

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 92455 / July 21, 2021

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 4228 / July 21, 2021

ADMINISTRATIVE PROCEEDING
File No. 3-20403

In the Matter of

Tandy Leather Factory, Inc.
and Shannon Greene, CPA,

Respondents

**ORDER INSTITUTING CEASE-AND-
DESIST PROCEEDINGS PURSUANT TO
SECTION 21C OF THE SECURITIES
EXCHANGE ACT OF 1934, MAKING
FINDINGS, AND IMPOSING A CEASE-
AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), against Tandy Leather Factory, Inc. (“Tandy”) and Shannon Greene (“Greene”) (collectively “Respondents”).

II.

In anticipation of the institution of these proceedings, Respondents have submitted Offers of Settlement (the “Offers”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over them and the subject matter of these proceedings, which are admitted, and except as provided herein in Section V, Respondents consent to the entry of this Order Instituting Cease-and-Desist Proceedings pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondents' Offers, the Commission finds¹ that:

Summary

1. This matter involves accounting, financial reporting, and control failures by Tandy, a specialty leather retailer headquartered in Fort Worth, Texas. These deficiencies resulted in a multi-year restatement in Tandy's financial statements concerning, among other things, inventory, net income and gross profit. Shannon Greene, Tandy's former Chief Financial Officer ("CFO") and Chief Executive Officer ("CEO"), was the person primarily responsible for the establishment, implementation, maintenance, and evaluation of Tandy's relevant controls.

2. Tandy had certain accounting, reporting, and control failures and deficiencies as detailed below. First, Tandy's inventory tracking system failed to properly maintain the historical cost basis for individual inventory items. As a result, every new price input of a purchased inventory item changed the historical cost for all earlier purchases. Data from this system populated Tandy's financial statements with inaccurate information. Due to the limitations of this system, it could not support the company's first-in, first-out ("FIFO") inventory accounting methodology that Tandy disclosed in its public reports. Second, despite knowledge of the system's limitations, Tandy's management failed to design and maintain a system of internal accounting controls sufficient to provide reasonable assurance that, among other things, transactions were recorded in conformity with generally accepted accounting principles ("GAAP"). Third, Tandy failed to properly design, maintain, and evaluate its disclosure controls and procedures ("DCP") and internal control over financial reporting ("ICFR"), and Greene failed to properly assess and evaluate the effectiveness of Tandy's DCP and ICFR. In addition to the risks associated with the system's limitations and the lack of system controls, Tandy's management failed to retain sufficient, qualified accounting personnel.

3. As a result of the conduct detailed herein, Tandy violated Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1, 13a-13, and 13a-15(a)-(c) thereunder, and Greene violated Rule 13a-14 of the Exchange Act and caused Tandy's violations of Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1, 13a-13, and 13a-15(a)-(c) thereunder.

Respondents

4. Tandy Leather Factory, Inc., a Delaware corporation headquartered in Fort Worth, Texas, is the world's largest specialty retailer of leather goods. Tandy's common stock currently is registered with the Commission pursuant to Section 12(g) of the Exchange Act, but until August 13, 2020 it was registered pursuant to Exchange Act Section 12(b). Tandy's common stock was traded on Nasdaq under the ticker "TLF" until Nasdaq suspended trading TLF due to the company's failure to complete its financial restatement and file all outstanding periodic reports with the

¹ The findings herein are made pursuant to Respondents' Offers of Settlement and are not binding on any other person or entity in this or any other proceeding.

Commission by an August 10, 2020 deadline. Nasdaq provided Tandy with a notice of delisting on August 21, 2019, and a determination of delisting on August 11, 2020. Tandy shares are currently trading on the OTC Link (previously “Pink Sheets”) operated by OTC Markets Group, Inc. under the symbol TLFA.

5. Shannon Greene, age 55, is a resident of Arlington, Texas, and served as Tandy’s CEO from February 2016 to October 2018, and as its CFO for sixteen years prior to that, beginning in 2000. She holds a current CPA license in Texas.

Tandy’s Inventory Tracking System and Control Narratives

6. According to Tandy’s Entity-Wide Risk Assessment (“ERA”), drafted by Greene, “[t]he controls associated with the financial reporting processes rely on the heavy involvement of the CFO and CEO because of the company’s size and organizational structure.” The ERA claimed that:

the structure of operations and the overall industry lends itself to a certain degree of predictability in the company’s financial performance. Management’s experience (length of time in the industry in particular) creates an ability to pinpoint unusual transactions, trends, fluctuations, etc. Finally, the company’s financial statements and reporting structure lack complexity which contributes to the probability of more accurate, complete and timely financial statements.

7. According to Tandy’s control narrative on inventory pricing—which Greene also drafted—Greene, with assistance from others, had responsibility for updating and maintaining inventory prices in the company’s systems. The narrative claimed a mitigated risk of inventory valuation errors: “[t]he risk of improper inventory valuation is mitigated due to the history of Tandy’s operations, the fact that Tandy’s inventory does not become obsolete, and given its turnover.”

8. Tandy’s inventory tracking system, which dated back to 2000, generated a stock keeping unit (“SKU”) for each item. The SKU contained cost, price, vendor, size, color, and other information. Tandy personnel—under Greene’s supervision—updated the pricing amounts for the SKUs when there were additional purchases. However, a key limitation to the system was that it could hold only one cost per SKU at a time, and did not retain any historical information. As a result, when Tandy personnel input a new cost following a purchase for a given SKU, the updated cost applied retroactively to all pre-existing products associated with that SKU.

Tandy’s Inaccurate Financial Statements

9. Dating back to at least 2016, Tandy represented in its public reports that “[i]nventory is stated at the lower of cost or net realizable value and is accounted for on the ‘first-in, first-out’ method. This means that sales of inventory treat the oldest item of identical inventory as being the first sold.” However, inventory could not be valued at FIFO because the historical cost

was always updating to the most recent cost in the inventory tracking system. The inaccurate inventory values flowed from the inventory system to Tandy’s financial statements.

10. Greene and others at the company knew that the company’s information systems did not maintain inventory valuations consistent with FIFO. As a result, Greene and other Tandy personnel utilized a separate manual process that failed to value inventory at FIFO. Specifically, Tandy’s inventory purchasers were supposed to track inventory for all SKUs across all of Tandy’s stores domestically and internationally, and only change the price in the inventory tracking system after Tandy’s stores sold through the existing inventory. Greene and others did not take steps to properly ensure implementation of this manual process.

11. Accordingly, the inventory tracking system limitations caused Tandy’s inventory valuations to be inaccurate, which in turn impacted the company’s calculations for inventory, net income, and gross profit for each quarterly and annual reporting period. As a result, Tandy’s financial statements dating back to at least 2016 were inaccurate. This also caused the company’s related books and records—including the value of Tandy’s inventory—to be inaccurate.

12. Prompted by concerns from Tandy’s new management, Tandy’s Audit Committee commenced an internal investigation in July 2019. Following the investigation, on October 14, 2019, the company filed a Form 8-K with the Commission announcing that its financial statements, dating back to 2016, could not be relied upon due to material misstatements in, among other things, inventory, net income and gross profit. On June 22, 2021, Tandy filed a Comprehensive Form 10-K for the fiscal year ended December 31, 2019, and Forms 10-Q for the second and third quarters of 2019. The Comprehensive 10-K filing includes restated financial statements for the company’s fiscal years 2017 and 2018, interim periods for 2018, and the first quarter of 2019. The chart below shows the originally reported and restated amounts for inventory, net income and gross profit for Fiscal Years 2017 and 2018:

Fiscal Year	Inventory			Net Income			Gross Profit		
	Reported	Restated	%	Reported	Restated	%	Reported	Restated	%
2017	37,311,197	34,546,084	-7.4%	4,451,751	2,478,444	-44.3%	52,113,829	49,085,661	-5.8%
2018	33,867,276	33,302,549	-1.7%	1,963,828	4,398,365	124.0%	50,580,191	50,940,945	0.7%

Tandy’s Accounting Controls, ICFR and DCP Failures

13. Section 13(b)(2)(B) of the Exchange Act requires issuers with a class of securities registered pursuant to Section 12 of the Exchange Act to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurance that, among other things, transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP.

14. Exchange Act Rule 13a-15(a) requires issuers with a class of securities registered pursuant to Section 12 of the Exchange Act—such as Tandy—to maintain ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. 17 C.F.R. 240.13a-15(a), (f). Exchange Act Rule 13a-15(c)

requires management—together with the participation of principal executive and principal financial officers—to evaluate the effectiveness of ICFR as of the end of each fiscal year.

15. Exchange Act Rule 13a-15(a) requires issuers with a class of securities registered pursuant to Section 12 of the Exchange Act—such as Tandy—to maintain DCP as defined in Rule 13a-15(e). Exchange Act Rule 13a-15(b) requires that management of an issuer “must evaluate, with the participation of the issuer’s principal executive and principal financial officers...the effectiveness of the issuer’s disclosure controls and procedures, as of the end of each fiscal quarter[.]”

16. Item 308 of Regulation S-K requires management to provide an annual report that contains its assessment of the effectiveness of ICFR and any material weaknesses in ICFR. Under Item 308, “[m]anagement is not permitted to conclude that the registrant’s [ICFR] is effective if there are one or more material weaknesses in the registrant’s [ICFR].” 17 C.F.R. 229.308. Item 308 of Regulation S-K further instructs that the registrant “must maintain evidential matter, including documentation, to provide reasonable support for management’s assessment of the effectiveness of registrant’s [ICFR].” Item 308(a)(3) of Regulation S-K requires public companies to annually provide a report of management that discloses any material weaknesses in ICFR as identified by management.

17. Tandy repeatedly represented in its annual reports that it assessed the effectiveness of its ICFR and, for each year dating back to at least 2016, Tandy represented that its ICFR was effective. These representations were inaccurate.

18. As the company disclosed in an October 14, 2019 Form 8-K filed following its internal investigation detailed in ¶12 above, contrary to the company’s representations in its 2016, 2017, and 2018 public reports, the company had one or more material weaknesses in its ICFR.

19. Greene and others at the company had responsibility for assessing the effectiveness of Tandy’s ICFR at the end of each fiscal year and for evaluating the effectiveness of Tandy’s DCP each fiscal quarter.

20. Greene did not properly assess the effectiveness of Tandy’s ICFR as of the end of each fiscal year. Accordingly, Tandy was not permitted to conclude the company’s ICFR was effective. Moreover, Tandy did not maintain sufficient evidential matter to support its annual representations that the company’s ICFR was effective.

21. Tandy also lacked sufficient, qualified personnel to design and manage its control environment and financial reporting systems. For example, Tandy relied on a group of non-accountant employees to perform critical data entry tasks necessary to complete its financial reporting process. The lack of qualified accounting personnel directly contributed to additional accounting errors reflected in Tandy’s financial statements: (i) warehouse and handling expenditures were not properly capitalized during the first and third quarters (they were “trued up” on a semi-annual basis); (ii) warehouse and handling expenditures were improperly classified as operating expenses each quarter; and (iii) appropriate inventory reserve levels were not properly calculated for the lower of cost or net realizable value.

22. Tandy also failed to maintain DCP as required by Exchange Act Section 13a-15(a) to ensure that it properly recorded, processed, summarized, and reported its inventory. Additionally, Greene (as Tandy's CEO) failed to evaluate the effectiveness of Tandy's DCP each fiscal quarter as required by Exchange Act Section 13a-15(b).

Sarbanes-Oxley Certifications

22. Sarbanes-Oxley Section 302 provides that the Commission shall, by rule, require the principal executive officer and the principal financial officer of companies filing periodic reports under Section 13(a) of the Exchange Act to make certain certifications in each annual or quarterly report. To implement Section 302, the Commission promulgated Exchange Act Rule 13a-14, which provides that an issuer's annual and quarterly reports shall include certain certifications signed by the principal executive and principal financial officer of the issuer.

23. Greene, as Tandy's principal executive officer, was required to certify, among other things, that she was responsible for establishing and maintaining DCP and ICFR, and did the following: (i) designed such DCP to ensure that material information is made known to the certifying officers, particularly during the period in which the periodic report is being prepared; (ii) designed such ICFR or caused such ICFR to be designed under her supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with GAAP; (iii) evaluated the effectiveness of the issuer's DCP as of the end of the period covered by the report, and presented in the report her conclusions about the effectiveness of the DCP based on the required evaluation as of that date; and (iv) disclosed to the issuer's auditors and to Tandy's audit committee of the board of directors all significant deficiencies and material weaknesses in the design or operation of ICFR which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial data and have disclosed for the issuer's auditors any material weaknesses in internal controls.

24. Greene executed such certifications for the quarters and years from the first quarter of 2016 through the second quarter of 2018. For the reasons set forth above, these certifications were inaccurate.

Violations

25. As a result of the conduct described above, Tandy violated, and Greene caused Tandy's violations of, Section 13(a) of the Exchange Act and Rules 13a-1 and 13a-13 thereunder, which require reporting companies to file with the Commission complete and accurate annual and quarterly reports. Tandy also violated, and Greene caused Tandy's violations of, Exchange Act Rule 12b-20, which requires an issuer to include in a statement or report filed with the Commission any information necessary to make the required statements in the filing not materially misleading.

26. In addition, as a result of the conduct described above, Tandy violated, and Greene caused Tandy's violations of, Exchange Act Rules 13a-15(a)-(c), which requires issuers with a class of securities registered pursuant to Exchange Act Section 12 to (i) maintain DCP as defined in

Exchange Act Rule 13a-15(e); (ii) maintain ICFR designed to provide reasonable assurance regarding the preparation of financial statements in accordance with GAAP; and (iii) evaluate the effectiveness of its DCP and ICFR as required by Exchange Act Rules 13a-15(b) and (c).

27. In addition, as a result of the conduct described above, Tandy violated, and Greene caused Tandy's violations of, Section 13(b)(2)(A) of the Exchange Act, which requires issuers such as Tandy to make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect their transactions and dispositions of their assets.

28. In addition, as a result of the conduct described above, Tandy violated, and Greene caused Tandy's violations of, Section 13(b)(2)(B) of the Exchange Act, which, among other things, requires issuers such as Tandy to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP or any other criteria applicable to such statements.

29. In addition, as a result of the conduct described above, Greene violated Exchange Act Rule 13a-14.

Tandy's Remedial Efforts

In determining to accept Tandy's Offer, the Commission considered remedial acts promptly undertaken by Respondent Tandy and cooperation afforded the Commission staff. Specifically, Tandy has: (i) installed a new company accounting system to, among other things, more accurately value inventory and reduce the risk of errors in its financial reporting process; (ii) hired qualified accounting personnel and other experts with GAAP, SEC reporting, DCP and ICFR experience; and (iii) engaged controls and ICFR experts to assist in the creation of a new risk control matrix with a comprehensive list of key and mitigating controls.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondents' Offers.

Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 21C of the Exchange Act, Respondent Tandy cease and desist from committing or causing any violations and any future violations of Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1, 13a-13, and 13a-15(a)-(c) thereunder.

B. Pursuant to Section 21C of the Exchange Act, Respondent Greene cease and desist from committing or causing any violations and any future violations of Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1, 13a-13, 13a-14 and 13a-15(a)-(c) thereunder.

C. Respondent Tandy shall, within 30 days of the entry of this Order, pay a civil money penalty in the amount of \$200,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717. Respondent Greene shall, within 30 days of the entry of this Order, pay a civil money penalty in the amount of \$25,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

Payment must be made in one of the following ways:

- (1) Respondents may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondents may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondents may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying the paying Respondent as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Eric Werner, Division of Enforcement, Securities and Exchange Commission, 801 Cherry Street, Suite 1900, Fort Worth, Texas 76102.

D. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondents agree that in any Related Investor Action, they shall not argue that they are entitled to, nor shall they benefit by, offset or reduction of any award of compensatory damages by the amount of any part of their payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondents agree that they shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed

in this proceeding. For purposes of this paragraph, a “Related Investor Action” means a private damages action brought against Respondents by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

V.

It is further Ordered that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. §523, the findings in this Order are true and admitted by Respondent Greene, and further, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Respondent Greene under this Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Respondent Greene of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. §523(a)(19).

By the Commission.

Vanessa A. Countryman
Secretary