

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2026

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-12368



MAKE YOUR MARK™

TANDY LEATHER FACTORY, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

75-2543540

(I.R.S. Employer Identification No.)

7602 Southwest Loop 820, Benbrook, Texas 76126

(Address of principal executive offices) (Zip code)

(817) 872-3200

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Title of each class

Common Stock, par value \$0.0024

Trading Symbol

TLF

Name of each exchange on which registered

The Nasdaq Capital Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or 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 Non-accelerated filer Accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 11, 2026, the registrant had 8,143,569 shares of Common Stock, par value \$0.0024 per share, outstanding.

TANDY LEATHER FACTORY, INC.
FORM 10-Q
FOR THE QUARTER ENDED March 31, 2026

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Cautionary Statement Regarding Forward-Looking Statements and Information

The following discussion, as well as other portions of this Form 10-Q, 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 particularly in "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2025. Unless the context otherwise indicates, references in this Form 10-Q to "TLF," "we," "our," "us," "the Company," "Tandy," or "Tandy Leather" mean Tandy Leather Factory, Inc., together with its subsidiaries.

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

Tandy Leather Factory, Inc.

Condensed Consolidated Balance Sheets

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

	<u>March 31,</u> <u>2026</u>	<u>December 31,</u> <u>2025</u>
	<u>(Unaudited)</u>	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 10,103	\$ 16,087
Accounts receivable-trade, net of credit losses of \$51 at March 31, 2026 and December 31, 2025	313	425
Inventory	33,697	33,238
Prepaid expenses	691	721
Other current assets	96	111
Total current assets	<u>44,900</u>	<u>50,582</u>
Property and equipment, at cost	26,804	26,203
Less accumulated depreciation	<u>(16,280)</u>	<u>(15,978)</u>
Property and equipment, net	10,524	10,225
Operating lease assets	24,997	24,736
Deferred income taxes	393	380
Other assets	709	710
TOTAL ASSETS	<u>\$ 81,523</u>	<u>\$ 86,633</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable-trade	\$ 3,257	\$ 2,154
Accrued expenses and other liabilities	3,031	3,704
Income taxes payable	641	428
Current portion of operating lease liabilities	3,684	3,512
Total current liabilities	<u>10,613</u>	<u>9,798</u>
Uncertain tax positions	227	227
Other non-current liabilities	148	149
Operating lease liabilities, non-current	24,033	23,868
COMMITMENTS AND CONTINGENCIES (Note 6)		
STOCKHOLDERS' EQUITY:		
Common stock, \$0.0024 par value; 15,000,000 shares authorized; 9,567,945 and 9,497,251 shares issued at March 31, 2026 and December 31, 2025, respectively; 8,143,569 and 8,072,875 shares outstanding at March 31, 2026 and December 31, 2025, respectively	22	22
Paid-in capital	3,607	3,651
Retained earnings	55,010	60,843
Treasury stock at cost (1,424,376 shares at March 31, 2026 and December 31, 2025)	(9,773)	(9,773)
Accumulated other comprehensive loss, net of tax	<u>(2,364)</u>	<u>(2,152)</u>
Total stockholders' equity	<u>46,502</u>	<u>52,591</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 81,523</u>	<u>\$ 86,633</u>

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

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

	Three Months Ended March 31,	
	2026	2025
Net sales	\$ 19,652	\$ 19,036
Cost of sales	7,659	8,318
Gross profit	11,993	10,718
Operating expenses	11,628	10,456
Income from operations	365	262
Other income (expense):		
Interest income	86	190
Gain on disposal of headquarter	-	16,583
Other, net	(83)	(1,273)
Total other income	3	15,500
Income before income taxes	368	15,762
Income tax provision	146	4,179
Net income	\$ 222	\$ 11,583
Foreign currency translation adjustments, net of tax	(212)	(288)
Comprehensive income	\$ 10	\$ 11,295
Net income per common share:		
Basic	\$ 0.03	\$ 1.36
Diluted	\$ 0.03	\$ 1.35
Weighted average number of shares outstanding:		
Basic	8,102,509	8,501,204
Diluted	8,102,831	8,595,320

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

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

	For the Three Months Ended March	
	31,	
	2026	2025
Cash flows from operating activities:		
Net income	\$ 222	\$ 11,583
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	286	181
Operating lease asset amortization	1,388	1,105
Gain on disposal of assets	-	(16,583)
Stock-based compensation	93	93
Deferred income taxes	(14)	173
Changes in operating assets and liabilities:		
Accounts receivable-trade	110	31
Inventory	(557)	1,227
Prepaid expenses	30	195
Other current assets	15	-
Accounts payable-trade	1,104	(35)
Accrued expenses and other liabilities	(672)	(879)
Income taxes, net	213	3,884
Other assets	-	(150)
Operating lease liabilities	(1,312)	(1,361)
Total adjustments	684	(12,119)
Net cash provided by (used in) operating activities	906	(536)
Cash flows from investing activities:		
Purchase of property and equipment	(587)	(1,331)
Proceeds from sales of Headquarter assets, net	-	24,897
Net cash (used in) provided by investing activities	(587)	23,566
Cash flows from financing activities:		
Dividend Paid	(6,055)	(12,745)
Withholding of vested stock for employee tax	(137)	-
Net cash used in financing activities	(6,192)	(12,745)
Effect of exchange rate changes on cash and cash equivalents	(111)	38
Net (decrease) increase in cash and cash equivalents	(5,984)	10,323
Cash and cash equivalents, beginning of period	16,087	13,271
Cash and cash equivalents, end of period	<u>\$ 10,103</u>	<u>\$ 23,594</u>

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

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

	Number of Shares						Accumulated Other		
	Common Stock	Par Value	Paid-in	Treasury	Retained	Comprehensive Income	(Loss)		Total
	Outstanding		Capital	Stock	Earnings				
Balance, December 31, 2025	8,072,875	\$ 22	\$ 3,651	\$ (9,773)	\$ 60,843	\$ (2,152)		\$ 52,591	
Stock-based compensation expense	-	-	93	-	-	-	-	93	
Vesting of restricted stock units	117,776	-	-	-	-	-	-	-	
Net income	-	-	-	-	222	-	-	222	
Dividend Paid	-	-	-	-	(6,055)	-	-	(6,055)	
Withholding of vested stock for employee tax	(47,082)	-	(137)	-	-	-	-	(137)	
Foreign currency translation adjustments, net of tax	-	-	-	-	-	(212)	-	(212)	
Balance, March 31, 2026	8,143,569	\$ 22	\$ 3,607	\$ (9,773)	\$ 55,010	\$ (2,364)		\$ 46,502	
Balance, December 31, 2024	8,496,581	\$ 23	\$ 4,529	\$ (9,773)	\$ 64,486	\$ (2,112)		\$ 57,153	
Stock-based compensation expense	-	-	93	-	-	-	-	93	
Vesting of restricted stock units	15,973	-	-	-	-	-	-	-	
Net income	-	-	-	-	11,583	-	-	11,583	
Dividend Paid	-	-	-	-	(12,745)	-	-	(12,745)	
Foreign currency translation adjustments, net of tax	-	-	-	-	-	(288)	-	(288)	
Balance, March 31, 2025	8,512,554	\$ 23	\$ 4,622	\$ (9,773)	\$ 63,324	\$ (2,400)		\$ 55,796	

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

TANDY LEATHER FACTORY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION AND CERTAIN SIGNIFICANT ACCOUNTING POLICIES

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, 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, 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 7602 Southwest Loop 820, Benbrook, Texas 76126.

The Company currently operates a total of 100 retail stores as of March 31, 2026. There are 91 stores in the United States ("U.S."), eight stores in Canada and one store in Spain. As of March 31, 2026 the Company had temporarily closed one of its Canadian stores for relocation.

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. The Chief Operating Decision Maker (CODM), which is our CEO, uses both the net sales, cost of goods sold and net operating income to assess the Company's performance and allocation of resources. All three measures are currently included on the face of our income statement.

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for annual audited financial statements. In the opinion of management, the accompanying unaudited Consolidated Financial Statements for Tandy Leather Factory, Inc. and its consolidated subsidiaries contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly our financial position as of March 31, 2026 and December 31, 2025, our results of operations and our cash flows for the three months ended March 31, 2026 and 2025, and our statements of stockholders' equity as of and for the three months ended March 31, 2026 and 2025. The preparation of financial statements in accordance with US 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. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and accompanying notes included in our Form 10-K for the year ended December 31, 2025.

Significant Accounting Policies

Cash and cash equivalents. The Company considers investments with a maturity, at time of purchase, of three months or less to be cash equivalents. All credit card, debit card and electronic transfer transactions pending settlement in less than seven days are classified as cash and cash equivalents.

Foreign currency translation and transactions. Foreign currency translation adjustments arise from activities of our foreign subsidiaries. Results of operations are translated into U.S. dollars using the average exchange rates during the period, while assets and liabilities are translated using period-end exchange rates. Foreign currency translation adjustments of assets and liabilities are recorded in stockholders' equity and presented net of tax. Gains and losses resulting from foreign currency translations are reported in the Consolidated Statements of Operations and Comprehensive Income under the caption "Foreign currency translation adjustments, net of tax" for all periods presented.

Revenue Recognition. Our revenue is earned from sales of merchandise and generally occurs via three methods: (1) at the store, (2) 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 to a customer. At the store, 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 are 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. The sales return allowance included in accrued expense and other liabilities was \$0.2 million as of March 31, 2026, and \$0.2 million as of December 31, 2025, and \$0.2 million as of January 1, 2025. The estimated value of merchandise expected to be returned included in other current assets was less than \$0.1 million as of March 31, 2026, December 31, 2025, and January 1, 2025, respectively.

We record a gift card liability for the unfulfilled performance obligation on the date we issue a gift card to a customer. We record revenue and reduce the gift card liability as the customer redeems the gift card. In addition, for gift card breakage, we recognize a proportionate amount for the expected unredeemed gift cards over the expected customer redemption period, which is one year. Our gift card liability, included in accrued expenses and other liabilities, was \$0.3 million as of March 31, 2026, and \$0.4 million as of December 31, 2025, and \$0.3 million as of January 1, 2025. We recognized gift card revenue of \$0.2 million for the 3 months ended March 31, 2026 and 2025, respectively. For the three months ended March 31, 2026 and 2025, we recognized \$0.1 and \$0.1 million respectively in net sales associated with gift cards.

Disaggregated Revenue. In the following table, revenue for the three months ended March 31, 2026 and 2025 is disaggregated by geographic areas as follows:

<i>(in thousands)</i>	Three Months Ended March 31,	
	2026	2025
United States	\$ 17,433	\$ 16,944
Canada	1,983	1,850
Other	236	242
Net sales	\$ 19,652	\$ 19,036

Geographic sales information is based on the location of the customer. As a percentage of our consolidated net sales, excluding Canada, our other international net sales were less than 2.0% for the three months ended March 31, 2026, and 2025, respectively.

Discounts. We offer six classes of customer discounts: 1) Retail, 2) Military/First Responder, 3) Business, 4) Commercial, 5) Commercial Pro, and 6) Employees. There are no other class of discounts, and any discounts given will fall into one of these six categories. Such discounts are not deemed to be variable consideration nor convey a material right to these customers since the discounted pricing they receive in a discount class is not incremental to others within the same class and there is no retrospective impact of such discounts. 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 expenses. 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 but are capitalized if the related cost extends the life of the assets.

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 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 judgment with regard to market values and reasonable costs to sell, differences in these estimates could result in ultimate valuations that differ from the recorded asset.

The majority of inventory purchases and commitments are paid for 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 partially during each quarter and fully at year-end in the Texas distribution center. At the store level, inventory is partially counted each quarter for high value items and fully at year-end. Inventory is then adjusted in our accounting system to reflect actual count results.

(in thousands)

	<u>March 31, 2026</u>	<u>December 31, 2025</u>
On hand:		
Finished goods held for sale	\$ 29,574	\$ 30,251
Raw materials and work in process	1,343	1,369
Inventory in transit	2,780	1,618
TOTAL	<u>\$ 33,697</u>	<u>\$ 33,238</u>

Leases. We lease real estate for our principal offices (including distribution center), retail store locations and may lease warehouse equipment for our Texas distribution center 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 liabilities 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 assets on a straight-line basis over the lease term. Rent expense is recorded in operating expenses.

The depreciable life of related leasehold improvements is based on the shorter of the useful life or the lease term. We also perform interim reviews of our lease assets for impairment when evidence exists that the carrying value of an asset group, including a lease asset, may not be recoverable. None of our lease agreements contain contingent rental payments, material residual value guarantees or material restrictive covenants. We have no sublease agreements and no lease agreements in which we are named as a lessor.

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, 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.

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 T-Bills as of March 31, 2026, are cash equivalent, which fall under level 1 of the fair value hierarchy. As of March 31, 2026 and December 31, 2025, 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 three months ended March 31, 2026 and 2025.

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 judgment changes as a result of the evaluation of new information not previously available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from the current estimate of the tax liabilities. These differences will be reflected as increases or decreases to income tax expense and the effective tax rate in the period in which new information becomes available. We 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 and market-based RSUs vest, if at all, upon the Company satisfying certain performance and market 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. The payments of the employees' tax liability for a portion of the vested shares are generally satisfied by withholding shares with a fair value equal to the tax liability.

The Company also granted a market based award which consist of the Company's common stock trading on its principal stock market/exchange for 15 consecutive trading days with a daily closing price of \$5.50 or more; the Company's common stock trading on its principal stock market/exchange for 15 consecutive trading days with a daily closing price of \$6.50 or more; and the Company's common stock trading on its principal stock market/exchange for 15 consecutive trading days with a daily closing price of \$7.50 or more. The Company determined the grant date fair value under based on the authoritative guidance and recorded the impact as of December 31, 2025.

Accounts Receivable - Trade 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 is stated at amounts due, net of an allowance. Accounts receivable is generally due within 30 days of invoicing. We estimate expected credit losses based on factors such as the composition of accounts receivable, the age of the accounts, historical bad debt experience, and our evaluation of the financial condition and past collection history of each customer. Management believes that the historical loss information it has compiled is a reasonable base on which to determine expected credit losses for trade receivables held at March 31, 2026, 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 March 31, 2026, December 31, 2025, and January 1, 2025, each totaled less than \$0.1 million.

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 during each of the 3 months ended March 31, 2026 and 2025. 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.

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

2. NOTES PAYABLE AND LONG-TERM DEBT

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 provides 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.

In the fourth quarter of 2025, the Company renewed the promissory note under its Credit Agreement with JPMorgan Chase Bank, N.A. through October 31, 2026. Under the Credit Agreement, the bank provides the Company a credit facility of up to \$4,000,000 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. The interest rate is based on CME term SOFR + 210 basis points, and the credit facility renews annually. As of the date of this filing, no funds had been borrowed under this facility, and we are in compliance with all covenants.

3. INCOME TAX

Our effective income tax rate for the three months ended March 31, 2026 and 2025, was 39.5% and 26.5%, respectively. Our effective tax rate differs from the federal statutory rate primarily due to U.S. state income tax expense, expenses that are nondeductible for tax purposes, and any change in our valuation allowance associated with our deferred tax assets, and differences in tax rates in foreign jurisdictions.

4. STOCK-BASED COMPENSATION

The Tandy Leather Factory, Inc. 2023 Incentive Stock Plan (the "2023 Plan" and, together with the 2013 Plan, the "Plans") was adopted by our Board of Directors in April 2023 and approved by our stockholders in June 2023. The 2023 Plan initially reserved up to 800,000 shares of our common stock for a variety of equity awards (including, but not limited to, RSUs, the only type of awards that have been granted to date) to our executive officers, non-employee directors and other key employees. In June 2023, as part of their annual director compensation, certain of our non-employee directors were granted a total of 12,993 service-based RSUs under the 2023 Plan, which will vest ratably over the next four years, subject to each participant's continued service on the board as of each vesting date. In June 2025 and 2024, the Company granted 17,554 and 12,527 shares respectively to various members of the Board of Directors, which will vest ratably over the next four years, subject to each participant's continued service on the board as of each vesting date. In February 2025, in connection with hiring Johan Hedberg as the Company's Chief Executive Officer, the Company granted Mr. Hedberg 100,000 RSU, which vested in February 2026, and 900,000 RSUs, which will vest upon the Company's achievement of certain performance and market targets. In June 2025, the Company's stockholders approved an increase to the plan reserve of an additional 900,000 shares of our common stock for the potential vesting those performance-based and market based RSU grants to Mr. Hedberg.

A summary of the activity for RSU awards as of March 31, 2026 is presented below:

	<u>Shares (in thousands)</u>	<u>Weighted Average Share Price</u>
Balance, January 1, 2026	1,059	\$ 3.97
Granted	-	-
Forfeited	-	-
Vested	(118)	4.04
Balance, March 31, 2026	<u>941</u>	<u>\$ 3.96</u>

The Company's stock-based compensation relates primarily to RSU awards. For these service-based awards, our stock-based compensation expense, included in operating expenses, was \$0.1 million and \$0.1 million for the three months ended March 31, 2026 and March 31, 2025 respectively.

As of March 31, 2026, there was unrecognized compensation cost related to non-vested, RSU awards of \$0.1 million, which will be recognized in each of the following years (dollars in thousands):

<u>Unrecognized Expense</u>	
2026	79
2027	36
2028	17
2029	7
	<u><u>\$ 139</u></u>

We issue shares from authorized shares upon the lapsing of vesting restrictions on restricted stock and RSUs. For the three months ended March 31, 2026 and 2025, we issued 71 thousand shares net of shares withheld for tax obligations resulting from the vesting of RSUs. We do not use cash to settle equity instruments issued under stock-based compensation awards. The payment of the employees' tax liability for a portion of the vested shares may be satisfied by withholding shares with a fair value equal to the tax liability.

5. 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.

The following table sets forth the computation of basic and diluted EPS for the three months ended March 31, 2026 and 2025:

<i>(in thousands, except share data)</i>	Three Months Ended March 31,	
	2026	2025
Numerator:		
Net income	\$ 222	\$ 11,583
Denominator:		
Basic weighted-average common shares outstanding	8,102,509	8,501,204
Dilutive effect of service-based restricted stock awards granted to Board of Directors under the Plan	322	9,460
Dilutive effect of service-based restricted stock awards granted to employees under the Plan	-	84,656
Diluted weighted-average common shares outstanding	<u>8,102,831</u>	<u>8,595,320</u>
Basic earnings per share	<u>0.03</u>	<u>1.36</u>
Diluted earnings per share	<u>0.03</u>	<u>1.35</u>

6. CASH DIVIDEND

On February 2, 2026, our Board of Directors authorized a \$0.75 per share special one-time cash dividend that was paid to our stockholders of record at the close of business on February 9, 2026. The dividend of approximately \$6.1 million, was paid to our stockholders on February 24, 2026.

On January 24, 2025, our Board of Directors authorized a \$1.50 per share special one-time cash dividend that was paid to our stockholders of record at the close of business on February 3, 2025. The dividend of approximately \$12.7 million, was paid to our stockholders on February 18, 2025.

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

7. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

We are periodically involved in 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.

8. SHARE REPURCHASE PROGRAM AND SHARE REPURCHASES

On September 17, 2024, the Board of Directors approved a new stock repurchase plan and the Company was authorized to repurchase up to \$5 million (at then-current market value) of the Company's common stock in open-market transactions at prevailing market prices upon periodic instructions from the Board or an authorized sub-committee of the Board until September 30, 2026. As of March 31, 2026, \$5.0 million remained available for repurchase under this new program.

On June 17, 2025, the Company entered into a stock purchase agreement with Janet Carr, our former Chief Executive Officer; wherein the Company agreed to purchase 430,897 shares from Ms. Carr at \$3.00 per share, for a total of \$1,292,691. The transaction was completed on July 18, 2025; accordingly, the Company immediately cancelled the shares and the impact of this transaction is reflected in our cash balance, common shares and additional paid-in-capital in our financial statements as of March 31, 2026.

9. SALES OF CORPORATE HEADQUARTERS & NEW CEO EMPLOYMENT

The Company concluded the sale of our corporate headquarters, and the net proceeds of the sale are recorded on the face of our Condensed consolidated statements of operations and comprehensive income as Gain on disposal of Headquarters.

On January 22, 2025, the Company finalized the sale of its corporate headquarters and distribution facilities in Fort Worth, Texas for net proceeds of \$24.9 million after deduction of commission and relevant closing fees. The total net book value disposed was \$8.3 million, resulting in a gain of \$16.6 million as the result of the sale, and this is included in 'Other income' on the face of our consolidated statements of operations and comprehensive income. The Company has elected to include all one-time move expenses in 'Other income' as management deems these are not part of our normal operations.

Sales and Disposal of Headquarters (in thousands)	
Net Proceeds	\$ 24,897
NBV of Headquarters Assets	8,314
Net Gain	\$ 16,583

During the third quarter of 2025, the Company identified and corrected an immaterial error related to the accounting for the sale of property and land completed earlier in the year. The error resulted from assets associated with the sale that was initially not included in the gain calculation in the amount of approximately \$1.4 million pre-tax. As a result, the gain on sale and total assets were overstated in the first and second quarters. The correction did not have a material impact on the Company's financial statements for the three and six months ended March 31, 2025 and June 30, 2025.

Net income and earnings per share for the three months ended March 31, 2025 was overstated by \$1.1 million net of tax and \$0.11 cents per share basic, and \$0.12 cents per share diluted. Net income for six month period ended June 30, 2025 was overstated by \$1.1 million net of tax and \$0.13 cents per share for basic and diluted. This correction does not affect any metric used in management compensation or any of our Company's normal operations as this was a one-time unusual transaction this is not a part of the Company operating activities.

On January 28, 2025, the Company signed a 10-year lease for new corporate headquarters and distribution facilities in Benbrook, Texas that became effective on July 1, 2025, and the Company has the ability to renew the lease for an additional 10 years at market rate. We also signed a short-term lease through September 1, 2025 for our former facility that was evaluated as a sale leaseback. Due to the short-term nature of the lease, it was not recorded under ASC 842, in accordance with our policy of not recording short-term leases.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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 7602 S.W. Loop 820, Benbrook, Texas 76126.

Currently, the Company operates a total of 100 retail stores. There are 91 stores in the United States ("U.S."), eight stores in Canada and one store in Spain. As of March 31, 2026, the Company had temporarily closed one of its Canadian stores for relocation.

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 customers 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 products – 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 providing choices for long-term, strategic relationships with our largest customers.

We continue to focus 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.

On January 22, 2025, the Company finalized the sale of its corporate headquarters and distribution facilities in Fort Worth, Texas for net proceeds of \$24.9 million after deduction of commission and relevant closing fees, as referenced in the Company's 8-K filed on January 22, 2025. The net proceeds of the sale is recorded in 'Other, net' in our consolidated statements of operations and comprehensive income. On January 28, 2025, the Company signed a 10-year lease for new corporate headquarters and distribution facilities in Benbrook, Texas, and the Company has the ability to renew the lease for an additional 10 years at market rate.

Results of Operations

Three Months Ended March 31, 2026 and 2025

The following table presents selected financial data:

<i>(in thousands)</i>	Three Months Ended March 31,			
	2026	2025	\$ Change	% Change
Sales	\$ 19,652	\$ 19,036	\$ 616	3.2%
Gross profit	11,993	10,718	1,275	11.9%
Gross margin percentage	61.0%	56.3%		4.7%
Operating expenses	11,628	10,456	1,172	11.2%
Income from operations	\$ 365	\$ 262	\$ 103	39.2%

Net Sales

Consolidated net sales for the quarter ended March 31, 2026 increased by \$0.6 million or a 3.2% increase compared to the same period in the prior year period. We believe the increase was mainly due to our sales campaign and improved allocation of the correct product mix in our stores during those sales periods. We also saw improvement in our non-traditional sales such as classes and other community engagements.

Gross Profit

Gross profit for the quarter increased by \$1.3 million, or 11.9%, compared to the same period in 2025. Gross margin percentage for the quarter ended March 31, 2026 was 470 basis points better than last year, primarily driven by pricing changes; offset by marginal discounts for the period compared to prior year. The Company's estimates of overhead allocation and the timing of inventory receipts may also have a temporary impact on gross margin percentage fluctuations from quarter to quarter.

Operating expenses

Operating expenses for the quarter increased by \$1.1 million or 11.2% compared to the corresponding prior year period, primarily as a result of an increase in compensation cost of \$0.6 million, an increase in total occupancy of \$0.4 million, an increase in property tax expense of \$0.2 million compared to prior year, an increase in healthcare cost of \$0.1 million; offset by a reduction in freight out to our customers of \$0.2 million.

Income Taxes

Our effective income tax rate for the three months ended March 31, 2026 and March 31, 2025 was 39.5% and 26.5%, respectively. Our effective tax rate differs from the federal statutory rate primarily due to U.S. state income tax expense, expenses that are non-deductible for tax purposes, and any change in estimates in our valuation allowance associated with our deferred tax assets.

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 balances as of March 31, 2026, totaled \$10.1 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 provides 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.

In the fourth quarter of 2025, the Company renewed the promissory note under its Credit Agreement with JPMorgan Chase Bank, N.A. through October 31, 2026. Under the Credit Agreement, the bank provides the Company a credit facility of up to \$4,000,000 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. The interest rate is based on CME term SOFR + 210 basis points, and the credit facility renews annually. As of the date of this filing, no funds had been borrowed under this facility, and we are in compliance with all covenants.

Share Repurchase Program and Share Repurchase

On September 17, 2024, the Board of Directors approved the renewal of the stock plan and the Company shall be authorized to repurchase up to \$5 million (at then-current market value) of the Company's common stock in open-market transactions at prevailing market prices upon periodic instructions from the Board or an authorized sub-committee of the Board until March 31, 2026. As of March 31, 2026, \$5.0 million remained available for repurchase under this new program.

Cash Flows

(amounts in thousands)	2026	2025
Net cash provided by (used in) operating activities	\$ 906	\$ (536)
Net cash (used in) from investing activities	(587)	23,566
Net cash used in financing activities	(6,192)	(12,745)
Effect of exchange rate changes on cash and cash equivalents	(111)	38
Net (decrease) increase in cash and cash equivalents	\$ (5,984)	\$ 10,323

For the three months ended March 31, 2026, cash provided by operations was \$0.9 million, driven by net income from operations of \$0.2 million, non-cash expense of \$1.8 million, including depreciation, amortization, and stock-based compensation, an increase in accounts payables of \$1.1 million, an decrease in accounts receivables of \$0.1 million, decrease in prepaid expense of \$0.1 million; offset by a decrease in operating lease liabilities of \$1.3 million, a reduction in accrued expense and other liabilities of \$0.7 million, an increase in inventory of \$0.6 million, and an increase in income tax payable of \$0.2 million. Cash used in investing activities was \$0.6 million mainly for new store operations which includes purchases of property and equipment. Cash used in financing activities was \$6.2 million, primarily for dividend payments and withheld shares used as taxes at vesting for the employees. These activities, together with the effect of exchange rate changes of \$0.1 million, resulted in a net decrease in cash of \$6.0 million.

For the three months ended March 31, 2025, cash used in operations was \$0.5 million driven by net income from operations of \$0.3 million, non-cash expense of \$1.4 million, including depreciation, amortization, and stock-based compensation, an increase in inventory of \$1.2 million; partially offset by a reduction in lease liability payments of \$1.4 million, a decrease in accrued expenses of \$0.8 million and an increase in other assets of \$0.1 million. Our net reduction in property, plant and equipment was \$7.0 million, mainly due to the disposal of our corporate headquarters facilities including land, and we paid dividends in the amount of \$12.7 million. The above activities, in addition to the effect of exchange rate changes, resulted in a net increase in cash of \$10.3 million.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management team, under the supervision and with the participation of our Chief Executive Officer (who serves as our principal executive officer and principal financial officer), evaluated the effectiveness of the design and operation of our disclosure controls and procedures as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of the last day of the fiscal period covered by this report, March 31, 2026. The term disclosure controls and procedures means our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to management, including our principal executive and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, our management, with the participation of our Chief Executive Officer, concluded that, as of March 31, 2026, our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the fiscal quarter ended March 31, 2026 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

The information contained in Note 6, *Commitments and Contingencies* to the Consolidated Financial Statements included in Part I, Item 1 of this Report is hereby incorporated into this Item 1 by reference.

Item 1A. Risk Factors.

Our Risk Factors are discussed fully in Part I Item 1A "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2025, and incorporated herein by reference. In addition, we have identified the following additional risk factors:

Recent Changes to U.S. Tariff Rates. The manufacturing of our products is primarily outsourced to third parties across multiple countries, most notably China and Brazil. We continue to focus on opportunities to mitigate negative impacts and increase efficiencies and scale within our supply chain. However, significant increases in tariff rates, particularly for products imported mainly from China and Brazil, would substantially increase our cost for those products. These increases may likely force the Company to increase our prices to customers for those products to maintain profitability, which could in turn lead to a decrease in our sales. Even if we are able to avoid raising the prices of our own products, the macro-economic inflationary impact from tariffs of substantially higher prices on other products sold in this country could also harm our sales by reducing our customers' ability to make discretionary purchases of items such as our products. The global tariff environment is changing rapidly, and we cannot be assured that we will not be materially negatively impacted by these changes. We may also be exposed to retaliatory tariffs implications for our intercompany sales to Canadian stores if implemented.

Increased Expenses from Renting Headquarters Facilities and Flagship Store. Until January 2025, the Company owned the buildings housing its principal offices, distribution center and flagship retail store in Fort Worth, Texas. Since closing the sale of those buildings in January 2025, the Company has leased its spaces for all of these facilities. Excluding buildout, furniture, equipment and other costs associated with the move to the new facilities, the Company expects to pay initial combined rent for new headquarters and flagship store facilities in excess of \$1.6 million per year (increasing annually from commencement). If the Company is unable to generate additional sales and profits to offset these added expenses, this could have a material adverse effect on the Company and its operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table provides information about purchases we have made of our common stock during the quarter ended March 31, 2026:

Period	ISSUER PURCHASES OF EQUITY SECURITIES			
	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Maximum value of shares that may yet be purchased under the plans or programs
January 1 – January 31, 2026	—	—	—	\$ 5,000,000
February 1 – February 28, 2026	—	—	—	\$ 5,000,000
March 1 – March 31, 2026	—	—	—	\$ 5,000,000
Total	—	—	—	

Item 6. Exhibits

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's 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, 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.

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10.2	<u>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 on June 22, 2021 and incorporated by reference herein.</u>
10.3	<u>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.</u>
10.4	<u>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 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on June 22, 2021 and incorporated by reference herein.</u>
10.5	<u>Tandy Leather Factory, Inc. 2023 Incentive Stock Plan, filed as Exhibit 10.10 to Tandy Leather Factory, Inc.'s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 14, 2023</u>
10.6	<u>Employment Agreement dated January 2, 2025, between the Company and Johan Hedberg, filed as Exhibit 10.13 to Tandy Leather Factory, Inc.'s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 26, 2025 and incorporated by reference herein.</u>
10.7	<u>Form of Restricted Stock Unit Agreement dated February 19, 2025, between the Company and Johan Hedberg filed as Exhibit 10.14 to Tandy Leather Factory, Inc.'s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 26, 2025 and incorporated by reference herein.</u>
10.8	<u>Form of Restricted Stock Unit Agreement dated February 19, 2025, between the Company and Johan Hedberg filed as Exhibit 10.15 to Tandy Leather Factory, Inc.'s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 26, 2025 and incorporated by reference herein.</u>
10.9	<u>Letter agreement dated June 17, 2025, between the Company and Janet Carr, filed as Exhibit 10.11 to Tandy Leather Factory, Inc.'s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 12, 2025, and incorporated by reference herein.</u> <u>Commercial Lease Agreement dated January 28, 2025, between the Company and Jackson-Shaw / Benbrook North, LP., filed as Exhibit 10.11 to Tandy Leather Factory, Inc.'s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 26, 2025, and incorporated by reference herein.</u>
14.1	<u>Code of Business Conduct and Ethics of Tandy Leather Factory, Inc., adopted by the Board of Directors in May, 2021, 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.</u>
19.1	<u>Tandy Leather Factory, Inc. Insider Trading Policy filed as Exhibit 19.1 to Tandy Leather Factory, Inc.'s Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on August 12, 2025, and incorporated by reference herein.</u>

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21.1	Subsidiaries of Tandy Leather Factory, Inc., filed as Exhibit 21.1 to Tandy Leather Factory, Inc.'s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2026, and incorporated by reference herein.
*31.1	13a-14(a) or 15d-14(a) Certification by the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended.
*32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*101.INS	XBRL Instance Document.
*101.SCH	XBRL Taxonomy Extension Schema Document.
*101.CAL	XBRL Taxonomy Extension Calculation Document.
*101.DEF	XBRL Taxonomy Extension Definition Document.
*101.LAB	XBRL Taxonomy Extension Labels Document.
*101.PRE	XBRL Taxonomy Extension Presentation Document.

*Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TANDY LEATHER FACTORY, INC.
(Registrant)

Date: May 11, 2026

By: /s/ Johan Hedberg
Johan Hedberg
Chief Executive Officer
(principal executive officer and principal financial officer)

EXHIBIT 31.1
RULE 13a-14(a) CERTIFICATION

I, Johan Hedberg, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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;
2. 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.
3. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's first fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
4. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: May 11, 2026

By: /s/ Johan Hedberg
Johan Hedberg
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 Quarterly Report on Form 10-Q of Tandy Leather Factory, Inc. (the "Company") for the quarter ended March 31, 2026, as filed with the United States Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 11, 2026

By: /s/ Johan Hedberg
Johan Hedberg
Chief Executive Officer
(principal executive officer and principal financial officer)
