiscal year, pursuant to and in accordance with stock option plans or other benefit plans for directors , management or employees of the Borrower and its Subsidiaries.

B. Debt. Incur, contract for, assume, or permit to remain outstanding, indebtedness for borrowed money, installment obligations, or obligations under capital leases or operating leases, other than (1) unsecured trade debt incurred in the ordinary course of business, (2) indebtedness owing to the Bank, and (3) indebtedness outstanding as of the date hereof that has been disclosed to the Bank in writing and that is not to be paid with proceeds of borrowings under the Credit Facilities.

C. Guaranties. Guarantee or otherwise become or remain liable on the undertaking of another, provided that the Borrower may guarantee the lease payment obligations of its Subsidiaries.

D. Liens. Create or permit to exist any Lien on any of its Property except: existing Liens known to and approved by the Bank; Liens to the Bank; Liens incurred in the ordinary course of business securing current non- delinquent liabilities for taxes, worker's compensation, unemployment insurance, social security and pension liabilities.

E. Use of Proceeds. Use any proceeds of the Credit Facilities: (1) for any personal, family or household purpose; (2) for the purpose of "purchasing or carrying any margin stock" within the meaning of Federal Reserve Board Regulation U; (3) in furtherance of an offer, payment, promise to pay, or authorization of the payment or giving of money, or anything else of value, to any Person in violation of any Anti-Corruption Laws; (4) for the purpose of funding, financing or facilitating any activities, business or transaction of or with any Sanctioned Person, or in any Sanctioned Country except to the extent permitted for a person required to comply with Sanctions; or (5) in any manner that would result in the violation of any Sanctions.

F. Business Operations and Continuity of Operations. (1) Engage in any business activities (a) in violation of any Legal Requirement; (b) substantially different from those in which it is presently engaged; (2) fail to maintain its existence, cease operations, liquidate, merge, transfer, acquire or consolidate with any other Person, change its name, dissolve, divide, or allocate any assets under any plan of division or similar arrangement, create any series limited liability company, allocate any property to any series, or sell any assets out of the ordinary course of business; (3) enter into or permit to exist any arrangement with any Person providing for the leasing by it of Property which has been sold or transferred by it to such Person; (4) change its business organization, the jurisdiction under which its business organization is formed or organized, or its chief executive office, or any places of its businesses; or (5) if the Borrower is an individual, change the name on his/her driver's license or state issued identification card, as applicable, without notifying the Bank within thirty (30) days of the change, or change the state of his/her principal residence, without notifying the Bank within thirty (30) days of the change.

G. Limitation on Negative Pledge Clauses. Enter into or permit to exist any agreement with any Person other than the Bank which prohibits or limits its ability to create or permit to exist any Lien on any of its Property, whether now owned or hereafter acquired.

H. Conflicting Agreements. Enter into or permit to exist any agreement containing any provision which would be violated or breached by the performance of its obligations under this agreement or any of the other Related Documents.

I. Change in Control. Permit the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Securities Exchange Act of 1934 and the rules of the SEC thereunder as in effect on the date hereof), of Equity Interests representing more than 50% of the aggregate ordinary voting power represented by the issued and outstanding Equity Interests of the Borrower.

J. Limitation on Loans, Advances, Investments, and Receivables. Purchase, hold or acquire any Equity Interest or evidence of indebtedness of, make or permit to exist any loans or advances to, permit to exist any receivable from, or make or permit to exist any investment or acquire any interest whatsoever in, any Person, except: (1) extensions of trade credit to customers in the ordinary course of business on ordinary terms; (2) commercial paper, certificates of deposit, US Treasury or other governmental agency obligations; and (3) loans, advances, investments and receivables existing as of the date of this agreement that have been disclosed to and approved by the Bank in writing and that are not to be paid with proceeds of borrowings under the Credit Facilities.

K. Organizational Documents. Unless at least thirty (30) day prior written notice is provided to the Bank, amend or modify any of its Organizational Documents.

L. Government Regulation. (1) Be or become subject at any time to any Legal Requirement or list of any government agency (including, without limitation, the U.S. Office of Foreign Asset Control list) that prohibits or limits the Bank from making any advance or extension of credit to it or from otherwise conducting business with it, or (2) fail to provide documentary and other evidence of its identity as may be requested by the Bank at any time to enable the Bank to verify its identity or to comply with any applicable Legal Requirement, including, without limitation, Section 326 of the USA Patriot Act of 2001, 31 U.S.C. Section 5318.

M. Subsidiaries. Form, create or acquire any Subsidiary.

5.2 Financial Covenants. Without the prior written consent of the Bank, the Borrower will not:

A. Fixed Charge Coverage Ratio. Permit at any fiscal quarter end its Fixed Charge Coverage Ratio to be less than 1.25 to 1.00. As used in this subsection, the term "**Fixed Charge Coverage Ratio**" means the ratio of

(a) Net Income plus income tax expense, amortization expense, depreciation expense, and interest expense, minus Maintenance Capital Expenditures, all computed for the twelve month period then ending, to

(b) scheduled principal payments made, plus scheduled capital lease payments made, interest expense paid, income tax expense paid, and cash Distributions paid (excluding stock repurchases made by the Borrower during the period commencing September 30, 2021 and ending June 30, 2022), all computed for the same twelve month period then ending.

5.3 Financial Statement Calculations. The financial covenant(s) set forth in Section 5.2 entitled "Financial Covenants", except as may be otherwise expressly provided with respect to any particular financial covenant, shall be calculated on the basis of the Borrower's financial statements prepared on a consolidated basis with its Subsidiaries in accordance with GAAP, provided that, if after the date hereof there occurs any change in GAAP or in the application thereof on the operation of any provision hereof and the Bank notifies the Borrower that the Bank requests an amendment to any provision hereof for such purpose, regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such provision is amended in accordance herewith. Notwithstanding the foregoing, for purposes of determining compliance with any financial covenant contained herein, the effects of FASB Accounting Standards Update 2016- 02 (Topic 842) shall be disregarded.

6. **Representations.**

6.1 **Representations and Warranties by the Borrower.** To induce the Bank to enter into this agreement, the Borrower represents and warrants as of the date of this agreement and as of the date of each request for credit under the Credit Facilities that each of the following statements is true and correct and shall remain so until all Credit Facilities and all Liabilities under the Notes and other Related Documents are paid in full:

(a) its name as it appears in this agreement is its exact name as it appears in its most recently filed public organic record and other Organizational Documents,

(b) the execution and delivery of this agreement and the other Related Documents to which it is a party, and the performance of the obligations they impose, do not violate any Legal Requirement, conflict with any agreement by which it is bound, or require the consent or approval of any other Person,

(c) this agreement and the other Related Documents have been duly authorized, executed and delivered by all parties thereto (other than the Bank) and are valid, enforceable and binding agreements, except as may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by general principles of equity,

(d) all balance sheets, profit and loss statements, and other financial statements and other information furnished to the Bank are accurate and fairly reflect the financial condition of the Persons to which they apply on their effective dates, which financial condition has not changed materially and adversely since those dates,

(e) no litigation, claim, investigation, administrative proceeding or similar action is pending or threatened against it, and no other event has occurred which may materially affect it or any of its Subsidiaries' financial condition, properties, business, affairs or operations, other than litigation, claims, or other events, if any, that have been disclosed to and acknowledged by the Bank in writing,

(f) all of its tax returns and reports that are or were required to be filed, have been filed, and all taxes, assessments and other governmental charges have been paid in full, except those presently being contested by it in good faith and for which adequate reserves have been provided,

(g) it is not an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended,

(h) there are no defenses or counterclaims, offsets or adverse claims, demands or actions of any kind, personal or otherwise, that it could assert with respect to this agreement or the Credit Facilities,

(i) it owns, or is licensed to use, all trademarks, trade names, copyrights, technology, know-how and processes necessary for the continued current conduct of its business, and

(j) there has been no default, event of default or event that would constitute a default or event of default (pending giving of notice or a lapse of time or both), of any provision of this agreement, the Notes or any other Related Documents.

6.2 **Representations and Warranties Regarding Anti-Corruption Laws and Sanctions.** The Borrower represents and warrants as of the date of this agreement and as of the date of each request for credit under the Credit Facilities that the Borrower has implemented and maintains in effect policies and procedures designed to ensure compliance by the Borrower, its Subsidiaries and their respective directors, officers, employees and agents with Anti-Corruption Laws and applicable Sanctions, and the Borrower, its Subsidiaries and their respective directors and officers and to the knowledge of the Borrower its employees and agents, are in compliance with Anti-Corruption Laws and applicable Sanctions in all material respects. None of (a) the Borrower, any Subsidiary, any of their respective directors, officers or to the knowledge of the Borrower employees, or (b) to the knowledge of the Borrower, any agent of the Borrower or any Subsidiary that will act in any capacity in connection with or benefit from the credit facility established hereby, is a Sanctioned Person. No advance, letter of credit, use of proceeds or other transaction contemplated by the Credit Facilities will violate Anti-Corruption Laws or applicable Sanctions.

7. Default/Remedies.

7.1 Events of Default/Acceleration. If any of the following events occurs, the Notes shall become due immediately, without notice, at the Bank's option, and the Borrower hereby waives notice of intent to accelerate the maturity of the Notes and notice of acceleration of the Notes upon the occurrence of any of the following events:

A. Any Obligor fails to pay when due any of the Liabilities, or any amount payable with respect to any of the Liabilities, or under any Note, any other Related Document.

B. Any Obligor or any of its Subsidiaries: (i) fails to observe or perform any term, covenant, condition or agreement of any of the Related Documents or any other agreement, now or hereafter in effect, with the Bank, or any Affiliate of the Bank or their respective successors and assigns; or (ii) makes any materially incorrect or misleading representation to the Bank.

C. Any Obligor (i) terminates or revokes or purports to terminate or revoke its guaranty or any Obligor's guaranty becomes unenforceable in whole or in part; or (ii) fails to perform promptly under its guaranty.

D. Any Obligor or any of its Subsidiaries (i) defaults under the terms of any agreement or instrument relating to any debt for borrowed money (other than the debt evidenced by the Related Documents) and the effect of such default will allow the creditor to declare the debt due before its stated maturity; or (ii) fails to pay when due any other debt to any Person (including the Bank), or under any agreement or instrument evidencing other debt to any Person.

E. There is any loss, theft, damage, or destruction of any Collateral not covered by insurance.

F. Any event occurs that would permit the Pension Benefit Guaranty Corporation to terminate any employee benefit plan of any Obligor or any Subsidiary of any Obligor.

G. Any Obligor or any of its Subsidiaries: (i) becomes insolvent or unable to pay its debts as they become due;
(ii) makes an assignment for the benefit of creditors; (iii) consents to or commences any proceeding under any bankruptcy, reorganization, liquidation, insolvency or similar laws; (iv) conceals or removes any of its Property, with intent to hinder, delay or defraud any of its creditors; (v) makes or permits a transfer of any of its Property, which may be fraudulent under any bankruptcy, fraudulent conveyance or similar law; or (vi) makes a transfer of any of its Property to or for the benefit of a creditor at a time when other creditors similarly situated have not been paid.

H. A custodian, receiver, or trustee is appointed for any Obligor or any of its Subsidiaries or for a substantial part of their respective Property.

I. Any Obligor or any of its Subsidiaries, without the Bank's prior written consent: (i) liquidates, divides or allocates any assets under a plan of division or similar arrangement, creates any series limited liability company, allocates any property to any series, or is dissolved; (ii) merges or consolidates with any other Person; (iii) leases, sells or otherwise conveys a material part of its assets or business outside the ordinary course of its business; (iv) leases, purchases, or otherwise acquires a material part of the assets of any other Person, except in the ordinary course of its business; or (v) agrees to do any of the foregoing; provided, however, that any Subsidiary of an Obligor may merge or consolidate with any other Subsidiary of that Obligor, or with the Obligor, so long as the Obligor is the survivor.

J. Proceedings are commenced under any bankruptcy, reorganization, liquidation, or similar laws against any Obligor or any of its Subsidiaries and remain undismissed for sixty (60) days after commencement; or any Obligor or any of its Subsidiaries consents to the commencement of those proceedings.

K. Any judgment is entered against any Obligor or any of its Subsidiaries, or any attachment, seizure, sequestration, levy, or garnishment is issued against any Property of any Obligor or any of its Subsidiaries or any Collateral.

L. Any individual Obligor dies, or a guardian or conservator is appointed for any individual Obligor or all or any portion of their respective Property, or the Collateral.

M. Any material adverse change occurs in: (i) the Property, financial condition, business, assets, prospects, liabilities, or operations of any Obligor or any of its Subsidiaries; (ii) any Obligor's ability to perform its obligations under the Related Documents; or (iii) the Collateral.

7.2 Remedies. At any time after the occurrence of a default, the Bank may do one or more of the following: (a) cease permitting the Borrower to incur any Liabilities; (b) terminate any commitment of the Bank evidenced by any of the Notes; (c) declare any of the Notes to be immediately due and payable, without notice of acceleration, intention to accelerate, presentment and demand or protest or notice of any kind, all of which are hereby expressly waived; (d) exercise all rights of setoff; and (e) exercise any and all other rights pursuant to any of the Related Documents.

A. Generally. The rights of the Bank under this agreement and the other Related Documents are in addition to other rights (including without limitation, other rights of setoff) the Bank may have contractually, by law, in equity or otherwise, all of which are cumulative and hereby retained by the Bank. Each Obligor agrees to stand still with regard to the Bank's enforcement of its rights, including taking no action to delay, impede or otherwise interfere with the Bank's rights to realize on any Collateral.

B. Bank's Right of Setoff. If default shall have occurred, the Bank and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special time or demand, provisional or final) at any time held and other obligations at any time owing by the Bank or any Affiliate to or for the credit or the account of any Borrower against any of and all the Liabilities, irrespective of whether or not the Bank shall have made any demand under the Related Documents and although such obligations may be unmatured. The rights of the Bank under this Section are in addition to other rights and remedies (including other rights of setoff) which the Bank may have.

8. Miscellaneous.

8.1 Notice. Any notices and demands under or related to this agreement shall be in writing and delivered to the Borrower at its address stated in this agreement and if to the Bank, Manager Wholesale Lending Services, JPMorgan Chase Bank, N.A., 10 S. Dearborn, IL1-1145 (Floor L2), Chicago, IL 60603-2300 with a copy addressed to Elizabeth Connor Pinkley, JPMorgan Chase Bank, N.A., 420 Throckmorton St, Floor 04, Fort Worth, TX 76102- 3700, by one of the following means: (a) by hand; (b) by overnight courier service; or (c) by certified or registered mail. Notice shall be deemed given upon receipt. Any party may change its address for purposes of the receipt of notices and demands by giving notice of the change in the manner provided in this provision.

8.2 Statements. The Bank may provide the Borrower with account statements or invoices with respect to any of the Liabilities ("Statements"). Unless otherwise agreed to herein, the Bank is under no duty or obligation to provide Statements, which, if provided, will be solely for the Borrower's convenience. Statements may contain estimates of the amounts owed during the relevant billing period, whether of principal, interest, fees or other Liabilities. If the Borrower pays the full amount indicated on a Statement on or before the due date indicated on such Statement, the Borrower shall not be in default of payment with respect to the billing period indicated on such Statement; provided, that acceptance by the Bank of any payment that is less than the total amount actually due at that time (including but not limited to any past due amounts) shall not constitute a waiver of the Bank's right to receive payment in full at another time.

8.3 No Waiver. No delay on the part of the Bank in the exercise of any right or remedy waives that right or remedy. No single or partial exercise by the Bank of any right or remedy precludes any other future exercise of it or the exercise of any other right or remedy. The making of an advance during the existence of any default or subsequent to the occurrence of a default or when all conditions precedent have not been met shall not constitute a waiver of the default or condition precedent. No waiver or indulgence by the Bank of any default is effective unless it is in writing and signed by the Bank, nor shall a waiver on one occasion bar or waive that right on any future occasion.

8.4 Integration; Severability. This agreement, the Notes, and the other Related Documents embody the entire agreement and understanding between the Borrower and the Bank and supersede all prior agreements and understandings relating to their subject matter. If any one or more of the obligations of the Borrower under this agreement, the Notes, or the other Related Documents or any provision thereof is held to be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining obligations of the Borrower and the remaining provisions shall not in any way be affected or impaired; and the invalidity, illegality or unenforceability in one jurisdiction shall not affect the validity, legality or enforceability of such obligations or provisions in any other jurisdiction.

8.5 Governing Law and Venue. This agreement and (unless stated otherwise therein) all Related Documents shall be governed by and construed in accordance with the laws of the State of Texas (without giving effect to its laws of conflicts). The Borrower agrees that any legal action or proceeding with respect to any of its obligations under this agreement may be brought by the Bank in any state or federal court located in the State of Texas, as the Bank in its sole discretion may elect. By the execution and delivery of this agreement, the Borrower submits to and accepts, for itself and in respect of its property, generally and unconditionally, the non-exclusive jurisdiction of those courts. The Borrower waives any claim that the State of Texas is not a convenient forum or the proper venue for any such suit, action or proceeding.

8.6 **Non-Liability of the Bank.** The relationship between the Borrower on one hand and the Bank on the other hand shall be solely that of borrower and lender. The Bank shall have no fiduciary obligations to the Borrower. The Bank is not to be deemed an Affiliate of the Borrower or any of its Subsidiaries.

8.7 **Indemnification of the Bank.** The Borrower agrees to indemnify, defend and hold the Bank, its parent companies, Subsidiaries, Affiliates, their respective successors and assigns and each of their respective shareholders, directors, officers, employees and agents (collectively, the " **Indemnified Persons** ") harmless for, from any and against any and all loss, liability, obligation, damage, penalty, judgment, claim, deficiency, expense, interest, penalties, attorneys' fees (including the fees and expenses of any attorneys engaged by the Indemnified Person) and amounts paid in settlement ("**Claims**") to which any Indemnified Person may become subject arising out of or relating to the Credit Facilities, the Liabilities under this agreement or any other Related Documents or the Collateral, **including any Claims resulting from any Indemnified Person's own negligence**, except to the limited extent that the Claims are proximately caused by the Indemnified Person's gross negligence or willful misconduct. The indemnification provided for in this paragraph shall survive the termination of this agreement and shall not be affected by the presence, absence or amount of or the payment or nonpayment of any claim under, any insurance.

8.8 **Counterparts; Effectiveness.** This agreement and any Related Document may be executed in multiple counterparts, each of which, when so executed, shall be deemed an original, but all such counterparts, taken together, shall constitute one and the same of such agreement or document. Except as provided in Section 3 entitled "Conditions Precedent to Extensions of Credit", this agreement will become effective when both (1) it has been executed by the Bank and (2) the Bank has received counterparts to this agreement which, when taken together, bear the signatures of each of the other parties hereto.

8.9 **Advice of Counsel.** The Borrower acknowledges that it has had the opportunity to be advised by counsel, in the negotiation, execution and delivery of this agreement and any other Related Documents.

8.10 **Recovery of Additional Costs.** If the imposition of or any change in any Legal Requirement, or the interpretation or application of any thereof by any court or administrative or governmental authority (including any request or policy not having the force of law) shall impose, modify, or make applicable any taxes (except federal, state, or local income or franchise taxes imposed on the Bank), reserve requirements, liquidity requirements, capital adequacy requirements, Federal Deposit Insurance Corporation (FDIC) deposit insurance premiums or assessments, or other obligations which would (A) increase the cost to the Bank for extending, maintaining or funding the Credit Facilities, (B) reduce the amounts payable to the Bank under the Credit Facilities, or (C) reduce the rate of return on the Bank's capital as a consequence of the Bank's obligations with respect to the Credit Facilities, then the Borrower agrees to pay the Bank such additional amounts as will compensate the Bank therefor, within five (5) days after the Bank's written demand for such payment. The Bank's demand shall be accompanied by an explanation of such imposition or charge and a calculation in reasonable detail of the additional amounts payable by the Borrower, which explanation and calculations shall be conclusive in the absence of manifest error.

8.11 **Expenses.** To the extent not prohibited by law, and regardless of whether the transactions contemplated by this agreement are consummated, the Borrower is liable to the Bank and agrees to pay on demand all reasonable costs and expenses of every kind incurred (or charged by internal allocation) in connection with the negotiating, preparing, making, servicing and collection (in bankruptcy or otherwise) of the Credit Facilities and the realization on any Collateral and any other amounts owed under this agreement or the Related Documents, including without limitation reasonable attorneys' fees and court costs. The obligations of the Borrower under this section shall survive the termination of this agreement.

8.12 **Assignments.** The Borrower agrees that the Bank may at any time sell, assign or transfer one or more interests or participations in all or any part of its rights and obligations in the Notes to one or more purchasers whether or not related to the Bank. Notwithstanding anything to the contrary in this agreement, the Bank may at any time pledge or assign a security interest in all of any portion of its rights under this agreement to secure obligations of the Bank to a Federal Reserve Bank or a Federal Home Loan Bank; provided that no such pledge or assignment shall release the Bank from any of its obligations hereunder or substitute any such pledgee or assignee for the Bank as a party hereto.

8.13 **Marketing Consent.** The Borrower hereby authorizes the Bank, at Bank's sole expense, and without any prior approval by or compensation to the Borrower, to include the Borrower's name and logo in advertising, marketing, tombstones, case studies and training materials, posted on the Internet (including social media), on the Bank's Intranet, in pitchbooks and materials sent to prospective and existing customers, in newspapers or journals and to give such other publicity to this agreement and any related products and services, as Bank may from time to time determine in its sole discretion.

8.14 **Waivers.** To the maximum extent not prohibited by applicable Legal Requirements, the Borrower waives (a) any right to receive notice of the following matters before the Bank enforces any of its rights: (i) any demand, diligence, presentment, dishonor and protest, or (ii) any action that the Bank takes regarding any Person, any Collateral, or any of the Liabilities, that it might be entitled to by law or under any other agreement; (b) any right to require the Bank to proceed against the Borrower, any other Obligor or any Collateral, or pursue any remedy in the Bank's power to pursue; (c) any defense based on any claim that any Obligor's obligations exceed or are more burdensome than those of the Borrower; (d) the benefit of any statute of limitations affecting liability of any Obligor or the enforcement hereof; (e) any defense arising by reason of any disability or other defense of the Borrower or by reason of the cessation from any cause whatsoever (other than payment in full) of the obligation of the Borrower for the Liabilities; and (f) any defense based on or arising out of any defense that the Borrower may have to the payment or performance of the Liabilities or any portion thereof. Each Obligor consents to any extension or postponement of time of its payment without limit as to the number or period, to any substitution, exchange or release of all or any part of any Collateral, to the addition of any other party, and to the release or discharge of, or suspension of any rights and remedies against, any Obligor. To the extent not prohibited by any Legal Requirement, each Obligor waives (a) all of its rights under Rule 31, Texas Rules of Civil Procedure, Chapter 43 of the Texas Civil Practice and Remedies Code, and Section 17.001 of the Texas Civil Practice and Remedies Code; (b) to the extent it is subject to the Texas Revised Partnership Act ("**TRPA**") or Section 152.306 of the Texas Business Organizations Code ("**BOC**"), compliance by the Bank with Section 3.05(d) of TRPA and Section 152.306(b) of BOC; and (c) if the Liabilities are secured by an interest in real Property, all of its rights under Sections 51.003, 51.004, and 51.005 of the Texas Property Code (as amended from time to time).

8.15 The following notice is given pursuant to Texas Finance Code Section 307.052: COLLATERAL PROTECTION INSURANCE NOTICE: (A) THE BORROWER AND EACH OBLIGOR IS REQUIRED TO: (I) KEEP THE COLLATERAL INSURED AGAINST DAMAGE IN THE AMOUNT THE BANK SPECIFIES; (II) PURCHASE THE INSURANCE FROM AN INSURER THAT IS AUTHORIZED TO DO BUSINESS IN TEXAS OR AN ELIGIBLE SURPLUS LINES INSURER; AND (III) NAME THE BANK AS THE PERSON TO BE PAID UNDER THE POLICY IN THE EVENT OF A LOSS; (B) THE BORROWER AND EACH OBLIGOR IS REQUIRED TO DELIVER TO THE BANK, UPON REQUEST, A COPY OF THE POLICY AND PROOF OF THE PAYMENT OF PREMIUMS; AND (C) IF THE BORROWER OR ANY OBLIGOR FAILS TO MEET ANY REQUIREMENT LISTED IN CLAUSE (A) OR (B), THE BANK MAY OBTAIN COLLATERAL PROTECTION INSURANCE ON BEHALF OF SUCH PERSON AT SUCH PERSON'S EXPENSE AND SUCH AMOUNTS SHALL BE ADDED TO THE LIABILITIES.

8.16 **Confidentiality.** The Bank agrees that it will treat information provided by the Borrower or its representatives to the Bank (the "**Information**") as confidential; provided, however, that the Bank may disclose the Information (a) to its Affiliates and its and its Affiliates' directors, employees, officers, auditors, consultants, agents, counsel and advisors (such Affiliates and such Persons collectively, "**Representatives**"), it being understood that its Representatives shall be informed by the Bank of the confidential nature of such Information and be instructed to comply with the terms of this section to the same extent as is required of the Bank hereunder; (b) in response to a subpoena or other legal process, or as may otherwise be required by law, order or regulation, or upon the request or demand of any governmental or regulatory agency or authority having jurisdiction over the Bank or its Representatives or to defend or prosecute a claim brought against or by the Bank and/or its Representatives; (c) to actual and prospective assignees, actual and prospective participants, and actual and prospective swap counterparties, provided that all such participants, assignees or swap counterparties execute an agreement with the Bank containing provisions substantially the same as those contained in this section; (d) to holders of Equity Interests in the Borrower, other than holders of any Equity Interest in a publicly traded company; (e) to any Obligor; and (f) with the Borrower's consent. The restrictions contained in this section shall not apply to Information which (a) is or becomes generally available to the public other than as a result of a disclosure by the Bank or its Representatives in breach of this section, or (b) becomes available to the Bank or its Representatives from a source, other than the Borrower or one of its agents, who is not known to the Bank or its Representatives to be bound by any obligations of confidentiality to the Borrower, or (c) was known to the Bank or its Representatives prior to its disclosure to the Bank or its Representatives by the Borrower or one of its agents or was independently developed by the Bank or its Representatives, or (d) was or is, after the date hereof, disclosed (or required to be disclosed) by the Borrower to the Bank or any of its Representatives under or in connection with any existing financing relationship between the Borrower and the Bank or any of its Representatives, the disclosure of which shall be governed by the agreements executed in connection with such financing relationship. Any Person required to maintain the confidentiality of the Information as provided in this section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

8.17 Electronic Signature. Delivery of an executed counterpart of a signature page of this document and any Related Document that is an Electronic Signature transmitted by telecopy, emailed pdf. or any other electronic means that reproduces an image of an actual executed signature page shall be effective as delivery of a manually executed counterpart of such document. The words "execution," "signed," "signature," "delivery," and words of like import in or relating to this document and any Related Document shall be deemed to include Electronic Signatures, deliveries or the keeping of records in any electronic form (including deliveries by telecopy, emailed pdf. or any other electronic means that reproduces an image of an actual executed signature page), each of which shall be of the same legal effect, validity or enforceability as a manually executed signature, physical delivery thereof or the use of a paper-based recordkeeping system, as the case may be; provided that nothing herein shall require the Bank to accept Electronic Signatures in any form or format without its prior written consent and pursuant to procedures approved by it. If the Bank agrees to accept any Electronic Signature, it shall be entitled to rely on such Electronic Signature purportedly given by or on behalf of the signer(s) without further verification thereof and without any obligation to review the appearance or form of any such Electronic Signature and any Electronic Signature shall be promptly followed by a manually executed counterpart. Without limiting the generality of the foregoing, the signer(s) hereby (i) agrees that, for all purposes, including without limitation, in connection with any workout, restructuring, enforcement of remedies, bankruptcy proceedings or litigation among the Bank and signer(s) of this document or any Related Document, Electronic Signatures transmitted by telecopy, emailed pdf. or any other electronic means that reproduces an image of an actual executed signature page and/or any electronic images of this document and any Related Document shall have the same legal effect, validity and enforceability as any paper original, (ii) agrees that the Bank may, at its option, create one or more copies of this document and any Related Document in the form of an imaged electronic record in any format, which shall be deemed created in the ordinary course of such Person's business, and destroy the original paper document (and all such electronic records shall be considered an original for all purposes and shall have the same legal effect, validity and enforceability as a paper record), (iii) waives any argument, defense or right to contest the legal effect, validity or enforceability of this document and any Related Document based solely on the lack of paper original copies of this document and any Related Document, respectively, including with respect to any signature pages thereto and (iv) waives any claim against the Bank for any liabilities arising solely from the Bank's reliance on or use of Electronic Signatures and/or transmissions by telecopy, emailed pdf. or any other electronic means that reproduces an image of an actual executed signature page, including any liabilities arising as a result of the failure of the signer(s) hereto to use any available security measures in connection with the execution, delivery or transmission of any Electronic Signature. For purposes of this section, **"Electronic Signature"** shall mean, an electronic sound, symbol, or process attached to, or associated with, a contract or other record and adopted by a Person with the intent to sign, authenticate or accept such contract or record.

8.18 Limitation of Liability. To the extent permitted by applicable law (i) the signer(s) hereto shall not assert, and the signer(s) hereto hereby waives, any claim against the Bank for any liabilities arising from the use by others of information or other materials (including, without limitation, any personal data) obtained through telecommunications, electronic or other information transmission systems (including the Internet), and (ii) no party hereto shall assert, and each such party hereby waives, any liabilities against any other party hereto, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Related Document, or any agreement or instrument contemplated hereby or thereby, the Credit Facilities or the use of the proceeds thereof; provided that, nothing in this clause shall relieve the Borrower of any obligation it may have to indemnify an Indemnified Person against special, indirect, consequential or punitive damages asserted against such Indemnified Person by a third party.

9. USA PATRIOT ACT NOTIFICATION. The following notification is provided to the Borrower pursuant to Section 326 of the USA Patriot Act of 2001, 31 U.S.C. Section 5318:

IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT. To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each Person that opens an account, including any deposit account, treasury management account, loan, other extension of credit, or other financial services product. What this means for the Borrower: When the Borrower opens an account, if it is an individual the Bank will ask for its name, taxpayer identification number, residential address, date of birth, and other information that will allow the Bank to identify it, and, if it is not an individual the Bank will ask for its name, taxpayer identification number, business address, and other information that will allow the Bank to identify it. The Bank may also ask, if the Borrower is an individual, to see its driver's license or other identifying documents, and if it is not an individual, to see its Organizational Documents or other identifying documents.

10. **WAIVER OF SPECIAL DAMAGES.** WITH RESPECT TO THIS AGREEMENT AND ALL RELATED DOCUMENTS, THE BORROWER WAIVES, TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY RIGHT THE UNDERSIGNED MAY HAVE TO CLAIM OR RECOVER FROM THE BANK IN ANY LEGAL ACTION OR PROCEEDING ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES.

11. **JURY WAIVER.** TO THE MAXIMUM EXTENT NOT PROHIBITED BY APPLICABLE LAW, THE BORROWER AND THE BANK (BY ITS ACCEPTANCE HEREOF) HEREBY VOLUNTARILY, KNOWINGLY, IRREVOCABLY AND UNCONDITIONALLY WAIVE ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE (WHETHER BASED ON CONTRACT, TORT, OR OTHERWISE) BETWEEN THE BORROWER AND THE BANK ARISING OUT OF OR IN ANY WAY RELATED TO THIS AGREEMENT OR THE OTHER RELATED DOCUMENTS. THIS PROVISION IS A MATERIAL INDUCEMENT TO THE BANK TO PROVIDE THE FINANCING DESCRIBED HEREIN.

THIS AGREEMENT AND THE OTHER WRITTEN RELATED DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.
THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

Borrower:
TANDY LEATHER FACTORY, INC.

By: ______________________________

____
Printed Name Title

Date Signed: ______________________________

Bank:
JPMorgan Chase Bank, N.A.

By: ______________________________

____
Printed Name Title

Date Signed: ______________________________

Timothy Krueger \ CDP-9347090000000 \ STRM \ Non-Standard \ J. Rivers\T.Courtade 792231359000 \
DW000B00961592D7FB26

COMPLIANCE CERTIFICATE

To: JPMorgan Chase Bank, N.A.

This Compliance Certificate (**"Certificate"**), for the period ended_____________________ , 20____________ , is furnished pursuant to that certain Credit Agreement dated as of October 26, 2022 (as amended, modified, renewed or extended from time to time, the **"Agreement"**) among TANDY LEATHER FACTORY, INC. (the **"Borrower"**), and JPMorgan Chase Bank, N.A. (the **"Bank"**). Unless otherwise defined herein, capitalized terms used in this Compliance Certificate have the meanings ascribed thereto in the Agreement.

THE UNDERSIGNED HEREBY CERTIFIES THAT:

1. I am the_________________________of the Borrower and I am authorized to deliver this Certificate on behalf of the Borrower and its Subsidiaries;

2. I have reviewed the terms of the Agreement and I have made, or have caused to be made under my supervision, a detailed review of the compliance of the Borrower and its Subsidiaries with the Agreement during the accounting period covered by the attached financial statements (the **"Relevant Period"**);

3. The attached financial statements of the Borrower and, as applicable, its Subsidiaries and/or Affiliates for the Relevant Period: (a) have been prepared on an accounting basis consistent with the requirements of the Agreement, and (b) to the extent that the attached are not the Borrower's annual fiscal year end statements, are subject to normal year-end audit adjustments and the absence of footnotes;

4. The examinations described in paragraph 2 did not disclose and I have no knowledge of, except as set forth below, (a) the existence of any condition or event which constitutes a default or an event of default under the Agreement or any other Related Document during or at the end of the Relevant Period or as of the date of this Certificate, or which would, subject to the giving of notice or the lapse of time or both, constitute a default or event of default under the Agreement or any other Related Document during or at the end of the Relevant Period or as of the date of this Certificate or (b) any change in the accounting basis or in the application thereof that has occurred since the date of the annual financial statements delivered to the Bank in connection with the closing of the Agreement or subsequently delivered as required in the Agreement;

5. I hereby certify that, except as set forth below, no Obligor has, if applicable, changed its (i) name, (ii) chief executive office, (iii) principal place of business, (iv) the type of entity it is or (v) state of incorporation or organization without having received the Bank's prior written consent;

6. Schedule I attached hereto sets forth financial data and computations evidencing the Borrower's compliance with certain covenants of the Agreement, all of which data and computations are true, complete and correct; and

7. Described below are the exceptions, if any, referred to in paragraph 4 hereof by listing, in detail, the (i) nature of the condition or event, the period during which it has existed and the action which the Borrower has taken, is taking, or proposes to take with respect to each such condition or event or (ii) change in the accounting basis or the application thereof and the effect of such change on the attached financial statements:

____

____

____

The foregoing certifications, together with the computations set forth in Schedule I hereto and the financial statements delivered with this Certificate in support hereof, are made and delivered this________day of______________________.

TANDY LEATHER FACTORY, INC.

By: ______________________________

Name: ______________________________

Title: ______________________________

Schedule I to Compliance Certificate for TANDY LEATHER FACTORY, INC. Financial Covenants

Compliance as of_________________, 20_____________________ (the **"Compliance Test Date"**) with Certain covenants contained in the Agreement and Supporting calculations attached hereto

5.2 **Financial Covenants**. Without the prior written consent of the Bank, the Borrower will not:

A. **Fixed Charge Coverage Ratio.** Permit at any fiscal quarter end its Fixed Charge Coverage Ratio to be less than 1.25 to 1.00.

A) Net Income	$
plus income tax expense	$
plus amortization expense	$
plus depreciation expense	$
plus interest expense	$
minus 50% of depreciation expense	$
A TOTAL	**$**
B) scheduled principal payments made	$
plus scheduled capital lease payments made	$
plus interest expense paid	$
plus income tax expense paid	$
plus cash Distributions paid (excluding stock repurchases made by the Borrower during the period commencing September 30, 2021 and ending June 30, 2022)	$
B TOTAL	**$**
A Total / B Total = Fixed Charge Coverage Ratio	**:1.00**

As of the Compliance Test Date shown above, the **Fixed Charge Coverage Ratio** is_________to 1.00

Compliance as of the Compliance Test Date shown above: [_] Yes [_] No

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, 2023, relating to our audits of the consolidated financial statements of Tandy Leather Factory, Inc. as of and for the years ended December 31, 2022, and 2021 appearing in this Form 10-K.

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

Oklahoma City, Oklahoma

March 31, 2023

EXHIBIT 31.1

Certification of Chief Executive Officer and Principal Financial Officer

Section 302 Certification

I, Janet Carr, certify that:

I have reviewed this annual report on Form 10-K of Tandy Leather Factory, Inc.;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

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;

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:

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;

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;

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

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

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):

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

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, 2023

/s/ Janet Carr

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

EXHIBIT 32.1

Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to

Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the annual report on Form 10-K of Tandy Leather Factory, Inc. (the "Company") for the fiscal year ended December 31, 2022 as filed with the United States Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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, 2023

By: /s/ Janet Carr
Janet Carr
Chief Executive Officer
(principal executive officer and principal financial officer)