

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, 2017

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: 001-35629

TILE SHOP HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation)

45-5538095
(I.R.S. Employer Identification No.)

14000 Carlson Parkway
Plymouth, Minnesota
(Address of principal executive offices)

55441
(Zip Code)

(763) 852-2950
(Registrant's telephone number, including area code)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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 Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) 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 April 24, 2017, there were 51,638,312 shares of the registrant's common stock, par value \$0.0001 per share, outstanding.

TILE SHOP HOLDINGS, INC.
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS**Tile Shop Holdings, Inc. and Subsidiaries**
Consolidated Balance Sheets
(dollars in thousands, except share and per share data)

	March 31, 2017 (unaudited)	December 31, 2016 (audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,589	\$ 6,067
Restricted cash	3,000	3,000
Trade receivables, net	2,973	2,414
Inventories	69,280	74,295
Income tax receivable	378	1,670
Other current assets, net	4,332	8,755
Total Current Assets	93,552	96,201
Property, plant and equipment, net	144,945	141,037
Deferred tax assets	20,168	21,391
Long-term restricted cash	2,612	3,881
Other assets	2,452	2,763
Total Assets	\$ 263,729	\$ 265,273
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 18,504	\$ 20,321
Current portion of long-term debt	6,922	6,286
Income tax payable	2,716	120
Other accrued liabilities	25,693	33,461
Total Current Liabilities	53,835	60,188
Long-term debt, net	20,272	22,126
Capital lease obligation, net	668	697
Deferred rent	38,234	37,595
Other long-term liabilities	5,536	5,768
Total Liabilities	118,545	126,374
Stockholders' Equity:		
Common stock, par value \$0.0001; authorized: 100,000,000 shares; issued and outstanding: 51,629,260 and 51,607,143 shares, respectively	5	5
Preferred stock, par value \$0.0001; authorized: 10,000,000 shares; issued and outstanding: 0 shares	-	-
Additional paid-in-capital	186,850	185,998
Accumulated deficit	(41,630)	(47,058)
Accumulated other comprehensive loss	(41)	(46)
Total Stockholders' Equity	145,184	138,899
Total Liabilities and Stockholders' Equity	\$ 263,729	\$ 265,273

See accompanying Notes to Consolidated Financial Statements.

Tile Shop Holdings, Inc. and Subsidiaries
Consolidated Statements of Operations
(dollars in thousands, except per share data)
(unaudited)

	Three Months Ended	
	March 31,	
	2017	2016
Net sales	\$ 92,135	\$ 84,714
Cost of sales	27,390	25,009
Gross profit	64,745	59,705
Selling, general and administrative expenses	51,212	47,949
Income from operations	13,533	11,756
Interest expense	(485)	(570)
Other income	36	31
Income before income taxes	13,084	11,217
Provision for income taxes	(5,075)	(4,459)
Net income	\$ 8,009	\$ 6,758
Income per common share:		
Basic	\$ 0.16	\$ 0.13
Diluted	\$ 0.15	\$ 0.13
Weighted average shares outstanding:		
Basic	51,523,627	51,359,167
Diluted	52,140,945	51,666,432

See accompanying Notes to Consolidated Financial Statements.

Tile Shop Holdings, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
(dollars in thousands)
(unaudited)

	Three Months Ended	
	March 31,	
	2017	2016
Net income	\$ 8,009	\$ 6,758
Currency translation adjustment	5	2
Other comprehensive income	5	2
Comprehensive income	\$ 8,014	\$ 6,760

See accompanying Notes to Consolidated Financial Statements.

Tile Shop Holdings, Inc. and Subsidiaries
 Consolidated Statements of Stockholders' Equity (Deficit)
 (dollars in thousands, except share data)
 (unaudited)

	Common stock		Additional paid-in capital	Treasury units	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total
	Shares	Amount					
Balance at December 31, 2015	51,437,973	\$ 5	\$ 180,192	\$ -	\$ (64,985)	\$ (11)	\$ 115,201
Reclassification of impact of ASU 2016-09 (see Note 1)	-	-	687	-	(536)	-	151
Balance at January 1, 2016	51,437,973	\$ 5	\$ 180,879	\$ -	\$ (65,521)	\$ (11)	\$ 115,352
Issuance of restricted shares	73,384	-	-	-	-	-	-
Stock based compensation	-	-	4,333	-	-	-	4,333
Stock option exercises	95,786	-	786	-	-	-	786
Foreign currency translation adjustments	-	-	-	-	-	(35)	(35)
Net income	-	-	-	-	18,463	-	18,463
Balance at December 31, 2016	51,607,143	\$ 5	\$ 185,998	\$ -	\$ (47,058)	\$ (46)	\$ 138,899
Issuance of restricted shares	20,000	-	-	-	-	-	-
Cancellation of restricted shares	(5,000)	-	-	-	-	-	-
Stock based compensation	-	-	842	-	-	-	842
Stock option exercises	7,117	-	10	-	-	-	10
Dividends paid	-	-	-	-	(2,581)	-	(2,581)
Foreign currency translation adjustments	-	-	-	-	-	5	5
Net income	-	-	-	-	8,009	-	8,009
Balance at March 31, 2017	51,629,260	\$ 5	\$ 186,850	\$ -	\$ (41,630)	\$ (41)	\$ 145,184

See accompanying Notes to Consolidated Financial Statements.

Title Shop Holdings, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(dollars in thousands)
(unaudited)

	Three Months Ended March 31,	
	2017	2016
Cash Flows From Operating Activities		
Net income	\$ 8,009	\$ 6,758
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	6,336	5,571
Amortization of debt issuance costs	174	157
Loss on disposals of property, plant and equipment	75	70
Deferred rent	710	678
Stock based compensation	842	1,229
Deferred income taxes	1,223	283
Changes in operating assets and liabilities:		
Trade receivables	(559)	(402)
Inventories	5,016	5,642
Prepaid expenses and other assets	4,589	576
Accounts payable	(2,413)	(703)
Income tax receivable / payable	3,888	2,852
Accrued expenses and other liabilities	(7,836)	4,762
Net cash provided by operating activities	<u>20,054</u>	<u>27,473</u>
Cash Flows From Investing Activities		
Purchases of property, plant and equipment	(9,963)	(6,375)
Net cash used in investing activities	<u>(9,963)</u>	<u>(6,375)</u>
Cash Flows From Financing Activities		
Release of restricted cash	1,269	-
Payments of long-term debt and capital lease obligations	(16,272)	(15,031)
Advances on line of credit	15,000	-
Dividends paid	(2,581)	-
Proceeds from exercise of stock options	42	9
Employee taxes paid for shares withheld	(32)	-
Security deposits	-	(3)
Net cash used in financing activities	<u>(2,574)</u>	<u>(15,025)</u>
Effect of exchange rate changes on cash	5	2
Net change in cash	7,522	6,075
Cash and cash equivalents beginning of period	6,067	10,330
Cash and cash equivalents end of period	<u>\$ 13,589</u>	<u>\$ 16,405</u>
Supplemental disclosure of cash flow information		
Purchases of property, plant and equipment included in accounts payable and accrued expenses	\$ 2,867	\$ 1,052
Cash paid for interest	481	673
Cash (received) paid for income taxes, net	(44)	1,607

See accompanying Notes to Consolidated Financial Statements.

Tile Shop Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(unaudited)

Note 1: Background

The Tile Shop, LLC (“The Tile Shop”) was formed on December 30, 2002, as a Delaware limited liability company and began operations on January 1, 2003. Tile Shop Holdings, Inc. (“Holdings,” and together with its wholly owned subsidiaries, the “Company”) was incorporated under the laws of the state of Delaware in June 2012 to become the parent company of The Tile Shop, LLC.

The Company is a specialty retailer of manufactured and natural stone tiles, setting and maintenance materials, and related accessories in the United States. The Company manufactures its own setting and maintenance materials, such as thinset, grout, and sealers. The Company’s primary market is retail sales to consumers, contractors, designers and home builders. As of March 31, 2017, the Company had 126 stores in 31 states and the District of Columbia, as well as an on-line retail operation. The Company also has distribution centers located in Michigan, New Jersey, Oklahoma, Virginia and Wisconsin. The Company has a sourcing operation located in China.

The accompanying Consolidated Financial Statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the rules and regulations for reporting on Form 10-Q. Accordingly, they do not include certain information and disclosures required for comprehensive financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal recurring nature, including the elimination of all intercompany transactions. Operating results for the three months ended March 31, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2017.

These statements should be read in conjunction with the Consolidated Financial Statements and footnotes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. The accounting policies used in preparing these Consolidated Financial Statements are the same as those described in Note 1 to the Consolidated Financial Statements in such Form 10-K.

Recently Adopted Accounting Pronouncements

In July 2015, the Financial Accounting Standards Board (“FASB”) issued a standard which simplifies the subsequent measurement of inventory. Previously, an entity was required to measure inventory at the lower of cost or market, whereby market can be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. The changes required that inventory be measured at the lower of cost and net realizable value, thereby eliminating the use of the other two market methodologies. Net realizable value is defined as the estimated selling prices in the ordinary course of business less reasonably predictable costs of completion, disposal, and transportation. The standard was effective for the Company at the beginning of fiscal 2017. The adoption of this new standard did not have a material effect on the Company’s financial statements.

Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued a final standard on revenue from contracts with customers. This new standard introduces a comprehensive revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. In 2016, the FASB issued several amendments to the standard, including principal versus agent considerations when another party is involved in providing goods or services to a customer, the application of identifying performance obligations, and the recognition of expected breakage amounts either proportionally in earnings as redemptions occur or when redemption is remote. The Company continues to assess the impacts of this standard, including evaluating if its current policies to account for samples, gift cards, and sales returns will change under the new standard. As the Company finalizes its assessment, the Company will take steps to define its accounting policies under the new standard, establish new processes and controls when warranted, and ensure these processes are designed to capture the information necessary to conform to the transitional disclosure requirements. The standard is effective for the Company in fiscal 2018 and provides for either full retrospective adoption or modified retrospective adoption by which the cumulative effect of the change is recognized in retained earnings at the date of initial application. The Company has elected to adopt this standard using the modified retrospective approach.

In February 2016, the FASB issued a standard that primarily requires organizations that lease assets to recognize the rights and obligations created by those leases on the Consolidated Balance Sheet. The standard is effective in 2019, with early adoption permitted. The Company is currently assessing the effect the new standard will have on its consolidated financial statements.

In August 2016, the FASB issued an accounting standards update with new guidance on how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments in the standards update provide guidance on eight specific cash flow issues. The standards update is effective retrospectively for fiscal years and interim periods beginning after

Tile Shop Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(unaudited)

December 15, 2017, with early adoption permitted. The Company is currently assessing the effect the new standard will have on its consolidated financial statements.

In November 2016, the FASB issued new guidance on restricted cash on the statement of cash flows. The new guidance requires the classification and presentation of changes in restricted cash and cash equivalents in the statement of cash flows. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning and ending balances shown on the statement of cash flows. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The guidance should be applied retrospectively after adoption. The Company's restricted cash and long-term restricted cash balances were \$3.0 million and \$2.6 million, respectively, as of March 31, 2017. Upon adopting the new standard, the Company anticipates that the fluctuations in the restricted cash and long-term restricted cash balances will impact its statement of cash flows.

Note 2: Inventories

Inventories are stated at the lower of cost (determined on the weighted-average cost method) or market. Inventories consist primarily of merchandise held for sale. Inventories were comprised of the following as of March 31, 2017 and December 31, 2016:

	(in thousands)	
	March 31, 2017	December 31, 2016
Finished goods	\$ 59,853	\$ 61,949
Raw materials	1,979	2,312
Finished goods in transit	7,448	10,034
Total	<u>\$ 69,280</u>	<u>\$ 74,295</u>

The Company records provisions for losses related to shrinkage and other amounts that are otherwise not expected to be fully recoverable. These provisions are calculated based on historical shrinkage, selling price, margin and current business trends. The provision for losses related to shrinkage and other amounts was \$365,000 and \$163,000 as of March 31, 2017 and December 31, 2016, respectively.

Note 3: Income taxes

The Company's effective tax rate on net income before income taxes for the three months ended March 31, 2017 and 2016 was 38.8% and 39.8%, respectively. The improvement in the effective tax rate in 2017 was due to the vesting of certain incentive stock option awards that resulted in a decrease in non-deductible stock-based compensation expense. For the three months ended March 31, 2017 and 2016, the Company recorded a provision for income taxes of \$5.1 million and \$4.5 million, respectively.

The Company records interest and penalties relating to uncertain tax positions in income tax expense. As of March 31, 2017 and 2016, the Company has not recognized any liabilities for uncertain tax positions, nor have interest and penalties related to uncertain tax positions been accrued.

Note 4: Earnings Per Share

Basic earnings per share is calculated by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing net income by the weighted-average number of common shares outstanding, after taking into consideration all dilutive potential shares outstanding during the period.

Tile Shop Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(unaudited)

Basic and diluted earnings per share were calculated as follows:

	(dollars in thousands)	
	For the three months ended	
	March 31,	
	2017	2016
Net income	\$ 8,009	\$ 6,758
Weighted average basic shares outstanding	51,523,627	51,359,167
Effect of dilutive securities attributable to stock-based awards	617,318	307,265
Weighted average diluted shares outstanding	52,140,945	51,666,432
Income per common share:		
Basic	\$ 0.16	\$ 0.13
Dilutive	\$ 0.15	\$ 0.13
Anti-dilutive securities excluded from earnings per share calculation	272,336	303,008

Note 5: Other Accrued Liabilities

Other accrued liabilities consisted of the following:

	(in thousands)	
	March 31,	December 31,
	2017	2016
Shareholder litigation accrual	\$ -	\$ 9,500
Customer deposits	9,164	7,742
Accrued wages and salaries	4,093	4,962
Sales return reserve	3,766	3,080
Payroll and sales taxes	3,784	2,691
Other current liabilities	4,886	5,486
Total other accrued liabilities	<u>\$ 25,693</u>	<u>\$ 33,461</u>

Note 6: Long-term Debt

On June 2, 2015, the Company and its operating subsidiary, The Tile Shop, LLC, entered into a credit agreement with Fifth Third Bank, Bank of America, N.A., and Huntington National Bank (as amended, the "Credit Agreement"). On December 9, 2016, the Credit Agreement was amended to permit an additional New Markets Tax Credit Financing arrangement and on February 10, 2017, the Credit Agreement was amended to permit the Company to make certain dividend payments. The Credit Agreement provides the Company with a \$125.0 million senior secured credit facility, comprised of a five-year \$50.0 million term loan and a \$75.0 million revolving line of credit. The Credit Agreement is secured by virtually all of the assets of the Company, including but not limited to, inventory, receivables, equipment and real property. Borrowings pursuant to the Credit Agreement bear interest at either a base rate or a LIBOR-based rate, at the option of the Company. The LIBOR-based rate will range from LIBOR plus 1.50% to 2.00%, depending on The Tile Shop's leverage ratio. The base rate is equal to the greatest of: (a) the Federal funds rate plus 0.50%, (b) the Fifth Third Bank "prime rate," and (c) the Eurodollar rate plus 1.00%, in each case plus 0.50% to 1.00% depending on The Tile Shop's leverage ratio. At March 31, 2017 the base interest rate was 4.50% and the LIBOR-based interest rate was 2.48%. Borrowings outstanding consisted of \$10.0 million on the revolving line of credit and \$16.5 million on the term loan as of March 31, 2017. There was \$65.0 million available for borrowing on the revolving line of credit as of March 31, 2017. The Company can elect to prepay the term loan without incurring a penalty. Additional borrowings pursuant to the Credit Agreement may be used to support the Company's growth and for working capital purposes. The Company incurred \$1.0 million of debt issuance costs in connection with the Credit Agreement. These costs were capitalized as other current and other noncurrent assets, and will be amortized over the five-year life of the Credit Agreement. The term loan requires quarterly principal payments as follows (in thousands):

Tile Shop Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(unaudited)

Period

June 30, 2017	\$ 1,250
September 30, 2017 to June 30, 2018	1,875
September 30, 2018 to March 31, 2020	2,500

The Credit Agreement contains customary events of default, conditions to borrowings, and restrictive covenants, including restrictions on the Company's ability to dispose of assets, make acquisitions, incur additional debt, incur liens, make investments, or enter into transactions with affiliates on other than terms that could be obtained in an arm's length transaction. The Credit Agreement also includes financial and other covenants including covenants to maintain certain fixed charge coverage ratios and rent adjusted leverage ratios. The Company was in compliance with the covenants as of March 31, 2017.

We have a standby letter of credit outstanding related to our workers compensation insurance policy. As of March 31, 2017 and 2016, the standby letter of credit totaled \$1.1 million and \$0.9 million, respectively.

Long-term debt consisted of the following at March 31, 2017 and December 31, 2016 (in thousands):

	March 31, 2017		December 31, 2016	
	Principal	Unamortized Debt Issuance Costs	Principal	Unamortized Debt Issuance Costs
Term note payable - interest at 2.48% and 2.27% at March 31, 2017 and December 31, 2016, respectively	\$ 16,471	\$ (82)	\$ 17,721	\$ (114)
Commercial bank credit facility	10,000	-	10,000	-
Variable interest rate bonds (0.99% and 0.89% at March 31, 2017 and December 31, 2016), which mature April 1, 2023, collateralized by buildings and equipment	805	-	805	-
Total debt obligations	27,276	(82)	28,526	(114)
Less: current portion	6,975	(53)	6,350	(64)
Debt obligations, net of current portion	\$ 20,301	\$ (29)	\$ 22,176	\$ (50)

Note 7: Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. To measure fair value, the Company uses a three-tier valuation hierarchy based upon observable and non-observable inputs:

Level 1 – Unadjusted quoted prices that are available in active markets for the identical assets or liabilities at the measurement date.

Level 2 – Significant other observable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly, including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 – Significant unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment.

Tile Shop Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(unaudited)

The following table sets forth by Level within the fair value hierarchy the Company's financial assets that were accounted for at fair value on a recurring basis at March 31, 2017 and December 31, 2016 according to the valuation techniques the Company uses to determine their fair values. There have been no transfers of assets among the fair value hierarchies presented.

Assets	Pricing Category	Fair Value at	
		March 31, 2017	December 31, 2016
(in thousands)			
Cash and cash equivalents	Level 1	\$ 13,589	\$ 6,067
Restricted cash	Level 1	3,000	3,000
Long-term restricted cash	Level 1	2,612	3,881

The following methods and assumptions were used to estimate the fair value of each class of financial instrument. There have been no changes in the valuation techniques used by the Company to value the Company's financial instruments.

· *Cash and cash equivalents*: Consists of cash on hand and bank deposits. The value was measured using quoted market prices in active markets. The carrying amount approximates fair value.

· *Restricted cash*: Consists of cash and cash equivalents held in bank deposit accounts restricted as to withdrawal or are under the terms of use for current operations. The value was measured using quoted market prices in active markets. The carrying amount approximates fair value.

· *Long term restricted cash*: Consists of cash and cash equivalents held in bank deposit accounts restricted as to withdrawal and designated for expenditure in the construction of noncurrent assets. The value was measured using quoted market prices in active markets. The carrying amount approximates fair value.

Fair value measurements also apply to certain non-financial assets and liabilities measured at fair value on a nonrecurring basis. Property, plant and equipment is measured at fair value when an impairment is recognized and the related assets are written down to fair value. The Company did not recognize any significant impairment losses during 2017 or 2016. The carrying value of the Company's borrowings under its credit agreement approximate fair value based upon the market interest rates available to the Company for debt obligations with similar risks and maturities.

Note 8: Equity Incentive Plans

Stock options:

The Company measures and recognizes compensation expense for all stock-based awards at fair value. The financial statements for the three months ended March 31, 2017 and 2016 include compensation cost for the portion of outstanding awards that vested during those periods. The Company recognizes stock-based compensation costs on a straight-line basis over the requisite service period of the award, which is generally the option vesting term. Total stock-based compensation expense related to stock options was \$0.5 million and \$1.0 million for the three months ended March 31, 2017 and 2016, respectively. Stock-based compensation expense is included in selling, general and administrative expenses in the accompanying Consolidated Statements of Operations.

As of March 31, 2017, the Company had outstanding stock options to purchase 2,390,872 shares of common stock at a weighted average exercise price of \$13.99.

Restricted stock:

The Company awards restricted common shares to selected employees and to non-employee directors. Recipients are not required to provide any consideration other than continued service. Restricted share awards are subject to certain restrictions on transfer, and all or part of the shares awarded may be subject to forfeiture upon the occurrence of certain events, including employment termination. The restricted stock is valued at its grant date fair value and expensed over the requisite service period or the vesting term of the awards. Total stock-based compensation expense related to restricted stock was \$0.3 million and \$0.2 million for the three months ended March 31, 2017 and 2016, respectively. Stock-based compensation expense is included in selling, general and administrative expenses in the accompanying Consolidated Statements of Operations.

As of March 31, 2017, the Company had 100,884 outstanding restricted common shares.

Note 9: New Market Tax Credit*2016 New Market Tax Credit*

In December 2016, the Company entered into a financing transaction with U.S. Bank Community, LLC (“U.S. Bank”) related to a \$9.2 million expansion of the Company’s facility in Durant, Oklahoma. U.S. Bank made a capital contribution to, and Tile Shop Lending, Inc. (“Tile Shop Lending”) made a loan to, Twain Investment Fund 192 LLC (the “Investment Fund”) under a qualified New Markets Tax Credit (“NMTC”) program. The NMTC program was provided for in the Community Renewal Tax Relief Act of 2000 (the “Act”) and is intended to induce capital investment in qualified lower income communities. The Act permits taxpayers to claim credits against their Federal income taxes for up to 39% of qualified investments in the equity of community development entities (“CDEs”). CDEs are privately managed investment institutions that are certified to make qualified low-income community investments.

In December 2016, Tile Shop Lending loaned \$6.7 million to the Investment Fund at an interest rate of 1.37% per year and with a maturity of December 31, 2046. The Investment Fund then contributed the loan to a CDE, which, in turn, loaned the funds on similar terms to Tile Shop of Oklahoma, LLC, an indirect, wholly-owned subsidiary of Holdings. The proceeds of the loans from the CDEs (including loans representing the capital contribution made by U.S. Bank, net of syndication fees) were used to partially fund the distribution center project.

In December 2016, U.S. Bank also contributed \$3.1 million to the Investment Funds and, by virtue of such contribution, is entitled to substantially all of the tax benefits derived from the NMTCs, while the Company effectively received net loan proceeds equal to U.S. Bank’s contributions to the Investment Fund. This transaction includes a put/call provision whereby the Company may be obligated or entitled to repurchase U.S. Bank’s interest. The Company believes that U.S. Bank will exercise the put option in December 2023 at the end of the recapture period. The value attributed to the put/call is de minimis. The NMTC is subject to 100% recapture for a period of seven years as provided in the Internal Revenue Code. The Company is required to be in compliance with various regulations and contractual provisions that apply to the NMTC arrangement. Non-compliance with applicable requirements could result in projected tax benefits not being realized and, therefore, could require the Company to indemnify U.S. Bank for any loss or recapture of NMTCs related to the financing until such time as the obligation to deliver tax benefits is relieved. The Company does not anticipate any credit recaptures will be required in connection with this arrangement.

The Company has determined that the financing arrangement with the Investment Fund and CDEs contains a variable interest entity (“VIE”). The ongoing activities of the Investment Fund – collecting and remitting interest and fees and NMTC compliance – were all considered in the initial design and are not expected to significantly affect economic performance throughout the life of the Investment Fund. Management considered the contractual arrangements that obligate the Company to deliver tax benefits and provide various other guarantees to the structure; U.S. Bank’s lack of a material interest in the underlying economics of the project; and the fact that the Company is obligated to absorb losses of the Investment Fund. The Company concluded that it is the primary beneficiary of the VIE and consolidated the Investment Fund, as a VIE, in accordance with the accounting standards for consolidation. In 2016, U.S. Bank’s contributions, of \$3.1 million, net of syndications fees, were included in cash, restricted cash, other accrued liabilities and other long-term liabilities in the Consolidated Balance Sheet. The Company incurred \$1.2 million of syndication fees in connection with this transaction which were classified as other current assets and other non-current assets in the Consolidated Balance Sheet. The Company is recognizing the benefit of this net \$1.9 million contribution over the seven-year compliance period as it is being earned through the on-going compliance with the conditions of the NMTC program. As of March 31, 2017, the balance of the contribution liability was \$3.1 million, of which \$0.5 million is classified as other accrued liabilities on the Consolidated Balance Sheet and \$2.6 million is classified as other long-term liabilities on the Consolidated Balance Sheet.

After closing on this transaction, the Company is able to request reimbursement for certain expenditures made in connection with the expansion of the distribution center in Durant, Oklahoma from the Investment Fund. Expenditures that qualify for reimbursement include building costs, equipment purchases, and other expenditures tied to the expansion of the facility. As of March 31, 2017, the balance available in the Investment Fund available for reimbursement to the Company was \$5.6 million. The Company classified \$3.0 million of the Investment Fund balance to be used toward the purchase of current assets as restricted cash and \$2.6 million of the Investment Fund balance to be used toward the purchase of long-term assets as long-term restricted cash in

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the Consolidated Balance Sheet at March 31, 2017. Subsequent to March 31, 2017, the restriction on the Company's ability to access \$4.8 million of the balance in the Investment Fund was lifted and this amount was transferred to the Company.

2013 New Market Tax Credit

In July 2013, the Company entered into a financing transaction with U.S. Bank and Chase Community Equity ("Chase", and collectively with Chase, the "investors") related to a \$19.1 million acquisition, rehabilitation, and construction of the Company's distribution center and manufacturing facilities in Durant, Oklahoma. In this transaction, Tile Shop Lending loaned \$13.5 million to the Tile Shop Investment Fund LLC. The investors contributed \$5.6 million to the Tile Shop Investment Fund LLC. The investors are entitled to the tax benefits derived from the NMTC by virtue of their contribution while the Company received the proceeds, net of syndication fees, to apply toward the construction project. This transaction includes a put/call provision whereby the Company may be obligated or entitled to repurchase the investors' interest. The Company believes that the investors will exercise the put option in September 2020 at the end of the recapture period. The value attributed to the put/call is de minimis. The NMTC is subject to 100% recapture for a period of seven years as provided in the Internal Revenue Code. The Company is required to be in compliance with various regulations and contractual provisions that apply to the NMTC arrangement. Non-compliance with applicable requirements could result in projected tax benefits not being realized and, therefore, could require the Company to indemnify the investors for any loss or recapture of NMTCs related to the financing until such time as the obligation to deliver tax benefits is relieved. The Company does not anticipate any credit recaptures will be required in connection with this arrangement.

The Company determined that this financing arrangement contains a VIE. The ongoing activities of the Tile Shop Investment Fund LLC – collecting and remitting interest and fees and NMTC compliance – were all considered in the initial design and are not expected to significantly affect economic performance throughout the life of the Tile Shop Investment Fund LLC. Management considered the contractual arrangements that obligate the Company to deliver tax benefits and provide various other guarantees to the structure; the investors lack of a material interest in the underlying economics of the project; and the fact that the Company is obligated to absorb losses of the Investment Fund. The Company concluded that it is the primary beneficiary of the VIE and consolidated the Tile Shop Investment Fund LLC, as a VIE, in accordance with the accounting standards for consolidation. In 2013, the investors' contributions, of \$5.6 million, net of syndication fees, were included in cash, restricted cash, other accrued liabilities and other long-term liabilities in the Consolidated Balance Sheet. The Company incurred \$1.2 million of syndication fees in connection with this transaction which were classified as other current assets and other non-current assets in the Consolidated Balance Sheet. The Company is recognizing the benefit of this net \$4.4 million contribution over the seven-year compliance period as it is being earned through the on-going compliance with the conditions of the NMTC program. As of March 31, 2017, the balance of the contribution liability was \$2.2 million, of which \$0.7 million is classified as other accrued liabilities on the Consolidated Balance Sheet and \$1.5 million is classified as other long-term liabilities on the Consolidated Balance Sheet.

Note 10: Commitments and Contingencies

The Company, two of its former executive officers, three of its outside directors, two of its former directors, and certain companies affiliated with the directors, are defendants in a consolidated class action brought under the federal securities laws and now pending in the United States District Court for the District of Minnesota under the caption Beaver County Employees' Retirement Fund, et al. v. Tile Shop Holdings, Inc., et al. Several related actions were filed in 2013 and subsequently consolidated. The plaintiffs are three investors who represent classes consisting of (1) all purchasers of Tile Shop common stock between August 22, 2012 and January 28, 2014 (the "class period"), seeking to pursue remedies under the Securities Exchange Act of 1934; and (2) all purchasers of Tile Shop common stock pursuant and/or traceable to the Company's December 2012 registration statement, seeking to pursue remedies under the Securities Act of 1933. Six firms who were underwriters in the December 2012 secondary public offering are also named as defendants. The plaintiffs allege that during the class period, defendants failed to disclose certain related party transactions in the Company's SEC filings and press releases. The plaintiffs assert claims under Sections 11, 12(a)(2), and 15 of the Securities Act of 1933, and under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. In addition to attorneys' fees and costs, the plaintiffs seek to recover damages on behalf of class members. Subsequent to December 31, 2016, the parties entered into a Stipulation of Settlement ("Stipulation") dated January 13, 2017 to settle all claims. Pursuant to the Stipulation, \$9.5 million was paid on behalf of all defendants. The Company has agreed to pay \$5.0 million of that amount and the insurance company providing coverage for the initial tier of the Company's directors and officers liability insurance policy has agreed to pay \$4.5 million of that amount. The Company and the insurance provider subsequently deposited money into an escrow account that had been established to hold the settlement fund. The settlement is subject to court approval. The court has scheduled a hearing on whether to grant final approval of the settlement for May 3, 2017.

The Company also is a nominal defendant in three actions brought derivatively on behalf of the Company by three shareholders in the Court of Chancery for the State of Delaware. Two of the actions were filed in 2015 and then consolidated (the "Consolidated Actions"). On July 31, 2015, the plaintiff-shareholders in the Consolidated Actions filed a consolidated complaint. The

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consolidated complaint names as defendants four current members of the Company's Board of Directors, two of its former directors, and a former employee of the Company. The third action (the "Third Action") was filed on or about September 28, 2016 against seven members of the Company's Board of Directors, a former officer, and a former employee. All of the complaints track many of the same factual allegations as have been made in the above-described federal securities class action. They allege that the defendant-directors and/or officer breached their fiduciary duties by failing to adopt adequate internal controls for the Company, by approving false and misleading statements issued by the Company, by causing the Company to violate generally accepted accounting principles and SEC regulations, by engaging in or approving alleged insider trading, and by permitting the Company's primary product to contain illegal amounts of lead. The complaints also allege claims for insider trading and/or unjust enrichment. The complaints seek damages, disgorgement, an award of attorneys' fees and other expenses, and an order compelling changes to the Company's corporate governance and internal procedures. In 2015, the defendants moved to dismiss the Consolidated Actions, or in the alternative, to stay the Consolidated Actions pending resolution of the Beaver County Employees' Retirement Fund action described above. Subsequently, upon agreement of the parties, the court entered an order staying the Consolidated Actions. Recently the Company moved to dismiss the newly-filed Third Action, or in the alternative, to stay the Third Action until resolution of the Beaver County Employees' Retirement Fund action described above, or until the Company's Board of Directors takes action on the demand described below. That motion has not yet been decided.

By letter dated May 19, 2016, a shareholder of the Company, through his attorney and prior to filing the Third Action, demanded that the Board of Directors investigate alleged breaches of fiduciary duty related to the same matters described above, and take action against certain present and former officers and directors of the Company. The Board of Directors has appointed a committee of two independent directors to investigate and evaluate the matters raised in the demand letter, and to recommend to the Company's Board of Directors what actions, if any should be taken by the Company with respect to the matters raised in the demand letter.

Given the uncertainty of litigation and the current stage of the derivative actions, the Company cannot reasonably estimate the possible loss or range of loss that may result. The Company maintains directors and officers liability insurance policies that may reduce the Company's exposure, if any. In the event the Company incurs a loss, the Company will pursue recoveries to the maximum extent available under these policies.

The Company is also, from time to time, subject to claims and disputes arising in the normal course of business. In the opinion of management, while the outcome of such claims and disputes cannot be predicted with certainty, the Company's ultimate liability in connection with these matters is not expected to have a material adverse effect on the results of operations, financial position, or cash flows.

Note 11: Subsequent Event

On April 18, 2017, the Company declared a \$0.05 dividend to stockholders of record as of the close of business on May 2, 2017. The dividend will be paid on May 16, 2017.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2016 and our consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act. Forward-looking statements are often identified by the use of words such as, but not limited to, "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "might," "plan," "project," "seek," "should," "target," "will," "will likely result," "would," and similar expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, unexpected delays or expenses related to opening new stores and maintaining or renovating existing stores, changes to economic conditions and customer preferences, disruptions in our supply chain, or inventory management, competitive factors, increases to interest rates or other impacts on our ability to obtain or maintain financing, unanticipated expenses related to operating as a public company including but not limited to litigation-related expenses, and those factors disclosed in the section captioned "Risk Factors" in our Annual Report for the fiscal year ended December 31, 2016, filed with the Securities and Exchange Commission. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview and Recent Trends

We are a specialty retailer of manufactured and natural stone tiles, setting and maintenance materials, and related accessories in the United States. We offer a wide selection of products, attractive prices, and exceptional customer service in an extensive showroom setting. As of March 31, 2017, we operated 126 stores in 31 states, with an average size of 20,900 square feet. We also sell our products on our website.

We purchase our tile products and accessories directly from suppliers and manufacture our own setting and maintenance materials, such as thinset, grout, and sealers. We believe that our long-term supplier relationships, together with our design, manufacturing and distribution capabilities, enable us to offer a broad assortment of high-quality products to our customers, who are primarily homeowners and professionals, at competitive prices. We have invested significant resources to develop our proprietary brands and product sources, and we believe that we are a leading retailer of manufactured and natural stone tiles, accessories, and related materials in the United States.

We believe that the highly-fragmented United States retail tile market provides us with a significant opportunity to expand our store base. We opened 3 new stores in the first three months of 2017, and opened 9 new stores in the United States during 2016. We plan to open 12 to 15 stores in 2017. We believe that there will continue to be additional expansion opportunities in the United States and Canada. We expect store base growth will drive productivity and operational efficiencies. Our growth plans also require us to maintain significant inventory on-hand in order to fulfill transactions at these new locations.

For the three months ended March 31, 2017 and 2016, we reported net sales of \$92.1 million and \$84.7 million, respectively, and income from operations of \$13.5 million and \$11.8 million, respectively. The increase in sales and income from operations was primarily due to same store sales growth of 4.9% and 13.2% for the three months ended March 31, 2017 and 2016, respectively.

Net cash provided by operating activities was \$20.1 million and \$27.5 million for three months ended March 31, 2017 and 2016, respectively, which was used to fund operations, new store construction activities, and debt repayments. We expect to continue to fund our capital expenditures and daily operations from our operating cash flows. As of March 31, 2017, we had cash of \$13.6 million and working capital of \$39.7 million.

Key Components of our Consolidated Statements of Operations

Net Sales Net sales represents total charges to customers, net of returns, and includes freight charged to customers. We recognize sales at the time that the customer takes possession of the merchandise or final delivery of the product has occurred. We recognize service revenue, which consists primarily of freight charges for home delivery, when the service has been rendered. We are required to charge and collect sales and other taxes on sales to our customers and remit these taxes back to government authorities. Total revenues do not include sales tax because we are a pass-through conduit for collecting and remitting sales tax.

Comparable store sales for the three months ended March 31, 2017 increased \$4.0 million, compared to the three months ended March 31, 2016. The table below sets forth information about our same store sales growth for the three months ended March 31, 2017 and 2016.

	For the three months ended March 31,	
	2017	2016
Same store sales growth	4.9 %	13.2 %

The increase in same store sales growth is primarily attributable to an increase in the volume of transactions, as well as increases in average transaction size. Same store sales amounts include total charges to customers less any actual returns, and the change in the returns provision related to comparable stores. In general, we consider a new or relocated store in the comparable store sales calculation on the first day of the 13th full month of operation.

Between April 1, 2016 and March 31, 2017, we opened 11 new store locations. Incremental net sales of \$3.4 million occurred in the three months ended March 31, 2017 from stores not included in the comparable store base.

Cost of Sales Cost of sales consists primarily of material costs, freight, duties, and storage and delivery of product to the customers, as well as costs associated with manufacturing of setting and maintenance materials. For the three months ended March 31, 2017 and 2016, our cost of sales as a percentage of net sales was 29.7% and 29.5%, respectively. The increase was primarily attributable to an increased level of discounting during the three months ended March 31, 2017.

Selling, General, and Administrative Expenses For the three months ended March 31, 2017 and 2016, our selling, general, and administrative expenses as a percentage of net sales were 55.6% and 56.6%, respectively. The decrease was primarily attributable to an increase in same store sales, which outpaced the growth of selling, general, and administrative expenses for the three months ended March 31, 2017.

Provision for Income Taxes We are subject to income tax in the United States as well as other tax jurisdictions in which we conduct business. Our effective tax rate for the three months ended March 31, 2017 and 2016 was 38.8% and 39.8%, respectively. The Company's tax rate benefited from a decrease in non-deductible incentive stock-based compensation expense in 2017.

Non-GAAP Measures

We calculate Adjusted EBITDA by taking net income calculated in accordance with accounting principles generally accepted in the United States ("GAAP"), and adjusting for interest expense, income taxes, depreciation and amortization, stock based compensation expense, and special charges, which consist of shareholder and other litigation costs. Adjusted EBITDA margin is equal to Adjusted EBITDA divided by net sales. Free cash flows is calculated by taking net cash provided by operating activities and subtracting net cash used for the purchase of property, plant and equipment. Non-GAAP net income excludes the special charges, which consist of shareholder and other litigation costs, and is net of tax.

We believe that these non-GAAP measures of financial results provide useful information to management and investors regarding certain financial and business trends relating to our financial condition and results of operations. Our management uses these non-GAAP measures to compare our performance to that of prior periods for trend analyses, for purposes of determining management incentive compensation, and for budgeting and planning purposes. These measures are used in monthly financial reports prepared for management and our Board of Directors. We believe that the use of these non-GAAP financial measures provides an additional tool for investors to use in evaluating ongoing operating results and trends and in comparing our financial measures with other specialty retailers, many of which present similar non-GAAP financial measures to investors.

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The reconciliation of Adjusted EBITDA to net income for the three months ended March 31, 2017 and 2016 is as follows:

	(in thousands)			
	Three Months Ended March 31,			
	2017	% of sales	2016	% of sales ⁽¹⁾
Net income	\$ 8,009	8.7 %	\$ 6,758	8.0 %
Interest expense	485	0.5 %	570	0.7 %
Income taxes	5,075	5.5 %	4,459	5.3 %
Depreciation & amortization	6,336	6.9 %	5,571	6.6 %
Special charges	351	0.4 %	697	0.8 %
Stock-based compensation	842	0.9 %	1,229	1.5 %
Adjusted EBITDA	<u>\$ 21,098</u>	<u>22.9 %</u>	<u>\$ 19,284</u>	<u>22.8 %</u>

⁽¹⁾ Amounts may not foot due to rounding.

The reconciliation of free cash flow to net cash provided by operating activities for the three months ended March 31, 2017 and 2016 is as follows:

	(in thousands)	
	Three Months Ended March 31,	
	2017	2016
Net cash provided by operating activities	\$ 20,054	\$ 27,473
Purchase of property, plant and equipment	(9,963)	(6,375)
Free cash flows	<u>\$ 10,091</u>	<u>\$ 21,098</u>

The reconciliation of GAAP income to Non-GAAP income for the three months ended March 31, 2017 and 2016 is as follows:

(in thousands, except share and per share data)	Three Months Ended March 31, 2017		
	Pretax	Net of Tax	Per Share Amounts ⁽¹⁾
GAAP income	\$ 13,084	\$ 8,009	\$ 0.15
Special charges:			
Shareholder and other litigation costs	351	215	0.00
Non-GAAP income	<u>\$ 13,435</u>	<u>\$ 8,224</u>	<u>\$ 0.16</u>

⁽¹⁾ Amounts may not foot due to rounding.

Our management does not consider these non-GAAP measures in isolation or as an alternative to financial measures determined in accordance with GAAP. The principal limitations of these non-GAAP financial measures are that they exclude significant expenses and income that are required by GAAP to be recognized in our consolidated financial statements. In addition, they are subject to inherent limitations as they reflect the exercise of judgments by management about which expenses and income are excluded or included in determining these non-GAAP financial measures. In order to compensate for these limitations, management presents non-GAAP financial measures in connection with GAAP results. We urge investors to review the reconciliation of our non-GAAP financial measures to the comparable GAAP financial measures and not to rely on any single financial measure to evaluate our business.

Results of Operations**Comparison of the three months ended March 31, 2017 to the three months ended March 31, 2016**

	(in thousands)			
	2017	% of sales	2016	% of sales ⁽¹⁾
Net sales	\$ 92,135		\$ 84,714	
Cost of sales	27,390	29.7 %	25,009	29.5 %
Gross profit	64,745	70.3 %	59,705	70.5 %
Selling, general and administrative expenses	51,212	55.6 %	47,949	56.6 %
Income from operations	13,533	14.7 %	11,756	13.9 %
Interest expense	(485)	(0.5)%	(570)	(0.7)%
Other income	36	0.0 %	31	0.0 %
Income before income taxes	13,084	14.2 %	11,217	13.2 %
Provision for income taxes	(5,075)	(5.5)%	(4,459)	(5.3)%
Net income	\$ 8,009	8.7 %	\$ 6,758	8.0 %

⁽¹⁾ Amounts may not foot due to rounding.

Net Sales Net sales for the first quarter of 2017 increased \$7.4 million, or 8.8%, over the first quarter of 2016. Comparable store sales increased \$4.0 million for the first quarter of 2017 due to an increase in the volume of transactions, as well as an increase in the average transaction size. Net sales for the 11 new stores open less than twelve months were \$3.4 million during the first quarter of 2017.

Gross Profit Gross profit for the first quarter of 2017 increased \$5.0 million, or 8.4%, compared to the first quarter of 2016, primarily due to the increase in net sales. The gross margin rate decreased from 70.5% for the first quarter of 2016 to 70.3% for the first quarter of 2017. The decrease was primarily attributable to an increased level of discounting during the three months ended March 31, 2017.

Selling, General, and Administrative Expenses Selling, general, and administrative expenses for the first quarter of 2017 increased \$3.3 million, or 6.8%, compared to the first quarter of 2016. The increase in selling, general, and administrative expenses was primarily due to an increase in occupancy costs of \$2.0 million as a result of opening 11 new stores during the period from April 1, 2016 through March 31, 2017. The remainder of the increase was driven primarily by an increase in variable compensation associated with a 4.9% increase in comparable store sales for the three months ended March 31, 2017. Selling, general, and administrative expenses as a percentage of net sales decreased to 55.6% for the first quarter of 2017 compared to 56.6% for the first quarter of 2016. The decrease in selling, general, and administrative expenses as a percentage of net sales was primarily due to a maturing store base that has higher net sales levels, which outpaced the growth of selling, general, and administrative expenses.

Selling, general, and administrative expenses include costs of \$0.4 million and \$0.7 million for the first quarters of 2017 and 2016, respectively, which relate to special charges consisting of shareholder and other litigation expenses.

Pre-opening Costs Our pre-opening costs are those typically associated with the opening of a new store and generally include rent expense, payroll costs and promotional costs. We expense pre-opening costs as incurred and include these costs in selling, general and administrative expenses. During the first quarter of 2017 and 2016, we incurred pre-opening costs of \$0.3 million and \$0.2 million, respectively.

Interest Expense Interest expense decreased \$0.1 million for the first quarter of 2017 compared to the first quarter of 2016. The decrease is primarily due to the decrease in the debt balance in 2017.

Provision for Income Taxes Income tax provision increased \$0.6 million for the first quarter of 2017 compared to the first quarter of 2016 due to higher income before income taxes in the first quarter of 2017. Our effective tax rate for the three months ended March 31, 2017 and 2016 was 38.8% and 39.8%, respectively. The improvement in the effective tax rate in 2017 was due to the vesting of certain incentive stock option awards that resulted in a decrease in non-deductible stock-based compensation expense.

Liquidity and Capital Resources

Our principal uses of liquidity have been investments in working capital and capital expenditures. Our principal sources of liquidity are \$13.6 million of cash and cash equivalents at March 31, 2017, our cash flow from operations, and borrowings available under our credit facility. We expect to use this liquidity for opening new stores, purchasing additional merchandise inventory, maintaining our existing stores, reducing outstanding debt, and general corporate purposes. We also recently approved the establishment of a regular quarterly dividend that will enable us to return excess cash to stockholders. Future dividend payments are subject to the approval of the Board of Directors each quarter.

On June 2, 2015, we, and our operating subsidiary, The Tile Shop, LLC, entered into a credit agreement with Fifth Third Bank, Bank of America, N.A., and Huntington National Bank (as subsequently amended, the "Credit Agreement"). On December 9, 2016, the Credit Agreement was amended to permit an additional New Markets Tax Credit Financing arrangement and on February 10, 2017, the Credit Agreement was amended to permit us to make certain dividend payments. The Credit Agreement provides us with a \$125.0 million senior secured credit facility, comprised of a five-year \$50.0 million term loan and a \$75.0 million revolving line of credit. The Credit Agreement is secured by virtually all of our assets, including but not limited to inventory, receivables, equipment and real property. Borrowings pursuant to the Credit Agreement bear interest at either a base rate or a LIBOR-based rate, at our option. The LIBOR-based rate will range from LIBOR plus 1.50% to 2.00%, depending on our leverage ratio. The base rate is equal to the greatest of: (a) the Federal funds rate plus 0.50%, (b) the Fifth Third Bank "prime rate," and (c) the Eurodollar rate plus 1.00%, in each case plus 0.50% to 1.00% depending on our leverage ratio. At March 31, 2017 the base interest rate was 4.50% and the LIBOR-based interest rate was 2.48%. Borrowings outstanding consisted of \$10.0 million on the revolving line of credit and \$16.5 million on the term loan as of March 31, 2017. There was \$65.0 million available for borrowing on the revolving line of credit as of March 31, 2017. We can elect to prepay the term loan without incurring a penalty. To the extent we have an outstanding balance on our term loan, the credit agreement requires quarterly principal payments as follows (in thousands):

Period

June 30, 2017	\$	1,250
September 30, 2017 to June 30, 2018		1,875
September 30, 2018 to March 31, 2020		2,500

The Credit Agreement contains customary events of default, conditions to borrowings, and restrictive covenants, including restrictions on our ability to dispose of assets, make acquisitions, incur additional debt, incur liens, make investments, or enter into transactions with affiliates on other than terms that could be obtained in an arm's length transaction. The Credit Agreement also includes financial and other covenants, including covenants to maintain certain fixed charge coverage ratios and rent adjusted leverage ratios. We were in compliance with the covenants as of March 31, 2017. We intend to make principal payments due in future periods using cash from operations.

We have a standby letter of credit outstanding related to our workers compensation insurance policy. As of March 31, 2017 and 2016, the standby letter of credit totaled \$1.1 million and \$0.9 million, respectively.

We believe that our cash flow from operations, together with our existing cash and cash equivalents, and borrowings available under our credit facility will be sufficient to fund our operations and anticipated capital expenditures over at least the next 12 months.

Capital Expenditures

Capital expenditures paid in the three months ended March 31, 2017 were \$10.0 million. Approximately \$8.2 million of this was for new store build-out, remodels of existing stores, and merchandising projects. The remainder was for general corporate and information technology purposes.

Our future capital requirements will vary based on the number of additional stores, distribution centers, and manufacturing facilities that we open and the number of stores that we choose to renovate. Our decisions regarding opening, relocating, or renovating stores, and whether to engage in strategic acquisitions, will be based in part on macroeconomic factors and the general state of the U.S. economy, as well as the local economies in the markets in which our stores are located. We plan to open 12 to 15 stores during 2017. Total capital expenditures are expected to be between \$30 million and \$35 million in 2017.

Cash flows

The following table summarizes our cash flow data for the three months ended March 31, 2017 and 2016.

	(in thousands)	
	Three Months Ended	
	March 31,	
	2017	2016
Net cash provided by operating activities	\$ 20,054	\$ 27,473
Net cash used in investing activities	(9,963)	(6,375)
Net cash used in financing activities	(2,574)	(15,025)

Operating activities

Cash provided by operating activities during the three months ended March 31, 2017 was \$20.1 million, compared to \$27.5 million during the three months ended March 31, 2016. The decrease is attributable to payment of the shareholder litigation settlement to an escrow account, which occurred during the three months ended March 31, 2017.

Investing activities

Net cash used in investing activities totaled \$10.0 million for the three months ended March 31, 2017, compared to \$6.4 million for the three months ended March 31, 2016. Net cash used in investing activities in each period was primarily for capital purchases of store fixtures, equipment, building improvements and leasehold improvements for stores opened or remodeled, asset additions in our distribution and manufacturing facilities, and general corporate information technology assets.

Financing activities

Net cash used in financing activities was \$2.6 million for the three months ended March 31, 2017, compared to \$15.0 million for the three months ended March 31, 2016. Cash used in financing activities during the three months ended March 31, 2017 was primarily for the payment of an aggregate \$2.6 million in dividends during the quarter. Payments of long-term debt and capital lease obligations of \$1.3 million were offset by the release of restricted cash of \$1.3 million. Net cash used in financing activities during the three months ended March 31, 2016 was primarily for payments of long-term debt and capital lease obligations of \$15.0 million.

Cash and cash equivalents totaled \$13.6 million at March 31, 2017, versus \$6.1 million at December 31, 2016. We had working capital of \$39.7 million at March 31, 2017, compared to working capital of \$36.0 million at December 31, 2016.

Off-balance sheet arrangements

As of March 31, 2017 and December 31, 2016, we did not have any “off-balance sheet arrangements” (as such term is defined in Item 303 of Regulation S-K) that could have a current or future effect on our financial condition, changes in financial condition, net sales or expenses, results of operations, liquidity, capital expenditures or capital resources.

Contractual arrangements

As of March 31, 2017, there were no material changes to our contractual obligations outside the ordinary course of business.

Recently Adopted Accounting Pronouncements

In July 2015, the Financial Accounting Standards Board (“FASB”) issued a standard which simplifies the subsequent measurement of inventory. Previously, an entity was required to measure inventory at the lower of cost or market, whereby market can be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. The changes required that inventory be measured at the lower of cost and net realizable value, thereby eliminating the use of the other two market methodologies. Net realizable value is defined as the estimated selling prices in the ordinary course of business less reasonably predictable costs of completion, disposal, and transportation. The standard was effective for the Company at the beginning of fiscal 2017. The adoption of this new standard did not have a material effect on the Company’s financial statements.

Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued a final standard on revenue from contracts with customers. This new standard introduces a comprehensive revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a

customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. In 2016, the FASB issued several amendments to the standard, including principal versus agent considerations when another party is involved in providing goods or services to a customer, the application of identifying performance obligations, and the recognition of expected breakage amounts either proportionally in earnings as redemptions occur or when redemption is remote. The Company continues to assess the impacts of this standard, including evaluating if its current policies to account for samples, gift cards, and sales returns will change under the new standard. As the Company finalizes its assessment, the Company will take steps to define its accounting policies under the new standard, establish new processes and controls when warranted, and ensure these processes are designed to capture the information necessary to conform to the transitional disclosure requirements. The standard is effective for the Company in fiscal 2018 and provides for either full retrospective adoption or modified retrospective adoption by which the cumulative effect of the change is recognized in retained earnings at the date of initial application. The Company has elected to adopt this standard using the modified retrospective approach.

In February 2016, the FASB issued a standard that primarily requires organizations that lease assets to recognize the rights and obligations created by those leases on the Consolidated Balance Sheet. The standard is effective in 2019, with early adoption permitted. The Company is currently assessing the effect the new standard will have on its consolidated financial statements.

In August 2016, the FASB issued an accounting standards update with new guidance on how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments in the standards update provide guidance on eight specific cash flow issues. The standards update is effective retrospectively for fiscal years and interim periods beginning after December 15, 2017, with early adoption permitted. The Company is currently assessing the effect the new standard will have on its consolidated financial statements.

In November 2016, the FASB issued new guidance on restricted cash on the statement of cash flows. The new guidance requires the classification and presentation of changes in restricted cash and cash equivalents in the statement of cash flows. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning and ending balances shown on the statement of cash flows. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The guidance should be applied retrospectively after adoption. The Company's restricted cash and long-term restricted cash balances were \$3.0 million and \$2.6 million, respectively, as of March 31, 2017. Upon adopting the new standard, the Company anticipates that the fluctuations in the restricted cash and long-term restricted cash balances will impact its statement of cash flows.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our primary risk exposures or management of market risks from those disclosed in our Form 10-K for the fiscal year ended December 31, 2016.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that information relating to the Company is accumulated and communicated to management, including our principal officers as appropriate to allow timely decisions regarding required disclosure. Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2017 and have concluded that such disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

Changes in Internal Control over Financial Reporting

No changes to our internal control over financial reporting occurring during the quarter ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company, two of its former executive officers, three of its outside directors, two of its former directors, and certain companies affiliated with the directors, are defendants in a consolidated class action brought under the federal securities laws and now pending in the United States District Court for the District of Minnesota under the caption Beaver County Employees' Retirement Fund, et al. v. Tile Shop Holdings, Inc., et al. Several related actions were filed in 2013 and subsequently consolidated. The plaintiffs are three investors who represent classes consisting of (1) all purchasers of Tile Shop common stock between August 22, 2012 and January 28, 2014 (the "class period"), seeking to pursue remedies under the Securities Exchange Act of 1934; and (2) all purchasers of Tile Shop common stock pursuant and/or traceable to the Company's December 2012 registration statement, seeking to pursue remedies under the Securities Act of 1933. Six firms who were underwriters in the December 2012 secondary public offering are also named as defendants. The plaintiffs allege that during the class period, defendants failed to disclose certain related party transactions in the Company's SEC filings and press releases. The plaintiffs assert claims under Sections 11, 12(a)(2), and 15 of the Securities Act of 1933, and under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. In addition to attorneys' fees and costs, the plaintiffs seek to recover damages on behalf of class members. Subsequent to December 31, 2016, the parties entered into a Stipulation of Settlement ("Stipulation") dated January 13, 2017 to settle all claims. Pursuant to the Stipulation, \$9.5 million was paid on behalf of all defendants. The Company has agreed to pay \$5.0 million of that amount and the insurance company providing coverage for the initial tier of the Company's directors and officers liability insurance policy has agreed to pay \$4.5 million of that amount. The Company and the insurance provider subsequently deposited money into an escrow account that had been established to hold the settlement fund. The settlement is subject to court approval. The court has scheduled a hearing on whether to grant final approval of the settlement for May 3, 2017.

The Company also is a nominal defendant in three actions brought derivatively on behalf of the Company by three shareholders in the Court of Chancery for the State of Delaware. Two of the actions were filed in 2015 and then consolidated (the "Consolidated Actions"). On July 31, 2015, the plaintiff-shareholders in the Consolidated Actions filed a consolidated complaint. The consolidated complaint names as defendants four current members of the Company's Board of Directors, two of its former directors, and a former employee of the Company. The third action (the "Third Action") was filed on or about September 28, 2016 against seven members of the Company's Board of Directors, a former officer, and a former employee. All of the complaints track many of the same factual allegations as have been made in the above-described federal securities class action. They allege that the defendant-directors and/or officer breached their fiduciary duties by failing to adopt adequate internal controls for the Company, by approving false and misleading statements issued by the Company, by causing the Company to violate generally accepted accounting principles and SEC regulations, by engaging in or approving alleged insider trading, and by permitting the Company's primary product to contain illegal amounts of lead. The complaints also allege claims for insider trading and/or unjust enrichment. The complaints seek damages, disgorgement, an award of attorneys' fees and other expenses, and an order compelling changes to the Company's corporate governance and internal procedures. In 2015, the defendants moved to dismiss the Consolidated Actions, or in the alternative, to stay the Consolidated Actions pending resolution of the Beaver County Employees' Retirement Fund action described above. Subsequently, upon agreement of the parties, the court entered an order staying the Consolidated Actions. Recently the Company moved to dismiss the newly-filed Third Action, or in the alternative, to stay the Third Action until resolution of the Beaver County Employees' Retirement Fund action described above, or until the Company's Board of Directors takes action on the demand described below. That motion has not yet been decided.

By letter dated May 19, 2016, a shareholder of the Company, through his attorney and prior to filing the Third Action, demanded that the Board of Directors investigate alleged breaches of fiduciary duty related to the same matters described above, and take action against certain present and former officers and directors of the Company. The Board of Directors has appointed a committee of two independent directors to investigate and evaluate the matters raised in the demand letter, and to recommend to the Company's Board of Directors what actions, if any should be taken by the Company with respect to the matters raised in the demand letter.

Given the uncertainty of litigation and the current stage of the derivative actions, the Company cannot reasonably estimate the possible loss or range of loss that may result. The Company maintains directors and officers liability insurance policies that may reduce the Company's exposure, if any. In the event the Company incurs a loss, the Company will pursue recoveries to the maximum extent available under these policies.

The Company is also, from time to time, subject to claims and disputes arising in the normal course of business. In the opinion of management, while the outcome of such claims and disputes cannot be predicted with certainty, the Company's ultimate liability in connection with these matters is not expected to have a material adverse effect on the results of operations, financial position, or cash flows.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

Geadelmann Amendment

On April 21, 2017, the Company and Kirk Geadelmann entered into an amendment to Mr. Geadelmann's offer letter, which provides that Mr. Geadelmann, upon termination, is entitled to continued payment of his base salary for six months and an additional payment in an amount equal to six times the Company's contribution amount for the monthly health insurance premium for him during the month immediately prior to termination. Upon a change of control, Mr. Geadelmann is also entitled to full vesting acceleration with respect to any unvested equity awards if he is not offered employment by the successor entity, or if he is terminated without cause or is constructively terminated prior to the first anniversary of the change of control.

The foregoing summary of the amendment to Mr. Geadelmann's offer letter is not complete and is qualified in its entirety by reference to the full text of the amendment, which is attached as Exhibit 10.3 to this Quarterly Report on Form 10-Q.

Kinder Separation

On March 1, 2017, management of the Company notified Joseph Kinder that his employment as Senior Vice President–Operations would be terminated, effective as the close of business on March 3, 2017. In connection with his termination, the Company proposed a Confidential Separation Agreement and Release with Mr. Kinder (the "Separation Agreement"), which was executed on March 20, 2017.

The Separation Agreement provides for severance payments in exchange for a full release in the Company's favor. Under the terms of the Separation Agreement, the Company has agreed to pay to Mr. Kinder the sum of \$109,000.00 (an amount equal to six months' annual base salary as of the termination date), payable in accordance with the Company's regular payroll practices. In addition, the Company agreed to pay to Mr. Kinder the sum of \$5,446.86 (an amount equal to six times the Company's contribution amount for the monthly health insurance premium for Mr. Kinder during the month immediately prior to termination). The severance arrangements under the Separation Agreement are in lieu of, and not in addition to, the severance arrangements set forth in Mr. Kinder's employment Offer Letter Agreement dated June 24, 2012 (the "Offer Letter Agreement").

Mr. Kinder agreed to comply with all obligations stated in his Offer Letter Agreement that, by their terms, continue after termination of his employment, including obligations not to compete, directly or indirectly, with the Company or solicit any of the Company's employees or business contacts for a period of one year after termination. The Company may elect to extend the term of Mr. Kinder's non-compete and non-solicit obligations for a period of two years following termination of employment, provided that the Company continues to pay his base salary for a period of twelve months (in lieu of six months) and makes an additional payment in an amount equal to twelve times (in lieu of six times) the Company's contribution amount for the monthly health insurance premium for him during the month immediately prior to termination.

The foregoing summary of the arrangements with Mr. Kinder is not complete and is qualified in its entirety by reference to the full text of the Separation Agreement, which is attached as Exhibit 10.5 to this Quarterly Report on Form 10-Q.

ITEM 6. EXHIBITS

Exhibits

- 3.1 Certificate of Incorporation of Tile Shop Holdings, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-4 filed with the Securities and Exchange Commission on July 2, 2012).
- 3.2 By-Laws of Tile Shop Holdings, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-4 filed with the Securities and Exchange Commission on July 2, 2012).
- 10.1 Stipulation of Settlement, among Tile Shop Holdings, Inc., Beaver County Employees' Retirement Fund and the other parties thereto, dated January 13, 2017 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 20, 2017).
- 10.2 Second Amendment to Credit Agreement, dated February 10, 2017, among The Tile Shop, LLC, Tile Shop Holdings, Inc., Fifth Third Bank, and the other parties named therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 14, 2017).
- 10.3* Amendment to Offer Letter Agreement, dated April 21, 2017, between Tile Shop Holdings, Inc. and Kirk Gadelmann.
- 10.4* Offer Letter Agreement, dated February 17, 2017, between Tile Shop Holdings, Inc. and Joyce Maruniak.
- 10.5* Confidential Separation Agreement and Release dated March 20, 2017 between the Tile Shop Holdings, Inc. and Joseph Kinder.
- 31.1* Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- 31.2* Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- 32.1** Certifications of Chief Executive Officer Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
- 32.2** Certifications of Chief Financial Officer 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 Linkbase Document.
- 101.DEF* XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB* XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed herewith

** Furnished herewith

SIGNATURES

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

TILE SHOP HOLDINGS, INC.

Dated: April 27, 2017

By: /s/ CHRIS R. HOMEISTER
Chris R. Homeister
Chief Executive Officer

Dated: April 27, 2017

By: /s/ KIRK L. GEADELMANN
Kirk L. Geadelmann
Chief Financial Officer

TILE SHOP HOLDINGS, INC.
EXHIBIT INDEX

Exhibit

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101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed herewith

** Furnished herewith

AMENDMENT TO terms of employment

THIS AMENDMENT TO TERMS OF EMPLOYMENT (this "Amendment") is entered into as of April 21, 2017 (the "Effective Date"), between Tile Shop Holdings, Inc. (the "Company") and Kirk Gadelmann ("Executive").

RECITALS

WHEREAS, the parties entered into a written agreement governing Executive's employment with the Company as its Chief Financial Officer on August 12, 2014, which includes the Company's Nondisclosure, Confidentiality, Assignment and Noncompetition Agreement attached as Exhibit A thereto (together, the "Employment Agreement");

WHEREAS, the Company intends to provide the Executive certain benefits in the event of a Change of Control (as defined herein) or in the event of Executive's termination without Severance Cause (as defined herein) or resignation for Good Reason (as defined herein); and

WHEREAS, the parties have mutually agreed to memorialize the terms of such agreement.

NOW THEREFORE, in consideration of the mutual promises and provisions contained in this Amendment, the parties, intending to be legally bound, agree as follows:

AGREEMENT

1. Scope. The parties agree that the terms of the Employment Agreement remain in full force and effect except as modified by a specific provision of this Amendment.

2. Change of Control.

A. In the event of Change of Control of the Company (as defined in the Company's 2012 Omnibus Award Plan (the "Plan")), if the Executive is (a) not offered employment or continued employment by the Successor Entity (as defined in the Plan) upon consummation of such Change of Control, or (b) if prior to the first anniversary of such Change of Control, (i) the Executive is discharged by the Successor Entity other than for Cause (as defined in the Plan) or (ii) the Executive resigns from his employment with the Successor Entity as a result of a Constructive Termination (as defined below), all of the Executive's unvested stock options will vest and become exercisable immediately prior to such Change of Control or cessation of employment, as applicable.

B. "Constructive Termination" will occur if the Executive resigns from his employment with the Successor Entity within thirty (30) days following (i) a material reduction in his annual base salary or job responsibility or (ii) the relocation of his principal office location to a facility or location located more than fifty (50) miles from his principal office location on the date of the Change of Control.

3. Severance.

A. If the Executive is terminated without Severance Cause (as defined below) or resigns for Good Reason (as defined below), he will be entitled to receive an amount equal to (i) his then-current base salary for a six-month period commencing with the effective date of his termination of employment with the Company (the "Severance Period") and (ii) an amount equal to six (6) times the monthly amount that the Company paid for his participation in the Company's health insurance plan during the month immediately preceding his termination date. The foregoing amounts will be payable pro rata over the Severance Period in accordance with the Company's normal payroll practices; provided, however, that the Company will not make any severance payments unless and until (x) the Executive executes and delivers to the Company a general release (the "Release"), (y) such Release is executed and delivered to the Company within twenty-one (21) days after his termination date and (z) all time periods for revoking the Release have lapsed. If the Executive is terminated during the month of December of any calendar year and is owed severance hereunder, no severance payments will be made prior to January 1st of the next calendar year and any amount that would have otherwise been payable to the Executive in December of the preceding calendar year will be paid to the Executive on the first date in January on which he would otherwise be entitled to any payment. Following the Executive's termination date, all benefits offered by the Company, including health insurance benefits, will cease. From and after such date, the Executive may elect to continue his participation in the Company's health insurance benefits at his expense pursuant to COBRA by notifying the Company in the time specified in the COBRA notice he will be provided and paying the monthly premium himself. Notwithstanding the above, if the Executive is a "specified employee" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), then any amounts payable to him during the first six (6)

months and one day following the date of termination that constitute nonqualified deferred compensation within the meaning of Section 409A of the Code (as determined by the Company in its sole discretion) will not be paid to the Executive until the date that is six (6) months and one day following such termination to the extent necessary to avoid adverse tax consequences under Section 409A of the Code.

B. “Severance Cause” will mean (i) willful misconduct in connection with the Executive’s employment or willful failure to perform his responsibilities in the best interests of the Company, as determined by the Company’s Board of Directors; (ii) conviction of, or plea of nolo contendere or guilty to, a felony other than an act involving a traffic related infraction; (iii) any act of fraud, theft, embezzlement or other material dishonesty by him which harmed the Company; (iv) intentional violation of a federal or state law or regulation applicable to the Company’s business which violation was or is reasonably likely to be injurious to the Company; or (v) repeated failure to perform his duties and obligations of his position with the Company which failure is not cured within thirty (30) days after notice of such failure from the Company’s Board of Directors to him.

C. “Good Reason” for the Executive’s resignation will exist if the Executive resigns from his employment with the Company as a result of (i) a material reduction in his annual base salary or job responsibility or (ii) the relocation of his principal office location to a facility or location located more than fifty (50) miles from your current principal office location.

4. Representations. Executive represents and warrants that: (1) he has had the opportunity to review this Amendment with counsel of his own selection before signing it, (2) he has carefully read and understands this Amendment, and (3) he acknowledges that he is bound by the Company’s Nondisclosure, Confidentiality, Assignment and Noncompetition Agreement, and that he has complied with its terms in all respects and that he will continue to do so.

[Signatures on following page.]

IN WITNESS WHEREOF, the parties have caused this Amendment to be duly executed and delivered as of the day and year first above written.

TILE SHOP HOLDINGS, INC.

/s/ Chris Homeister

By: Chris Homeister

Chief Executive Officer

/s/ Kirk Gadelmann

Kirk Gadelmann

February 17, 2017

Joyce Maruniak
17199 Acorn Ridge
Eden Prairie, MN 55347

Dear Joyce:

I am delighted to offer you a position at Tile Shop Holdings, Inc. (the "Company"). This letter serves to confirm the terms of our offer of employment:

Position:	Senior Vice President – Supply Chain, Logistics, Store Warehouses, and Manufacturing
Start date:	March 6, 2017
Status:	Full-time, Regular
Reporting to:	Chris Homeister, CEO
Compensation:	Base salary (annualized) of \$240,000, paid in accordance with the Company's normal payroll procedures. You should note that the Company may modify salaries and benefits from time to time as its Board of Directors or the Compensation Committee thereof deems necessary or appropriate, and all forms of compensation which are referred to in this offer letter are subject to applicable withholding and payroll taxes.
Bonus:	The Bonus opportunity would be 50% of pay and it would be based on achieving Company-wide goals and personal goals and objectives, pro-rated for the partial year during which you are employed by the Company.
Benefits:	You will be eligible to receive the Company's standard benefit package for employees of your level.
Stock Options:	Subject to approval by the Company's Board of Directors, you will be granted options to purchase 40,000 shares of the Company's common stock. The exercise price of the options will be the fair market value of the Company's common stock as of the date of grant. These options will vest over a five-year period and will otherwise be subject to the terms of the Company's 2012 Equity Award Plan (the "Plan") and your Stock Option Agreement entered into pursuant thereto. The options will vest evenly over the course of 5 years at 20% per year. The options will have a 7-year life upon issuance.
Restricted Stock:	Subject to approval by the Company's Board of Directors, you will be granted Restricted Stock Shares in the amount of 20,000 shares of the Company's common stock. These restricted shares will vest over a five-year period and will otherwise be subject to the terms of the Company's 2012 Equity Award Plan (the "Plan") Agreement entered into pursuant thereto. The restricted shares will vest evenly over the course of 5 years at 20% per year.
Technology:	A laptop, tablet, and cell phone of your choosing will be issued on your start date.

If a copy of your Social Security Card is not already on file with the Company, please provide the Company with your Social Security Card when you execute and return this letter. We will make a copy of your card and it will be kept in your employee file for payroll purposes.

Please understand that your employment with the Company is for no specified period and constitutes "at-will" employment. As a result, you are free to resign at any time, for any reason or for no reason, with or without notice. Similarly, the Company is free to conclude its employment relationship with you at any time, with or without cause, and with or without notice. This offer of employment is valid for consideration by the candidate until Friday, February 24, 2017.

The Company reserves the right to conduct background investigations and/or reference checks on all of its potential employees. Your job offer, therefore, is contingent upon a clearance of such a background investigation and/or reference check, if any.

For purposes of federal immigration law, you will be required to provide to the Company documentary evidence of your identity and eligibility for employment in the United States, if you have not already done so. Such documentation must be provided to the Company within three (3) business days of your date of hire, or our employment relationship with you may be terminated.

Like all Company employees of your level, you will be required, as a condition of your employment with the Company, to sign the Company's Nondisclosure, Confidentiality, Assignment and Noncompetition Agreement, a copy of which is attached hereto as Exhibit A (the "Non-Competition and Non-Disclosure Agreement").

You agree that, during the term of your employment with the Company, you will not engage in any other employment, occupation, consulting or other business activity directly related to the business in which the Company is now involved or becomes involved during the term of your employment, nor will you engage in any other activities that conflict with your obligations to the Company.

To indicate your acceptance of our offer, please sign and date the attached Acceptance and Acknowledgement. This letter, along with the Company's Non-Competition and Non-Disclosure Agreement, set forth the terms of your employment with the Company and supersede any prior representations or agreements, whether written or oral. This letter may not be modified or amended except by a written agreement, signed by an Officer of the Company and by you.

Joyce, I am looking forward to your arrival and expect your direct contributions to have a significant positive impact on the organization.

Kindest personal regards,

/s/ Chris Homeister
Chris Homeister, Chief Executive Officer
TILE SHOP HOLDINGS, INC.

CONFIDENTIAL SEPARATION AGREEMENT AND RELEASE

THIS CONFIDENTIAL SEPARATION AGREEMENT AND RELEASE (the "Agreement") is by and between Tile Shop Holdings, Inc. (the "Company") and Joseph Kinder ("Executive"). The Agreement shall be effective as of the date signed by both parties (the "Effective Date").

RECITALS

WHEREAS, Executive served as the Senior Vice President—Operations of the Company beginning August, 2012;

WHEREAS, the Company and Executive entered into an Offer Letter Agreement dated June 24, 2012 (the "Offer Letter Agreement") that includes, among other provisions, a Nondisclosure, Confidentiality, Assignment and Noncompetition Agreement (the "Nondisclosure Agreement"), a true and accurate copy of which is attached as Exhibit A;

WHEREAS, Executive's last day of employment with the Company is March 3, 2017 (the "Separation Date"); and

WHEREAS, the Company and Executive desire to resolve all present and potential issues between them relating to Executive's employment and the termination of Executive's employment to the full extent allowed by law, and have agreed to a full resolution of any such issues as set forth in the Agreement.

NOW THEREFORE, in consideration of the mutual promises and provisions contained in the Agreement, the parties, intending to be legally bound, agree as follows:

AGREEMENT

1. Termination of Employment. Executive's employment with the Company will end on the Separation Date without further action required by either party. Executive's eligibility for all Company benefit plans, salary, and other compensation ended as of the Separation Date, except as set forth in the Agreement or as may be required by applicable law. As of the Separation Date, Executive has no authority to act on behalf of the Company or to authorize others to do so and shall not represent himself, directly or indirectly, as an employee, agent, or other representative of the Company to any third party.

2. Earned Compensation. Executive hereby acknowledges that as of the first regularly scheduled payroll date following the Separation Date, the Company has paid Executive all wages, benefits, bonuses, and other compensation to which he was entitled as an employee of the Company and under the Offer Letter Agreement, subject to all applicable withholdings and deductions. To the extent that Executive is a beneficiary of certain employee benefit plans as may have been provided during his employment, the benefits or payments received under such plans are governed exclusively by the applicable plan documents.

3. Contractual Severance Payment and Benefits. In consideration of Executive's promises contained in the Agreement, specifically including, but not limited to, Executive's Obligations as set forth in Section 5, and in accordance with the terms of the Offer Letter Agreement, the Company agrees to provide the following payments and benefits:

A. Severance Pay. Unless increased by the Company as provided in Section 3.C. below, Executive shall receive the sum of \$109,000.00, less all applicable withholdings and deductions, as Severance Pay. The Severance Pay is six months of Executive's annual Base Salary. Executive shall be paid on a pro rata basis on the Company's regular payroll dates in accordance with the Company's regular payroll practices. The Severance Pay payments shall begin on the Company's first regularly scheduled payroll date after expiration of the rescission periods set forth in Section 6.B. of the Agreement and a three day mailing period, provided that Executive has signed and not rescinded the Agreement, and shall continue on each payroll date thereafter for the period described above.

B. Health Benefits Severance. Unless increased by the Company as provided in Section 3.C. below, Executive shall receive the sum of \$5446.86, less all applicable withholdings and deductions, as Health Benefits Severance. The Health Benefits Severance payment is six times the monthly amount that the Company paid for Executive's participation in the Company's health insurance plan during the month immediately preceding the Separation Date, which is February 2017. Executive shall be paid on a pro rata basis on the Company's regular payroll dates in accordance with the Company's regular payroll practices. The Health Benefits Severance payments shall begin on the Company's first regularly scheduled payroll date after expiration of the rescission periods set forth in Section 6.B. of the Agreement and a three day mailing period, provided that Executive has signed and not rescinded the Agreement, and shall continue on each payroll date thereafter for the period described above. Executive may, but is not obligated to, use the Health Benefits Severance payments toward the cost of the premiums for health care continuation coverage.

C. The Company may, in its sole and absolute discretion, extend the periods of non-competition, non-solicitation, and notice of subsequent employment or engagement set forth in Sections 5, 6, 7, and 8 of the Nondisclosure Agreement pursuant to Section 9 of the Nondisclosure Agreement. If the Company elects to extend these covenant periods to two (2) years, it shall advise Executive in writing no later than the date the final payment is due pursuant to Section 3.A. above of its intent and shall provide the Severance Pay and Health Benefits Severance for an additional six (6) months, for a total of twelve (12) months.

4. Release of Claims. As consideration for the payments and benefits described in Section 3 of the Agreement and as a condition for the receipt of these payments and benefits, Executive releases the Company, all of its subsidiaries, affiliates and parents, equity holders, agents, representatives, administrators, trustees, attorneys, insurers, fiduciaries, directors, officers and all employees of these (collectively "Released Parties"), on behalf of Executive and Executive's heirs, successors, agents, representatives, executors and assigns, from any and all causes of action and claims of any nature whatsoever, known or unknown, arising from the Company's employment of Executive, the termination of his employment, any agreement entered into between Executive and any of the Released Parties, rights under the Released Parties' policies and procedures, or any other matter or event occurring prior to the date of this Release ("Claims"), including, without limitation, claims arising under federal, state, or local laws prohibiting wrongful termination, retaliation, whistleblower claims, employment discrimination, age discrimination, including claims under the Age Discrimination In Employment Act of 1967, as amended ("ADEA"), the National Labor Relations Act, the Civil Rights Act of 1991, the Americans with Disabilities Act of 1990, Title VII of the Civil Rights Act of 1964, the Employee Retirement Income Security Act of 1974, the Family Medical Leave Act, the Equal Pay Act, the Securities Act of 1933, the Securities Exchange Act of 1934, the Rehabilitation Act of 1973, the Worker Adjustment and Retraining Notification Act, the Minnesota Human Rights Act, the Minnesota Fair Labor Standards Act, the Minnesota Payment of Wages Act and any provision of Minnesota Statutes Chapters 177, 181 or 363A or other Minnesota statute, each as amended, or claims growing out of any legal restrictions on the Company's right to terminate its employees, any and all claims in contract or in tort, and any claims pursuant to any federal or state wage and hour laws.

Notwithstanding anything in the Agreement to the contrary, Executive does not waive or release Claims (i) with respect to any vested right Executive may have under any employee pension or welfare benefit plan of the Company, (ii) any rights to indemnification Executive may have under the Company's articles of incorporation and by-laws, and/or applicable law, (iii) the right to enforce the Agreement, (iv) any right or claim that arises after the effective date of the Agreement, and (v) any rights to unemployment compensation, workers' compensation benefits, or other rights which cannot be waived under applicable law.

Nothing in the Agreement shall prohibit Executive from filing a charge of discrimination with a federal, state, and/or local agency that enforces discrimination laws (collectively "Anti-discrimination Agencies"), participating in proceedings before such Anti-discrimination Agencies, or cooperating with one or more of them in an investigation. However, Executive acknowledges that all payments and benefits he receives under the Agreement shall be offset against any damages or other payments he may recover as a result of a charge of discrimination brought with one or more Anti-discrimination Agencies.

5. Executive's Obligations. As a material inducement to the Company in entering into the Agreement and providing the consideration described herein, Executive agrees as follows (the "Obligations"):

A. Company Property. Executive shall return all of the Company's property, including, without limitation, automobiles, laptops, phones, Company products, demonstration equipment, parts, credit cards, tools, keys, customer files, Company brochures, business plans, other business documents, and other Company items in the possession of Executive on the Separation Date, and shall keep no copies thereof. In addition, Executive shall provide the Company with passwords to all computers and programs used by Executive while employed at the Company.

B. Continuing Obligations. Executive shall comply with all obligations stated in the Offer Letter Agreement which by their explicit or implicit terms continue after the Separation Date, including, without limitation, the obligations concerning nondisclosure, confidentiality, assignment, and noncompetition set forth in the Nondisclosure Agreement for the term stated in the Nondisclosure Agreement or the term as extended by the Company pursuant to Section 3.C. of the Agreement.

C. Non-Disclosure. Executive shall not disclose the existence and/or any of the terms or conditions of the Agreement, other than to his spouse, attorney and/or tax preparer, in which case he shall first advise them of the confidential nature of any contents he discloses. Nothing in the Agreement shall be construed to prevent Executive or the Company from making any disclosure required by applicable law.

D. Non-Disparagement. Executive agrees that he shall not disparage or defame the Company, its products or employees in any respect, whether in writing, orally, electronically, or otherwise, or induce any other person or entity to do so, directly or indirectly. The preceding shall not prevent Executive from providing complete and truthful testimony to a court or local, state, or federal government agency.

6. Notice of Legal Rights and Right to Rescind. Executive is advised to consult with an attorney regarding the terms of the Agreement before deciding whether to sign the Agreement.

A. Time to Consider. Executive understands that he has a period of twenty-one (21) consecutive calendar days from the date he receives an unsigned copy of the Agreement to consider whether or not to sign the Agreement.

B. Rescission. Executive understands that he may rescind (that is, cancel) the Agreement within seven (7) calendar days of signing the Agreement with respect to claims arising under the Age Discrimination in Employment Act and within fifteen (15) calendar days of signing the Agreement with respect to claims arising under the Minnesota Human Rights Act (collectively, "Rescission Period"). To be effective, any rescission must be in writing, delivered to the Company at 14000 Carlson Parkway, Plymouth, Minnesota 55441 Attention: Chris Homeister within the applicable Rescission Period, or sent to the Company, at such address, by certified mail, return receipt requested, postmarked within the Rescission Period. The Rescission Period shall begin on the date Executive signs the Agreement.

7. Cancellation of Agreement by the Company. If Executive exercises any right of rescission under Section 6.B. of the Agreement, the Company shall have the right to terminate the Agreement in its entirety, in which event the Company shall have no obligation whatsoever to Executive hereunder.

8. Vested and Unexpired Stock Options. All of Executive's currently vested and unexpired stock options must be exercised within three (3) months of the Separation Date, after which time all of Executive's currently vested and unexpired stock options shall automatically expire without further action.

9. Performance by Executive. Nothing contained herein shall operate as a waiver or an election of remedies by the Company should Executive fail to perform any duty or obligation imposed upon him hereunder or under the Offer Letter Agreement. No breach or alleged breach of any provision of the Agreement can be waived by any party unless done in writing. Moreover, the waiver of any breach or alleged breach shall not be deemed to be a waiver of any other breach.

10. No Admission of Liability. The parties agree that the Agreement shall not be considered an admission of liability or wrongdoing of any nature by the Company. The Company expressly denies that it is in any way liable to Executive or that it has engaged in any wrongdoing with respect to Executive.

11. Executive Acknowledgments and Affirmations. Executive acknowledges and represents that:

A. Knowing and Voluntary. Executive has read the Agreement and understands its contents; he has received adequate opportunity to read and consider the Agreement; he has received adequate opportunity to consult an attorney regarding the Agreement, and either has consulted an attorney or decided of his own free will not to consult an attorney; and he has determined to execute the Agreement knowingly and voluntarily and has not relied upon any statements or explanations made by the Company regarding the Agreement.

B. Notwithstanding any other provision of the Agreement, the Offer Letter Agreement or the Nondisclosure Agreement, Executive understands that nothing contained in the Agreement or any other agreement between Executive and the Company limits Executive's ability to file a charge or complaint with the Equal Employment Opportunity Commission, the National Labor Relations Board, the Occupational Safety and Health Administration, the Securities and Exchange Commission or any other federal, state, or local governmental agency or commission ("Government Agencies"). Executive also understands that the Agreement does not limit Executive's ability to communicate with any Government Agencies or otherwise participate in any investigation or proceeding that may be conducted by any Government Agencies, including providing documents or other information, without notice to the Company and that the Agreement does not limit Executive's right to receive and retain a payment for information provided to the Securities and Exchange Commission or other governmental entity for providing information to it pursuant to a government-administered whistleblower award program.

C. Full Compensation. Except as set forth herein, all payments, benefits and other items provided by the Company to Executive hereunder, including, without limitation, the Severance Payments and benefits described in Section 3 of the Agreement fully compensate Executive for all payments, benefits and other items due to Executive, whether under the Offer Letter Agreement or otherwise, and such payments and benefits constitute good and valuable consideration for Executive's promises in the Agreement. Executive has been paid all amounts, benefits and other items due him under the Offer Letter Agreement or otherwise due him from the Company including, but not limited to, all paid and unpaid leave, compensation, wages, bonuses, commissions and/or other benefits.

D. Expense Reimbursement. Executive will submit his last business expenses for reimbursement within thirty (30) calendar days from the Separation Date and understands that the Company reserves its right to review and deny payment of any expenses submitted by Executive that do not comply with the Company's policies and procedures regarding expense reimbursement.

E. Return of Property. Executive has returned all Company property as described in Section 5.A. of the Agreement and has not kept any copy of any Company property.

F. Receipt of Agreement. Executive acknowledges that he received the Agreement on March 1, 2017.

G. Other. Executive has not filed, caused to be filed, or presently is a party to any claim, complaint, or action against the Company in any forum or form, that he has not transferred any rights he may have against the Company to anyone, he has no known workplace injuries or occupational diseases and he has been provided with and/or not denied any leave requested under the Family and Medical Leave Act.

12. Cooperation. Executive shall reasonably cooperate with the Company regarding any and all legal proceedings or potential legal proceedings at the request of the Company that in any way relate to events that are alleged to have occurred or alleged to have failed to occur during Executive's employment with the Company. Executive shall also reasonably cooperate with the Company to transition his duties.

13. Remedies. Executive acknowledges that any breach of any of Executive's representations and promises set forth in the Agreement shall cause the Company irreparable harm for which there is no adequate remedy at law. Executive therefore consents to the issuance by any court of competent jurisdiction of any injunction in favor of Company enjoining the breach of any of the promises. If any provision of the Agreement should be held to be unenforceable because of its scope or duration, or the area or subject matter covered thereby, Executive agrees that the court making such determination shall have the power to reduce or modify the scope, duration, subject matter or area of that promise to the extent that allows the maximum scope, duration, subject matter or area permitted by applicable law. Executive further agrees that the remedies provided for herein are in addition to, and are not to be construed as replacements for, or a limitation of, rights and remedies otherwise available to the Company. If any portion of the Release set forth in Section 4 cannot be enforced, the remaining provisions of the Agreement are voidable at the Company's sole option and Executive shall repay all sums that he received in return for the release of claims other than one month of Severance Pay, which is given in exchange for the release of claims under the Age Discrimination in Employment Act, as amended. If any provision of the Agreement, other than the Release, cannot be enforced, all other provisions of the Agreement shall remain in full force and effect.

14. Entire Agreement. The Agreement contains the entire agreement between the Company and Executive with respect to its subject matter, and supersedes and cancels any and all other agreements, whether oral or in writing, between the Company and Executive with respect to his employment, the terms and conditions of his employment, and his separation from employment with the Company.

15. No Modification. The Agreement may not be modified, altered, or changed, except upon written consent of Executive and a duly authorized representative of the Company.

16. Successors and Assigns. The Agreement is personal to Executive and cannot be assigned to anyone without the prior written consent of the Company. The rights and obligations of the Agreement shall inure to the successors and assigns of the Company.

17. Section 409A and Taxes Generally. This Agreement is intended to comply with Section 409A of the Internal Revenue Code of 1986, as amended, and the regulations, notices and other guidance of general applicability issued thereunder (collectively, "Section 409A") or an exemption thereunder, and shall be construed and administered in accordance with Section 409A. Notwithstanding any other provision of this Agreement, payments provided under this Agreement may only be made upon an event and in a manner that complies with Section 409A or an applicable exemption. Any payments under this Agreement that may be excluded from Section 409A either as separation pay due to an involuntary separation from service or as a short-term deferral shall be excluded from Section 409A to the maximum extent possible. For purposes of Section 409A, each installment payment provided under this Agreement shall be treated as a separate payment. Any payments to be made under this Agreement upon a termination of employment shall only be made if such termination of employment constitutes a "separation from service" under Section 409A. Notwithstanding the foregoing, Company makes no representations that the payments and benefits provided under this Agreement comply with Section 409A and in no event shall Company be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by Executive on account of non-compliance with Section 409A.

Notwithstanding any other provision of this Agreement, if at the time of Executive's termination of employment, he is a "specified employee" within the meaning of Section 409A(a)(2)(B)(i) and determined in accordance with Section 409A, any payments and benefits provided under this Agreement that constitute "nonqualified deferred compensation" subject to Section 409A that are provided to Executive on account of his separation from service shall not be paid until the first payroll date to occur following the six-month anniversary of Executive's termination date ("Specified Employee Payment Date"). The aggregate amount of any payments that would otherwise have been made during such six-month period shall be paid in a lump sum on the Specified Employee Payment Date, without interest, and thereafter, any remaining payments shall be paid without delay in accordance with their original schedule. If Executive dies during the six-month period, any delayed payments shall be paid to Executive's estate in a lump sum upon Executive's death.

18. Governing Law. The Agreement shall be construed and enforced in accordance with the laws of the state of Minnesota without regard to any state law regarding conflict of laws or any other law that would render this choice of law ineffective. Any action to enforce its terms shall be venued solely in state or federal court in the state of Minnesota.

19. Construction. The Agreement shall be considered to have been drafted by each party or his/its attorney. Accordingly, no rule of strict construction shall be applied against either party. The headings of all sections and subsections of the Agreement are inserted for ease of reference only, and shall not affect the construction or interpretation of the Agreement.

20. Notices. All notices required or permitted to be given shall be given or sent by certified mail, return receipt requested, to the parties at the following addresses or to such other addresses as either may designate in writing to the other party:

If to the Company:

14000 Carlson Parkway
Plymouth, MN 55441
Attention: Chris Homeister

If to Executive:

Joseph Kinder
300 White Street SE
Watertown, MN 55388

21. Acceptance of Agreement. If Executive desires to accept the Agreement, Executive shall execute the Agreement and return the same to the Company at the address set forth in Section 20.

22. Counterparts. The Agreement may be executed in counterparts with an executed counterpart to be delivered to the other party. Each such executed counterpart shall be deemed an original but shall constitute one and the same instrument.

(Signature Page Follows)

IN WITNESS WHEREOF, the parties have executed the Agreement on the dates set forth below.

TILE SHOP HOLDINGS, INC.

Date: March 20, 2017

/s/ Chris Homeister
By: Chris Homeister
President and Chief Executive Officer

Date: March 20, 2017

/s/ Joseph Kinder
Joseph Kinder

EXHIBIT A

Offer Letter Agreement with attached Exhibits A (Waiver of Claims and General Release) and B (Nondisclosure, Confidentiality, Assignment and Noncompetition Agreement)

CERTIFICATIONS

I, Chris R. Homeister, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tile Shop Holdings, Inc.;
2. 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;
3. 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;
4. The registrant's other certifying officer 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 most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. 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 control over financial reporting.

Dated: April 27, 2017

/s/ CHRIS R. HOMEISTER
Chris R. Homeister
Chief Executive Officer

CERTIFICATIONS

I, Kirk L. Geadelmann, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tile Shop Holdings, Inc.;
2. 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;
3. 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;
4. The registrant's other certifying officer 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 most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. 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 control over financial reporting.

Dated: April 27, 2017

/s/ KIRK L. GEADELMANN
Kirk L. Geadelmann
Chief Financial Officer

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 of Tile Shop Holdings, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Chris R. Homeister, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ CHRIS R. HOMEISTER

Chris R. Homeister
Chief Executive Officer

April 27, 2017

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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 of Tile Shop Holdings, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kirk L. Geadelmann, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ KIRK L. GEADELMANN

Kirk L. Geadelmann
Chief Financial Officer

April 27, 2017

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.
