

Risk Factors Comparison 2024-03-22 to 2023-03-31 Form: 10-K

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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 **2022-2023**, we also experienced declines primarily resulting the longer- term economic effects of COVID- 19 **(higher food, housing and transportation costs, higher interest rates, lower government subsidies)** and the added economic impact of the war in Ukraine **and now the Middle East**. 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 ~~5~~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 leatherscraft- 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 assembly** 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 assembly** 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.

A cybersecurity incident and other technology disruptions could negatively affect our business and our relationships with customers. We use technology in substantially

all aspects of our business operations. The widespread use of technology, including mobile devices, cloud computing, and the internet, gives rise to cybersecurity risks, including security breaches, espionage, system disruption, theft and inadvertent release of information. Our business involves the storage and transmission of numerous classes of sensitive and / or confidential information and intellectual property, including information relating to customers and suppliers, private information about employees, and financial and strategic information about us and our business partners. The Company has implemented measures to prevent cybersecurity breaches and incidents, as described in Item 1C below. However, we cannot guarantee that these preventative measures and incident response efforts will be entirely effective. If we fail to effectively assess and identify cybersecurity risks associated with the use of technology in our business operations, we may become increasingly vulnerable to such risks. The theft, destruction, loss, misappropriation, or release of sensitive and / or confidential information or intellectual property, or interference with our information technology systems or the technology systems of third parties on which we rely, could result in business disruption, negative publicity, brand damage, violation of privacy laws, loss of customers, potential liability and competitive disadvantage. 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 While the impact of the COVID-19 pandemic has had mostly receded, there are residual effects such as higher consumer prices and likely may continue to interest rates. Furthermore, another serious outbreak of coronavirus or other deadly disease could also have** a material adverse effect on our business and liquidity. The COVID-19 pandemic had an unprecedented **and lasting** impact on the U. S. economy **as federal, some of state and local governments react to this public health crisis, which continues to today has created significant uncertainties. These -- The uncertainties include, but are not limited to, possibility of another outbreak of a coronavirus variant or the other deadly disease that would have** material adverse effect **of the pandemic** on the economy, our supply chain partners, our employees and **our customers is now all too real. While we are better prepared to handle a future pandemic**, customer sentiment in general, and **it could impact our ability to keep** our stores **open**. Since

2020, we have continued to **obtain** 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 ~~or~~ vendors' ability to provide us with payment terms **from or our vendors, to transport merchandise to and from our warehouse, to operate our warehouse, factory and other facilities** that is suitable to our **require on-site activities, brand** ~~and thus~~. The effects of the pandemic have materially adversely impacted **affect** 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