

**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF TEXAS**

_____, Individually and on behalf of all
others similarly situated,

Plaintiff,

v.

TANDY LEATHER FACTORY, INC., JANET
CARR, and TINA L. CASTILLO,

Defendants.

Case No:

**CLASS ACTION COMPLAINT FOR
VIOLATION OF THE FEDERAL
SECURITIES LAWS**

JURY TRIAL DEMANDED

Plaintiff _____ (“Plaintiff”), by Plaintiff’s undersigned attorneys, individually and on behalf of all other persons similarly situated, alleges the following based upon personal knowledge as to Plaintiff and Plaintiff’s own acts, and information and belief as to all other matters, based upon, *inter alia*, the investigation conducted by and through his attorneys, which included, among other things, a review of Defendants’ public documents, conference calls and announcements made by Defendants, United States Securities and Exchange Commission (“SEC”) filings, wire and press releases published by and regarding Tandy Leather Factory, Inc. (“Tandy” or the “Company”), and information readily obtainable on the Internet. Plaintiff believes that substantial evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION

1. This is a class action on behalf of persons or entities who purchased or otherwise acquired publicly traded Tandy securities from March 8, 2019 through August 13, 2019, inclusive (the “Class Period”). Plaintiff seeks to recover compensable damages caused by Defendants’

violations of the federal securities laws under the Securities Exchange Act of 1934 (the “Exchange Act”).

JURISDICTION AND VENUE

2. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act (15 U.S.C. §§ 78j(b) and 78t(a)) and Rule 10b-5 promulgated thereunder by the SEC (17 C.F.R. § 240.10b-5).

3. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. § 1331, and Section 27 of the Exchange Act (15 U.S.C. §78aa).

4. Venue is proper in this judicial district pursuant to 28 U.S.C. § 1391(b) and Section 27 of the Exchange Act (15 U.S.C. § 78aa(c)) as the Company’s principal executive offices are located in this judicial district and alleged the misstatements and the subsequent damages took place in this judicial district.

5. In connection with the acts, conduct and other wrongs alleged in this complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including but not limited to, the United States mail, interstate telephone communications and the facilities of the national securities exchange.

PARTIES

6. Plaintiff, as set forth in the accompanying certification incorporated by reference herein, purchased Tandy securities during the Class Period and was economically damaged thereby.

7. Defendant Tandy purports to operate as a retailer and wholesale distributor of a range of leather and leathercraft related items in North America and internationally. The company purports to sell its products through company-owned stores; and orders generated from its website,

tandyleather.com. Tandy is a Delaware corporation and its principal executive offices are located at 1900 Southeast Loop 820, Fort Worth, TX 76140. Tandy's securities trade on the NASDAQ under the ticker symbol "TLF."

8. Defendant Janet Carr ("Carr") has been the Company's Chief Executive Officer ("CEO") throughout the class period.

9. Defendant Tina Castillo ("Castillo") has been the Company's Chief Financial Officer ("CFO") throughout the Class Period.

10. Defendants Carr and Castillo are collectively referred to herein as the "Individual Defendants."

11. Each of the Individual Defendants:

- a. directly participated in the management of the Company;
- b. was directly involved in the day-to-day operations of the Company at the highest levels;
- c. was privy to confidential proprietary information concerning the Company and its business and operations;
- d. was directly or indirectly involved in drafting, producing, reviewing and/or disseminating the false and misleading statements and information alleged herein;
- e. was directly or indirectly involved in the oversight or implementation of the Company's internal controls;
- f. was aware of or recklessly disregarded the fact that the false and misleading statements were being issued concerning the Company; and/or
- g. approved or ratified these statements in violation of the federal securities laws.

12. Tandy is liable for the acts of the Individual Defendants and its employees under the doctrine of *respondeat superior* and common law principles of agency because all of the wrongful acts complained of herein were carried out within the scope of their employment.

13. The scienter of the Individual Defendants and other employees and agents of the Company is similarly imputed to Tandy under *respondeat superior* and agency principles.

14. Defendant Tandy and the Individual Defendants are collectively referred to herein as “Defendants.”

SUBSTANTIVE ALLEGATIONS
Materially False and Misleading Statements Issued During the Class Period

15. On March 8, 2019, the Company filed a Form 10-K for the fiscal year ended December 31, 2018 (the “2018 10-K”). The 2018 10-K was signed by Defendants Carr and Castillo. The 2018 10-K contained signed certifications pursuant to the Sarbanes-Oxley Act of 2002 (“SOX”) by Defendants Carr and Castillo attesting to the accuracy of financial reporting, the disclosure of any material changes to the Company’s internal control over financial reporting and the disclosure of all fraud. The 2018 10-K stated that the Company’s “disclosure controls and procedures were effective as of the date of such evaluation.”

16. On May 10, 2019, the Company filed a Form 10-Q for the quarter ended March 31, 2019 (the “1Q 2019 10-Q”). The 1Q 2019 10-Q was signed by Defendants Carr and Castillo. The 1Q 2019 10-Q contained signed SOX certifications by Defendants Carr and Castillo attesting to the accuracy of financial reporting, the disclosure of any material changes to the Company’s internal control over financial reporting and the disclosure of all fraud. The 1Q 2019 10-Q stated that as of March 31, 2019, the Company’s “disclosure controls and procedures were effective at a reasonable assurance level.”

17. The statements referenced in Paragraphs 15-16 above were materially false and/or misleading because they misrepresented and failed to disclose the following adverse facts pertaining to the Company's business, operations, and prospects, which were known to Defendants or recklessly disregarded by them. Specifically, Defendants made false and/or misleading statements and/or failed to disclose that: (1) the Company's accounting practices were not in compliance with applicable regulations; (2) the Company lacked adequate internal controls over accounting; (3) as such, the Company would be unable to file its Form 10-Q for the three and six month period ended June 30, 2019 in a timely manner; and (4) as a result, Defendants' statements about Tandy's business, operations and prospects were materially false and misleading and/or lacked a reasonable basis at all relevant times.

The Truth Begins to Emerge

18. On August 13, 2019, after the market closed, the Company filed with the SEC a Form 8-K, disclosing that it did not anticipate it would be able to timely file its quarterly report for the period ended June 30, 2019, stating, in relevant part:

On July 26, 2019, the Audit Committee of the Board of Directors of Tandy Leather Factory, Inc. (the "Company") commenced an independent investigation of issues that include, but may not be limited to, certain aspects of the Company's methods of valuation and expensing of costs of inventory and related issues regarding the Company's business and operations. The Audit Committee has retained independent legal and accounting advisers to conduct the investigation. The investigation is ongoing. In addition, the Audit Committee directed the Company to evaluate its current policies, procedures, and internal controls associated with such methods of valuation, as well as compliance with, and the effectiveness of, those policies, procedures and internal controls (the "Accounting Policy and Controls Review"). A forensic accounting consultant will assist the Company with this review.

Because the independent investigation and Accounting Policy and Controls Review referred to above include matters related to accounting for the three months ended June 30, 2019 and previous periods, the Company currently does not anticipate that

it will be able to file timely its Quarterly Report on Form 10-Q for the three and six months ended June 30, 2019, which has a due date of August 14, 2019.

Following the completion of the independent investigation and the Accounting Policy and Controls Review, the timing of which cannot be estimated, the Company will make a determination regarding whether it will need to revise, correct or restate its financial statements for any previous quarter or fiscal year as well as the timing of filing its Quarterly Report on Form 10-Q for the three and six months ended June 30, 2019.

19. On this news, the Company's shares fell \$0.25 per share or 4.59% to close at \$5.20 per share on August 14, 2019, damaging investors.

20. On August 14, 2019, the Company filed a Notification of Late Filing on Form 12b-25 with the SEC, disclosing that it had determined that it was not be able to timely file its Form 10-Q for the reasons stated in its August 13, 2019 8-K.

21. On this news, the Company's shares fell an additional \$0.70 per share or over 13.4% over the next two trading days to close at \$4.50 per share on August 15, 2019, further damaging investors.

22. As a result of Defendants' wrongful acts and omissions, and the precipitous decline in the market value of the Company's securities, Plaintiff and other Class members have suffered significant losses and damages.

PLAINTIFF'S CLASS ACTION ALLEGATIONS

23. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a class consisting of all persons other than defendants who acquired Tandy securities publicly traded on NASDAQ during the Class Period, and who were damaged thereby (the "Class"). Excluded from the Class are Defendants, the officers and directors of Tandy, members of the Individual Defendants' immediate families and their legal

representatives, heirs, successors or assigns and any entity in which Defendants have or had a controlling interest.

24. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Tandy securities were actively traded on the NASDAQ. While the exact number of Class members is unknown to Plaintiff at this time and can be ascertained only through appropriate discovery, Plaintiff believes that there are hundreds, if not thousands of members in the proposed Class.

25. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law that is complained of herein.

26. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation. Plaintiff has no interests antagonistic to or in conflict with those of the Class.

27. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

- a. whether the Exchange Act was violated by Defendants' acts as alleged herein;
- b. whether statements made by Defendants to the investing public during the Class Period misrepresented material facts about the business, operations and management of Tandy;
- c. whether the Defendants' public statements to the investing public during the Class Period omitted material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading;

- d. whether Defendants caused Tandy to issue false and misleading SEC filings during the Class Period;
- e. whether Defendants acted knowingly or recklessly in issuing false and misleading financial statements;
- f. whether the prices of Tandy securities during the Class Period were artificially inflated because of defendants' conduct complained of herein; and
- g. whether the members of the Class have sustained damages and, if so, what is the proper measure of damages.

28. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

29. Plaintiff will rely, in part, upon the presumption of reliance established by the fraud-on-the-market doctrine in that:

- a. Tandy shares met the requirements for listing, and were listed and actively traded NASDAQ, a highly efficient and automated market;
- b. As a public issuer, Tandy filed periodic public reports with the SEC;
- c. Tandy regularly communicated with public investors via established market communication mechanisms, including through the regular dissemination of press releases via major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and

d. Tandy was followed by a number of securities analysts employed by major brokerage firms who wrote reports that were widely distributed and publicly available.

30. Based upon the foregoing, the market for Tandy securities promptly digested current information regarding Tandy from all publicly available sources and reflected such information in the prices of the shares, and Plaintiff and the members of the Class are entitled to a presumption of reliance upon the integrity of the market.

31. Alternatively, Plaintiff and the members of the Class are entitled to the presumption of reliance established by the Supreme Court in *Affiliated Ute Citizens of the State of Utah v. United States*, 406 U.S. 128 (1972), as Defendants omitted material information in their Class Period statements in violation of a duty to disclose such information, as detailed above.

COUNT I
Violations of Section 10(b) And Rule 10b-5 Promulgated Thereunder
Against All Defendants

32. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

33. This Count is asserted against Defendants based upon Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated thereunder by the SEC.

34. During the Class Period, Defendants, individually and in concert, directly or indirectly, disseminated or approved the false statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

35. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

- a. employed devices, schemes and artifices to defraud;
- b. made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or
- c. engaged in acts, practices and a course of business that operated as a fraud or deceit upon Plaintiff and others similarly situated in connection with their purchases of Tandy securities during the Class Period.

36. Defendants acted with scienter in that they knew that the public documents and statements issued or disseminated in the name of Tandy were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated, or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the securities laws. These defendants by virtue of their receipt of information reflecting the true facts of Tandy, their control over, and/or receipt and/or modification of Tandy's allegedly materially misleading statements, and/or their associations with the Company which made them privy to confidential proprietary information concerning Tandy, participated in the fraudulent scheme alleged herein.

37. Individual Defendants, who are the senior officers and/or directors of the Company, had actual knowledge of the material omissions and/or the falsity of the material statements set forth above, and intended to deceive Plaintiff and the other members of the Class, or, in the alternative, acted with reckless disregard for the truth when they failed to ascertain and disclose the true facts in the statements made by them or other Tandy personnel to members of the investing public, including Plaintiff and the Class.

38. As a result of the foregoing, the market price of Tandy securities was artificially

inflated during the Class Period. In ignorance of the falsity of Defendants' statements, Plaintiff and the other members of the Class relied on the statements described above and/or the integrity of the market price of Tandy securities during the Class Period in purchasing Tandy securities at prices that were artificially inflated as a result of Defendants' false and misleading statements.

39. Had Plaintiff and the other members of the Class been aware that the market price of Tandy securities had been artificially and falsely inflated by Defendants' misleading statements and by the material adverse information which Defendants did not disclose, they would not have purchased Tandy securities at the artificially inflated prices that they did, or at all.

40. As a result of the wrongful conduct alleged herein, Plaintiff and other members of the Class have suffered damages in an amount to be established at trial.

41. By reason of the foregoing, Defendants have violated Section 10(b) of the 1934 Act and Rule 10b-5 promulgated thereunder and are liable to the plaintiff and the other members of the Class for substantial damages which they suffered in connection with their purchase of Tandy securities during the Class Period.

COUNT II
Violations of Section 20(a) of the Exchange Act
Against the Individual Defendants

42. Plaintiff repeats and realleges each and every allegation contained in the foregoing paragraphs as if fully set forth herein.

43. During the Class Period, the Individual Defendants participated in the operation and management of Tandy, and conducted and participated, directly and indirectly, in the conduct of Tandy's business affairs. Because of their senior positions, they knew the adverse non-public information about Tandy's corporate governance and business prospects.

44. As officers and/or directors of a publicly owned company, the Individual Defendants had a duty to disseminate accurate and truthful information with respect to Tandy's

business practices, and to correct promptly any public statements issued by Tandy which had become materially false or misleading.

45. Because of their positions of control and authority as senior officers, the Individual Defendants were able to, and did, control the contents of the various reports, press releases and public filings which Tandy disseminated in the marketplace during the Class Period concerning the Company's corporate governance and business prospects. Throughout the Class Period, the Individual Defendants exercised their power and authority to cause Tandy to engage in the wrongful acts complained of herein. The Individual Defendants therefore, were "controlling persons" of Tandy within the meaning of Section 20(a) of the Exchange Act. In this capacity, they participated in the unlawful conduct alleged which artificially inflated the market price of Tandy securities.

46. By reason of the above conduct, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act for the violations committed by Tandy.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff, on behalf of himself and the Class, prays for judgment and relief as follows:

A. Declaring this action to be a proper class action, designating plaintiff as Lead Plaintiff and certifying Plaintiff as a class representative under Rule 23 of the Federal Rules of Civil Procedure and designating Plaintiff's counsel as Lead Counsel;

B. Awarding damages in favor of plaintiff and the other Class members against all defendants, jointly and severally, together with interest thereon;

C. Awarding Plaintiff and the Class reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

D. Awarding Plaintiff and other members of the Class such other and further relief as the Court may deem just and proper.

DEMAND FOR TRIAL BY JURY

Plaintiff hereby demands a trial by jury.

Dated: October __, 2019

Respectfully submitted,

STECKLER GRESHAM COCHRAN PLLC

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