UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2020

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 or organization)**	**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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None	N/A	N/A

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. x Yes ☐ No

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

As of November 4, 2020, there were 51,714,484 shares of the registrant's common stock, par value $0.0001 per share, outstanding.

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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)

	September 30, 2020 (unaudited)	December 31, 2019 (audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 8,961	$ 9,104
Restricted cash	735	815
Receivables, net	3,300	3,370
Inventories	72,954	97,620
Income tax receivable	7,691	3,090
Other current assets, net	25,396	8,180
Total Current Assets	119,037	122,179
Property, plant and equipment, net	105,778	130,461
Right of use asset	133,256	137,737
Deferred tax assets	6,455	7,196
Other assets	1,480	2,241
Total Assets	$ 366,006	$ 399,814
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 15,596	$ 18,181
Income tax payable	112	87
Current portion of lease liability	28,239	26,993
Other accrued liabilities	49,269	24,589
Total Current Liabilities	93,216	69,850
Long-term debt	7,000	63,000
Long-term lease liability, net	124,678	131,451
Financing lease obligation, net	-	274
Other long-term liabilities	3,981	4,340
Total Liabilities	228,875	268,915
Stockholders’ Equity:		
Common stock, par value $0.0001; authorized: 100,000,000 shares; issued and outstanding: 51,693,455 and 50,806,674 shares, respectively	5	5
Preferred stock, par value $0.0001; authorized: 10,000,000 shares; issued and outstanding: 0 shares	-	-
Additional paid-in-capital	158,037	156,482
Accumulated deficit	(20,862)	(25,518)
Accumulated other comprehensive loss	(49)	(70)
Total Stockholders' Equity	137,131	130,899
Total Liabilities and Stockholders' Equity	$ 366,006	$ 399,814

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net sales	$ 81,492	$ 85,944	$ 243,501	$ 261,755
Cost of sales	26,188	26,775	77,828	79,384
Gross profit	55,304	59,169	165,673	182,371
Selling, general and administrative expenses	52,403	59,804	161,972	179,314
Income (loss) from operations	2,901	(635)	3,701	3,057
Interest expense	(239)	(1,027)	(1,646)	(2,948)
Other income	-	5	-	22
Income (loss) before income taxes	2,662	(1,657)	2,055	131
(Provision) benefit for income taxes	(748)	274	2,601	(348)
Net income (loss)	$ 1,914	$ (1,383)	$ 4,656	$ (217)
Income (loss) per common share:				
Basic	$ 0.04	$ (0.03)	$ 0.09	$ (0.00)
Diluted	$ 0.04	$ (0.03)	$ 0.09	$ (0.00)
Weighted average shares outstanding:				
Basic	50,009,000	49,769,739	49,926,083	50,901,289
Diluted	50,687,558	49,769,739	50,321,146	50,901,289

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income (loss)	$ 1,914	$ (1,383)	$ 4,656	$ (217)
Currency translation adjustment	35	(37)	21	(35)
Other comprehensive income (loss)	35	(37)	21	(35)
Comprehensive income (loss)	**$ 1,949**	**$ (1,420)**	**$ 4,677**	**$ (252)**

See accompanying Notes to Consolidated Financial Statements.

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

	Common stock					
	Shares	Amount	Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total
Balance at June 30, 2019	50,615,489	$ 5	$ 157,961	$ (19,889)	$ (54)	$ 138,023
Issuance of restricted shares	309,305	-	-	-	-	-
Cancellation of restricted shares	(112,740)	-	-	-	-	-
Stock based compensation	-	-	660	-	-	660
Tax withholdings related to net share settlements of stock based compensation awards	-	-	(90)	-	-	(90)
Dividends paid ($0.05 per share)	-	-	(2,494)	-	-	(2,494)
Foreign currency translation adjustments	-	-	-	-	(37)	(37)
Net loss	-	-	-	(1,383)	-	(1,383)
Balance at September 30, 2019	50,812,054	$ 5	$ 156,037	$ (21,272)	$ (91)	$ 134,679
Balance at June 30, 2020	51,370,167	$ 5	$ 157,493	$ (22,776)	$ (84)	$ 134,638
Issuance of restricted shares	359,233	-	-	-	-	-
Cancellation of restricted shares	(35,945)	-	-	-	-	-
Stock based compensation	-	-	567	-	-	567
Tax withholdings related to net share settlements of stock based compensation awards	-	-	(23)	-	-	(23)
Foreign currency translation adjustments	-	-	-	-	35	35
Net income	-	-	-	1,914	-	1,914
Balance at September 30, 2020	51,693,455	$ 5	$ 158,037	$ (20,862)	$ (49)	$ 137,131

See accompanying Notes to Consolidated Financial Statements.

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

	Common stock					
	Shares	Amount	Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total
Balance at December 31, 2018	52,707,879	$ 5	$ 172,255	$ (25,857)	$ (56)	$ 146,347
Adoption of lease standard	-	-	-	4,802	-	4,802
Balance at January 1, 2019	52,707,879	$ 5	$ 172,255	$ (21,055)	$ (56)	$ 151,149
Issuance of restricted shares	666,753	-	-	-	-	-
Cancellation of restricted shares	(255,555)	-	-	-	-	-
Repurchase of common stock	(2,307,023)	-	(10,455)	-	-	(10,455)
Stock based compensation	-	-	2,169	-	-	2,169
Tax withholdings related to net share settlements of stock based compensation awards	-	-	(226)	-	-	(226)
Dividends paid ($0.15 per share)	-	-	(7,706)	-	-	(7,706)
Foreign currency translation adjustments	-	-	-	-	(35)	(35)
Net loss	-	-	-	(217)	-	(217)
Balance at September 30, 2019	50,812,054	$ 5	$ 156,037	$ (21,272)	$ (91)	$ 134,679
Balance at December 31, 2019	50,806,674	$ 5	$ 156,482	$ (25,518)	$ (70)	$ 130,899
Issuance of restricted shares	1,057,336	-	-	-	-	-
Cancellation of restricted shares	(170,555)	-	-	-	-	-
Stock based compensation	-	-	1,671	-	-	1,671
Tax withholdings related to net share settlements of stock based compensation awards	-	-	(116)	-	-	(116)
Foreign currency translation adjustments	-	-	-	-	21	21
Net income	-	-	-	4,656	-	4,656
Balance at September 30, 2020	51,693,455	$ 5	$ 158,037	$ (20,862)	$ (49)	$ 137,131

See accompanying Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2020	2019
Cash Flows From Operating Activities		
Net income (loss)	$ 4,656	$ (217)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	23,738	24,508
Amortization of debt issuance costs	398	446
Loss on disposals of property, plant and equipment	-	90
Impairment charges	2,155	-
Non-cash lease expense	17,895	17,178
Stock based compensation	1,671	2,169
Deferred income taxes	741	190
Changes in operating assets and liabilities:		
Receivables	70	(1,527)
Inventories	24,666	10,015
Prepaid expenses and other assets	(1,953)	47
Accounts payable	(2,677)	(3,307)
Income tax receivable / payable	(4,576)	(362)
Accrued expenses and other liabilities	(9,437)	(15,618)
Net cash provided by operating activities	57,347	33,612
Cash Flows From Investing Activities		
Purchases of property, plant and equipment	(1,315)	(22,839)
Proceeds from insurance	-	610
Net cash used in investing activities	(1,315)	(22,229)
Cash Flows From Financing Activities		
Payments of long-term debt and financing lease obligations	(120,262)	(43,153)
Advances on line of credit	64,100	53,000
Dividends paid	-	(7,706)
Repurchases of common stock	-	(10,455)
Employee taxes paid for shares withheld	(116)	(226)
Net cash used in financing activities	(56,278)	(8,540)
Effect of exchange rate changes on cash	23	(29)
Net change in cash, cash equivalents and restricted cash	(223)	2,814
Cash, cash equivalents and restricted cash beginning of period	9,919	6,382
Cash, cash equivalents and restricted cash end of period	$ 9,696	$ 9,196
Cash and cash equivalents	$ 8,961	$ 8,371
Restricted cash	735	825
Cash, cash equivalents and restricted cash end of period	$ 9,696	$ 9,196
Supplemental disclosure of cash flow information		
Purchases of property, plant and equipment included in accounts payable and accrued expenses	$ 8	$ 1,320
Cash paid for interest	1,797	2,853
Cash paid for income taxes, net	1,208	471

See accompanying Notes to Consolidated Financial Statements.

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

Note 1: Background

Tile Shop Holdings, Inc. ("Holdings," and together with its wholly owned subsidiaries, the "Company" or "we") was incorporated in Delaware in June 2012.

The Company is a specialty retailer of natural stone and man-made 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 September 30, 2020, the Company had 142 stores in 31 states and the District of Columbia, with an average size of approximately 20,000 square feet. The Company 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 and nine months ended September 30, 2020 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2020.

These statements should be read in conjunction with the Consolidated Financial Statements and footnotes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019. 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.

Reclassification

Certain amounts in the prior year's financial statements have been reclassified for comparative purposes to conform to the current year's presentations. Specifically, the Company elected to change the way it presents cash flows from operating leases in its Statement of Cash Flows. In prior periods, the Company had presented the net change in the right of use asset and lease liabilities as a change in leases within the operating section of the Statement of Cash Flows. During the third quarter of 2020, the Company determined it would be more appropriate to disaggregate this activity. The amortization of right of use assets is now presented as a non-cash lease expense within the operating section of the Statement of Cash Flows. Lease payments, net of the accretion of lease liabilities, are now presented as a change in accrued expenses and other liabilities within the operating section of the Statement of Cash Flows. The impact of this change on the Statement of Cash Flows presented as of September 30, 2019 follows:

(in thousands)	Previously Reported	Adjustments	As Revised
Change in leases	$ (1,267)	$ 1,267	$ -
Non-cash lease expense	-	17,178	17,178
Changes in operating assets and liabilities:			
Accrued expenses and other liabilities	2,827	(18,445)	(15,618)
Net cash provided by operating activities	33,612	-	33,612

The impact of this change in classification has no impact on the Company's pretax earnings, earnings per share, net cash provided by operating activities, or balance sheets in any period.

Accounting Pronouncements Not Yet Adopted

In June 2016, the Financial Accounting Standards Board ("FASB") issued a final standard on accounting for credit losses. The new standard was initially effective for the Company in 2020, and requires a change in credit loss calculations using the expected loss method. In November 2019, the FASB issued Accounting Standards Update 2019-10, "Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates," which, among other things, defers the effective date of Accounting Standards Update 2016-13, the standard on accounting for credit losses, for public filers that are considered smaller reporting companies as defined by the Securities and Exchange Commission to fiscal years beginning after December 15, 2022, including interim periods within those years. Early adoption is permitted. The Company is evaluating the effect of this standard on its consolidated financial statements and related disclosures.

In March 2020, the FASB issued guidance providing optional expedients and exceptions to account for the effects of reference rate reform to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued. The optional guidance is effective as of beginning of the reporting period when the election is made through December 31, 2022. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements.

Note 2: Impact of the COVID-19 Pandemic

The COVID-19 pandemic has impacted, and is likely to continue impacting, the Company’s operations. As previously announced, the Company took steps to reduce selling, general and administrative (“SG&A”) expenses by eliminating a portion of its workforce, curtailing advertising spending, reducing the number of replenishment trucks sent from the Company’s distribution centers to its stores and limiting other SG&A spending when possible. As traffic and sales started to recover toward the end of the second quarter of 2020, the Company took a cautious approach to investing in activities that would increase its SG&A expenses. While many retailers elected to expand their hours as state and local restrictions started to ease, the Company maintained a reduced hours schedule throughout the third quarter of 2020. The decision to limit the number of hours that the Company’s stores were open had an adverse impact on traffic and sales, which contributed to a 6.5% decrease in sales at comparable stores; however, the SG&A savings realized contributed to a $3.5 million improvement in operating income during the third quarter of 2020 when compared to the third quarter of 2019.

During the third quarter of 2020, the Company continued to follow a practice to close its stores, quarantine affected staff and complete a rigorous cleaning process before reopening the store when a health risk was identified. This process can take 2-3 days to complete and has had an adverse impact on the Company’s sales. The Company is committed to continuing this practice to help protect the health of its employees and customers.

The Company experienced an elevated level of product outages during the third quarter due to vendor production delays. In many instances, vendor plants were forced to close or operate at a reduced capacity pursuant to a government mandate following the onset of COVID-19. While most vendors have been able to resume normal operations, many continue to work through large backlogs. The Company is actively partnering with its vendors to secure delivery of backordered product.

The CARES Act contains provisions for deferral of the employer portion of social security taxes incurred through the end of calendar 2020. As of September 30, 2020, the Company has deferred $1.6 million in social security tax payments, of which 50% are required to be remitted by December 2021 and the remaining 50% by December 2022. The deferred amounts are recorded as a liability within other accrued liabilities in the Company’s consolidated balance sheets.

While the Company is cautiously optimistic with the current business trend, the recent escalation of COVID-19 cases across many of the markets that the Company serves could have a negative impact on the Company. Specifically, the Company could be adversely impacted by limitations on the Company’s employees to perform their work due to illness caused by the pandemic or local, state, or federal orders requiring the Company’s stores to close or employees to remain at home; limitation of carriers to deliver the Company’s product to customers; product shortages; limitations on the ability of the Company’s customers to conduct their business and purchase the Company’s products and services; and limitations on the ability of the Company’s customers to pay the Company in a timely manner. These events could have a material, adverse effect on the Company’s results of operations, cash flows and liquidity. In addition, even after the COVID-19 pandemic has subsided, the Company may continue to experience adverse impacts to its business as a result of the economic impact of the pandemic, including the current recession and any recession that may occur in the future.

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

Note 3: Revenues

Revenues are recognized when control of the promised goods or services is transferred to the Company's customers, in an amount that reflects the consideration received in exchange for those goods or services. Sales taxes are excluded from revenues.

The following table presents revenues disaggregated by product category:

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Man-made tiles	46 %	47 %	46 %	47 %
Natural stone tiles	29	28	29	28
Setting and maintenance materials	14	13	14	13
Accessories	9	10	9	11
Delivery service	2	2	2	1
Total	100 %	100 %	100 %	100 %

The Company generates revenues by selling tile products, setting and maintenance materials, accessories, and delivery services to its customers through its store locations. The timing of revenue recognition coincides with the transfer of control of goods and services ordered by the customer, which falls into one of three categories described below:

- Revenue recognized when an order is placed – If a customer places an order in a store and the contents of their order are available, the Company recognizes revenue concurrent with the exchange of goods for consideration from the customer.

- Revenue recognized when an order is picked up – If a customer places an order for items held in a centralized distribution center, the Company requests a deposit from the customer at the time they place the order. Subsequently when the contents of the customer's order are delivered to the store, the customer returns to the store and picks up the items that were ordered. The Company recognizes revenue on this transaction when the customer picks up their order.

- Revenue recognized when an order is delivered – If a customer places an order in a store and requests delivery of their order, the Company prepares the contents of their order, initiates the delivery service, and recognizes revenue once the contents of the customer's order are delivered.

The Company determines the transaction price of its contracts based on the pricing established at the time a customer places an order. The transaction price does not include sales tax as the Company is a pass-through conduit for collecting and remitting sales tax. Any discounts applied to an order are allocated proportionately to the base price of the goods and services ordered. Deposits made by customers are recorded in other accrued liabilities. Deferred revenues associated with customer deposits are recognized at the time the Company transfers control of the items ordered or renders the delivery service. In the event an order is partially fulfilled as of the end of a reporting period, revenue will be recognized based on the transaction price allocated to the goods delivered and services rendered. Customer deposits are presented as an other accrued liability in the Consolidated Balance Sheet. The customer deposit balance was $12.0 million and $7.7 million as of September 30, 2020 and December 31, 2019, respectively. Revenues recognized during the nine months ended September 30, 2020 that were included in the customer deposit balance as of the beginning of the year were $7.6 million.

The Company extends financing to qualified professional customers who apply for credit. Customers who qualify for an account receive 30-day payment terms. The accounts receivable balance was $3.3 million and $3.4 million at September 30, 2020 and December 31, 2019, respectively. The Company expects that the customer will pay for the goods and services ordered within one year from the date the order is placed. Accordingly, the Company qualifies for the practical expedient outlined in ASC 606-10-32-18 and does not adjust the promised amount of consideration for the effects of the financing component.

Customers may return purchased items for an exchange or refund. The Company records a reserve for estimated product returns based on the historical returns trends and the current product sales performance. The Company presents the sales returns reserve as an other current (accrued) liability and the estimated value of the inventory that will be returned as an other current asset in the Consolidated Balance Sheet. The components of the sales returns reserve reflected in the Consolidated Balance Sheet as of September 30, 2020 and December 31, 2019 are as follows:

	(in thousands)	
	September 30, 2020	December 31, 2019
Other current (accrued) liabilities	$ 5,760	$ 5,434
Other current assets	1,790	1,659
Sales returns reserve, net	$ 3,970	$ 3,775

Note 4: Inventories

Inventories are stated at the lower of cost (determined using the moving average cost method) or net realizable value. Inventories consist primarily of merchandise held for sale. Inventories were comprised of the following as of September 30, 2020 and December 31, 2019:

	(in thousands)	
	September 30, 2020	December 31, 2019
Finished goods	$ 71,172	$ 95,435
Raw materials	1,782	2,185
Total	$ 72,954	$ 97,620

The Company provides 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 $1.3 million and $0.2 million as of September 30, 2020 and December 31, 2019, respectively.

Note 5: Income Taxes

The Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), enacted on March 27, 2020, includes significant income and payroll tax provisions. Additionally, the CARES Act modified the rules associated with net operating losses (“NOLs”) and made technical corrections to tax depreciation methods for qualified improvement property. Under the temporary provisions of CARES Act, NOL carryforwards and carrybacks may offset 100% of taxable income for taxable years beginning before 2021. In addition, NOLs arising in 2018, 2019 and 2020 taxable years may be carried back to each of the preceding five years to generate a refund.

The Company's effective tax rate for the three months ended September 30, 2020 and 2019 was 28.1% and 16.5%, respectively. The Company's effective tax rate for the nine months ended September 30, 2020 and 2019 was (126.6)% and 265.7%, respectively. The difference between the Company’s effective rate of (126.6)% and the expected federal statutory rate of 21.0% for the nine months ended September 30, 2020 was primarily due to finalization of the impacts of the CARES Act, which gives the Company the ability to carry back federal NOLs to years with a federal statutory tax rate of 35%. For the three months ended September 30, 2020 and 2019, the Company recorded a provision (benefit) for income taxes of $0.7 million and $(0.3) million, respectively. The increase in the provision for income taxes for the three months ended September 30, 2020 was due to an increase in pretax income. For the nine months ended September 30, 2020 and 2019, the Company recorded a (benefit) provision for income taxes of $(2.6) million and $0.3 million, respectively. The decrease in the provision for income taxes for the nine months ended September 30, 2020 is due to the benefit generated from the NOL carryback tax rate differential.

The Company records interest and penalties relating to uncertain tax positions in income tax expense when applicable. As of September 30, 2020, and 2019, the Company has not recognized any liabilities for uncertain tax positions, nor have interest and penalties related to uncertain tax positions been accrued.

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

Note 6: Earnings (Loss) Per Share

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

Basic and diluted earnings (loss) per share were calculated as follows:

	(all amounts in thousands except share and per share data)			
	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Net income (loss)	$ 1,914	$ (1,383)	$ 4,656	$ (217)
Weighted average shares outstanding - basic	50,009,000	49,769,739	49,926,083	50,901,289
Effect of dilutive securities attributable to stock based awards	678,558	-	395,063	-
Weighted average shares outstanding - diluted	50,687,558	49,769,739	50,321,146	50,901,289
Income (loss) per common share:				
Basic	$ 0.04	$ (0.03)	$ 0.09	$ (0.00)
Diluted	$ 0.04	$ (0.03)	$ 0.09	$ (0.00)
Anti-dilutive securities excluded from earnings per share calculation	1,640,389	5,047,633	1,733,475	2,614,058

Note 7: Other Accrued Liabilities

Other accrued liabilities consisted of the following:

	(in thousands)	
	September 30, 2020	December 31, 2019
Legal settlement accrual	$ 14,700	$ -
Customer deposits	12,006	7,727
Sales returns reserve	5,760	5,434
Accrued wages and salaries	5,323	4,064
Payroll and sales taxes	5,406	2,764
Other current liabilities	6,074	4,600
Total other accrued liabilities	$ 49,269	$ 24,589

Note 8: Long-term Debt

On September 18, 2018, Holdings and its operating subsidiary, The Tile Shop, LLC, entered into a Credit Agreement with Bank of America, N.A., Fifth Third Bank and Citizens Bank (the “Credit Agreement”). The Credit Agreement provides the Company with a senior credit facility consisting of a $100.0 million revolving line of credit through September 18, 2023. Borrowings pursuant to the Credit Agreement initially bear interest at a LIBOR or base rate. The LIBOR-based rate ranges from LIBOR plus 1.50% to 2.25% depending on the Company’s rent adjusted leverage ratio. The base rate is equal to the greatest of (a) the Federal funds rate plus 0.50%, (b) the Bank of America “prime rate,” and (c) the Eurodollar rate plus 1.00%, in each case plus 0.50% to 1.25% depending on the Company’s rent adjusted leverage ratio. At September 30, 2020, the base interest rate was 4.25% and the LIBOR-based interest rate was 2.15%. Borrowings outstanding consisted of $7.0 million on the revolving line of credit as of September 30, 2020. In addition, the Company has standby letters of credit outstanding related to its workers’ compensation and medical insurance policies. Standby letters of credit totaled $1.9 million and $1.3 million as of September 30, 2020 and December 31, 2019, respectively. There was $91.1 million available for borrowing on the revolving line of credit as of September 30, 2020, which may be used to support the Company’s growth and for working capital purposes.

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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. 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, or make investments. The Credit Agreement also includes financial and other covenants, including covenants to maintain certain fixed charge coverage ratios and consolidated total rent adjusted leverage ratios. The Company was in compliance with the covenants as of September 30, 2020.

Note 9: Leases

The Company leases its retail stores, certain distribution space, and office space. Leases generally have a term of ten to fifteen years, and contain renewal options. Assets acquired under operating leases are included in the Company's right of use assets in the accompanying Consolidated Balance Sheet. The Company's lease agreements do not contain significant residual value guarantees, restrictions or covenants. The depreciable life of assets and leasehold improvements is limited by the expected lease term.

In accordance with the FASB's April 2020 Staff Q&A regarding rent concessions related to the effects of the COVID-19 pandemic, the Company has elected to account for the concessions verbally agreed to by landlords that do not result in a substantial increase in the rights of the lessor or the obligations of the lessee as though enforceable rights and obligations for those concessions existed in the original lease agreements, and the Company has elected to not re-measure the related lease liabilities and right-of-use assets. For qualifying rent abatement concessions, the Company has recorded negative lease expense for the amount of the concession during the period of relief. During the three and nine months ended September 30, 2020, the Company recognized $0.1 million of negative lease expense related to rent abatement concessions. For qualifying deferrals of rental payments, the Company has recognized a non-interest bearing payable classified as a Current portion of lease liability in the Consolidated Balance Sheet in lieu of recognizing a decrease in cash for the lease payment that would have been made based on the original terms of the lease agreement. The deferred rent payment balance will be reduced in future periods as amounts due are repaid. The deferred rent balance outstanding as of September 30, 2020 was $3.3 million. The majority of the remaining repayments are expected to occur between the fourth quarter of 2020 and the third quarter of 2021.

Leases (in thousands)	Classification	September 30, 2020	December 31, 2019
Assets			
Operating lease assets	Right of use asset	$ 133,256	$ 137,737
Financing lease assets	Property, plant and equipment, net of accumulated depreciation	-	113
Total leased assets		$ 133,256	$ 137,850
Liabilities			
Current			
Operating	Current portion of lease liability	$ 28,239	$ 26,993
Financing	Other accrued liabilities	-	162
Noncurrent			
Operating	Long-term lease liability, net	124,678	131,451
Financing	Financing lease obligation, net	-	274
Total lease liabilities		$ 152,917	$ 158,880

Lease cost (in thousands)	Classification	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019
Operating lease cost	SG&A expenses	$ 8,285	$ 8,258
Financing lease cost			
Amortization of leased assets	SG&A expenses	12	13
Interest on lease liabilities	Interest expense	13	19
Variable lease cost[(1)]	SG&A expenses	3,494	3,470
Short term lease cost	SG&A expenses	145	197
Net lease cost		$ 11,949	$ 11,957

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Lease cost (in thousands)	Classification	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Operating lease cost	SG&A expenses	$ 24,758	$ 24,268
Financing lease cost			
Amortization of leased assets	SG&A expenses	37	37
Interest on lease liabilities	Interest expense	43	59
Variable lease cost[1]	SG&A expenses	10,399	10,177
Short term lease cost	SG&A expenses	531	679
Net lease cost		$ 35,768	$ 35,220

(1) Variable lease costs consist primarily of taxes, insurance, and common area or other maintenance costs for the Company's leased facilities.

Other Information (in thousands)	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ (26,808)	$ (26,109)
Operating cash flows from financing leases	$ 43	$ 50
Financing cash flows from financing leases	$ (162)	$ (153)
Lease right-of-use assets obtained or modified in exchange for lease obligations	$ 14,010	$ 5,993

Note 10: Commitments and Contingencies

The Company is, from time to time, party to lawsuits, threatened lawsuits, disputes and other claims arising in the normal course of business. The Company assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. Where it is probable that the Company will incur a loss and the amount of the loss can be reasonably estimated, the Company records a liability in its consolidated financial statements. These legal accruals may be increased or decreased to reflect any relevant developments on a quarterly basis. Where a loss is not probable or the amount of the loss is not estimable, the Company does not record an accrual, consistent with applicable accounting guidance. Based on information currently available to the Company, advice of counsel, and available insurance coverage, the Company believes that its established accruals are adequate and the liabilities arising from the legal proceedings will not have a material adverse effect on its consolidated financial condition. However, in light of the inherent uncertainty in legal proceedings, there can be no assurance that the ultimate resolution of a matter will not exceed established accruals. As a result, the outcome of a particular matter or a combination of matters may be material to the Company's results of operations for a particular period, depending upon the size of the loss or the Company's income for that particular period.

As previously disclosed, the Company was a nominal defendant and certain current and former directors were individual defendants in litigation brought by K-Bar Holdings LLC and Wynnefield Capital, Inc. ("Plaintiffs"), in the Delaware Court of Chancery (the "Action"), in November 2019. Plaintiffs pleaded the Action as a derivative claim on behalf of the Company and also on behalf of a putative class of certain holders of the Company's common stock as of October 18, 2019 (the "Putative Class"). Plaintiffs alleged breaches of fiduciary duty in connection with, among other things, the Company's decision to delist from Nasdaq and deregister its common stock under the Securities Exchange Act of 1934, as amended. As previously disclosed, on June 30, 2020, the Company, the individual defendants, and Plaintiffs reached an agreement to settle all claims in the Action, which was documented in a Stipulation of Settlement dated August 7, 2020 (the "Stipulation of Settlement"). Among other terms, the Stipulation of Settlement provides for a settlement fund of $12.0 million, which was funded by the Company's insurers, and which will be distributed to members of the Putative Class pursuant to an allocation and claims distribution process proposed by the Plaintiffs and approved by the Court. The Stipulation of Settlement was approved by the Court on October 12, 2020. The Court also granted the Plaintiffs' counsel a $2.7 million award of attorney's fees in connection with the settlement of the derivative claims. The Company's insurers have agreed to cover the fee award to the Plaintiffs' attorneys. The Company recorded a $14.7 million other current liability and a $14.7 million other current asset in the Consolidated Balance Sheet as of September 30, 2020 to reflect the Company's obligation to the Putative Class, the attorney fee award and the corresponding receivable from the insurance companies.

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.

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Note 11: 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 or liabilities 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.

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 September 30, 2020 and December 31, 2019 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.

		Fair Value at	
	Pricing Category	September 30, 2020	December 31, 2019
Assets		(in thousands)	
Cash and cash equivalents	Level 1	$ 8,961	$ 9,104
Restricted cash	Level 1	735	815

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 that 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.

Fair value measurements also apply to certain non-financial assets and liabilities measured at fair value on a nonrecurring basis. Property, plant and equipment and right of use assets are measured at fair value when an impairment is recognized and the related assets are written down to fair value. During the nine months ended September 30, 2020, the Company recognized a $2.2 million charge in selling, general and administrative expenses to write-down property, plant, and equipment and right of use assets to their estimated fair values. The Company measured the fair value of these assets based on projected cash flows, an estimated risk-adjusted rate of return, and market rental rates for comparable properties. Projected cash flows are considered Level 3 inputs. Market rental rates for comparable properties are considered Level 2 inputs. No impairment charges were recorded during the three or nine months ended September 30, 2019 or the three months ended September 30, 2020.

The carrying value of the Company's borrowings under its Credit Agreement approximate fair value based upon Level 2 inputs of the market interest rates available to the Company for debt obligations with similar risks and maturities.

Note 12: 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 and nine months ended September 30, 2020 and 2019 include compensation expense for the portion of outstanding awards that vested during those periods. The Company recognizes stock based compensation expenses 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 $0.1 million and $0.2 million for the three months ended September 30, 2020 and 2019, respectively. Total stock based compensation expense related to stock options was $0.3 million and $0.7 million for the nine months ended September 30, 2020 and 2019, respectively. Stock based compensation expense pertaining to stock options is included in selling, general and administrative expenses in the accompanying Consolidated Statements of Operations.

As of September 30, 2020, the Company had outstanding stock options to purchase 1,144,997 shares of common stock at a weighted average exercise price of $11.08.

Restricted stock:

The Company awards restricted common shares to selected employees and to non-employee directors. Recipients are not required to provide any consideration upon vesting of the award. Restricted stock 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. Certain awards are also subject to forfeiture if the Company fails to attain certain performance targets. 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. The Company adjusts the cumulative expense recognized on awards with performance conditions based on the probability of achieving the performance condition. Total stock based compensation expense related to restricted stock was $0.5 million for both the three months ended September 30, 2020 and 2019. Total stock based compensation expense related to restricted stock was $1.3 million and $1.5 million for the nine months ended September 30, 2020 and 2019, respectively. Stock based compensation expense pertaining to restricted stock awards is included in selling, general and administrative expenses in the accompanying Consolidated Statements of Operations.

As of September 30, 2020, the Company had 1,667,672 outstanding restricted common shares.

Note 13: New Markets Tax Credit

2016 New Markets 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 this transaction, Tile Shop Lending loaned $6.7 million to the Investment Fund at an interest rate of 1.37% per year and with a maturity date 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 $3.2 million to the Investment Fund and, by virtue of such contribution, is entitled to substantially all of the tax benefits derived from the NMTC, 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 $3.2 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 $1.3 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 September 30, 2020, the balance of the contribution liability was $1.5 million, of which $0.5 million was classified as other accrued liabilities on the Consolidated Balance Sheet and $1.0 million was classified as other long-term liabilities on the Consolidated Balance Sheet.

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 September 30, 2020, the balance in the Investment Fund available for reimbursement to the Company was $0.7 million.

2013 New Markets Tax Credit

In July 2013, the Company entered into a financing transaction with U.S. Bank and Chase Community Equity ("Chase", and collectively with U.S. Bank, the "investors") related to the $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 were 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 included a put/call provision whereby the Company may have been obligated or entitled to repurchase the investors' interest. The value attributed to the put/call prior to the exercise of the put option was de minimis. The NMTC was subject to 100% recapture for a period of seven years as provided in the Internal Revenue Code. The Company was required to be in compliance with various regulations and contractual provisions that applied to the NMTC arrangement. Non-compliance with applicable requirements could have resulted in projected tax benefits not being realized and, therefore, could have required 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 was relieved. No credit recaptures were required in connection with this arrangement.

The Company determined that this financing arrangement contained 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 Tile Shop Investment Fund LLC. 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 recognized the benefit of this net $4.4 million contribution over the seven-year compliance period as it was earned through the on-going compliance with the conditions of the NMTC program.

In July 2020, the investors exercised the put option to purchase the investors' interest in the Investment Fund at the end of the tax credit recapture period. This transaction did not have a significant impact on the Company's financial position, results of operations, or cash flows.

Note 14: Related Party Transactions

On July 9, 2018, Fumitake Nishi, a former Company employee and the brother-in-law of Robert A. Rucker, our former Interim Chief Executive Officer and President, and former member of the Company's Board of Directors, from which he resigned on February 12, 2020, informed the Company he had reacquired a majority of the equity of one of its key vendors, Nanyang Helin Stone Co. Ltd ("Nanyang"). Nanyang supplies the Company with natural stone products including hand-crafted mosaics, listellos and other accessories. During the twelve months ended December 31, 2019, the Company purchased $5.1 million of products from Nanyang. During the three and nine months ended September 30, 2020, the Company purchased $2.1 million and $5.0 million of products from Nanyang, respectively. Mr. Nishi's employment with the Company was terminated on January 1, 2014 as a result of several violations of the Company's code of business conduct and ethics policy. Certain of those violations involved his undisclosed ownership of Nanyang at that time.

Management and the Audit Committee have evaluated the relationship and determined that it would be in the Company's best interests to continue purchasing products from Nanyang. The Company believes Nanyang provides an important combination of quality, product availability and pricing, and relying solely on other vendors to supply similar product to the Company would not be in the Company's best interests. The Company and the Audit Committee have and will continue to review future purchases from Nanyang and compare the pricing for products purchased from Nanyang to the pricing of same or similar products purchased from unrelated vendors.

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, 2019 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" within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. In some cases, you can identify these statements by words such as, but not limited to, "anticipate," "believe," "can," "continue," "could," "depend," "estimate," "expect," "intend," "may," "might," "plan," "project," "seek," "should," "target," "will," "will likely result," "would," and similar expressions or variations, although some forward-looking statements are expressed differently. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. The forward-looking statements in this Quarterly Report on Form 10-Q relate to, among other things, our anticipated new store openings, remodeling plans, and growth opportunities; our business strengths, marketing strategies, competitive advantages and role in our industry and markets; our expectations regarding financing arrangements; our expectations regarding the potential impacts of COVID-19 on our business; our expectations with respect to ongoing compliance with the terms of our Credit Agreement (as defined below); and our expectations with respect to remediation of our identified material weaknesses.

These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties that may cause our actual results, performance, or achievements to differ materially from any expected future results, performance, or achievements expressed or implied by such forward-looking statements. These risks and uncertainties, many of which have been, and may further be, exacerbated by the COVID-19 pandemic, include, but are not limited to, our anticipated new store openings, remodeling plans, and growth opportunities; our business strengths, marketing strategies, competitive advantages and role in our industry and markets; our expectations regarding the potential impacts on our business of the COVID-19 pandemic, including its effect on general economic conditions and credit markets and on customer traffic to our stores, as well as the potential duration of the COVID-19 pandemic and the length and adequacy of measures we have taken to attempt to mitigate the impact of the COVID-19 pandemic on our business; our ability to successfully implement our strategic plan and the anticipated benefits of our strategic plan; the effectiveness of our marketing strategy; our expectations regarding financing arrangements and our ability to obtain additional capital, including potential difficulties of obtaining refinancing due to market conditions resulting from the COVID-19 pandemic; supply costs and expectations, including the continued availability of sufficient products from our suppliers and the potential impact of the COVID-19 pandemic; our expectations with respect to ongoing compliance with the terms of the Credit Agreement, including the possibility that the impact of the COVID-19 pandemic on our business may result in our inability to maintain such compliance, as well as the potential impact of the phase out of LIBOR; the effect of regulations on us and our industry, and our suppliers' compliance with such regulations; our expectations regarding the effects of employee recruiting, training, mentoring, and retention; the potential impact of cybersecurity breaches or disruptions to our management information systems; our ability to successfully implement our information technology initiatives, including our enterprise resource planning ("ERP") system; our ability to remediate material weaknesses in our internal control over financial reporting; our proposed deregistration; costs and adequacy of insurance; and those factors set forth in the section captioned "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019 and the additional Risk Factors set forth in Part II, Item 1A of this Quarterly Report on Form 10-Q.

There is no assurance that our expectations will be realized. If one or more of these risks or uncertainties materialize, or if our underlying assumptions prove incorrect, actual results may vary materially from those expected, estimated, or projected. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Furthermore, such forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. 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 natural stone and man-made 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 September 30, 2020, we operated 142 stores in 31 states and the District of Columbia, with an average size of approximately 20,000 square feet.

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 natural stone and man-made tiles, accessories, and related materials in the United States.

Impact of the COVID-19 Pandemic

The COVID-19 pandemic has impacted, and is likely to continue impacting, our operations. As previously announced, we took steps to reduce selling, general and administrative ("SG&A") expenses by eliminating a portion of our workforce, curtailing advertising spending, reducing the number of replenishment trucks sent from our distribution centers to our stores and limiting other SG&A spending when possible. As traffic and sales started to recover toward the end of the second quarter of 2020, we took a cautious approach to investing in activities that would increase our SG&A expenses. While many retailers elected to expand their store hours as state and local restrictions started to ease, we maintained a reduced hours schedule throughout the third quarter of 2020. The decision to limit the number of hours that our stores were open had an adverse impact on traffic and sales, which contributed to a 6.5% decrease in sales at comparable stores; however, the SG&A savings realized contributed to a $3.5 million improvement in operating income during the third quarter of 2020 when compared to the third quarter of 2019.

During the third quarter of 2020, we continued to follow a practice to close our stores, quarantine affected staff and complete a rigorous cleaning process before reopening the store when a health risk was identified. This process can take 2-3 days to complete and has had an adverse impact on our sales. We are committed to continuing this practice to help protect the health of our employees and customers.

We experienced an elevated level of product outages during the third quarter due to vendor production delays. In many instances, vendor plants were forced to close or operate at a reduced capacity pursuant to a government mandate following the onset of COVID-19. While most vendors have been able to resume normal operations, many continue to work through large backlogs. We are actively partnering with our vendors to secure delivery of backordered product.

While we are cautiously optimistic with the current business trend, the recent escalation of COVID-19 cases across many of the markets that we serve could have a negative impact on us. Specifically, we could be adversely impacted by limitations on our employees to perform their work due to illness caused by the pandemic or local, state, or federal orders requiring our stores to close or employees to remain at home; limitation of carriers to deliver our products to customers; product shortages; limitations on the ability of our customers to conduct their business and purchase our products and services; and limitations on the ability of our customers to pay us in a timely manner. These events could have a material, adverse effect on our results of operations, cash flows and liquidity. In addition, even after the COVID-19 pandemic has subsided, we may continue to experience adverse impacts to our business as a result of the economic impact of the pandemic, including the current recession and any recession that may occur in the future.

September 2020 Quarter Financial Overview

For the three months ended September 30, 2020 and 2019, we reported net sales of $81.5 million and $85.9 million, respectively. The decrease in sales for the three months ended September 30, 2020 was due to a decrease in traffic that was partially attributable to a reduction in store hours during the third quarter of 2020 when compared to the third quarter of 2019. Additionally, elevated levels of in-stock outages also contributed to the lower level of sales during the third quarter of 2020.

For the nine months ended September 30, 2020 and 2019, we reported net sales of $243.5 million and $261.8 million, respectively. The decrease in sales for the nine months ended September 30, 2020 compared to the three months ended September 30, 2019 was primarily due to a decrease in traffic following the onset of COVID-19 and our response to the pandemic which included the reduction of store hours.

The table below sets forth information about our comparable store sales growth (decline) for the three and nine months ended September 30, 2020 and 2019.

	For the three months ended September 30,		For the nine months ended September 30,	
	2020	2019	2020	2019
Comparable store sales decline	(6.5)%	(3.5)%	(8.3)%	(4.0)%

For the three months ended September 30, 2020 and 2019, we reported gross profit of $55.3 million and $59.2 million, respectively. The gross margin rate was 67.9% and 68.8% for the three months ended September 30, 2020 and 2019, respectively. The decrease in gross margin rate was primarily driven by a higher mix of freight delivery services rendered to our customers during the three months ended September 30, 2020 compared to the three months ended September 30, 2019. An increase in inventory write-downs incurred in connection with routine product transitions also contributed to the lower level of gross margin during the three months ended September 30, 2020.

For the three months ended September 30, 2020 and 2019, we reported income from operations of $2.9 million and a loss from operations of $0.6 million, respectively. The increase in income from operations was primarily driven by a $7.4 million reduction in SG&A expenses for the three months ended September 30, 2020 compared to the three months ended September 30, 2019. The decrease in SG&A expenses was partially attributable to our decision to decrease our hours of operations following the onset of COVID-19. Lower staffing costs resulting from this decision resulted in a $3.1 million reduction in compensation and benefits expenses during the three months ended September 30, 2020 when compared to the three months ended September 30, 2019. Additionally, decreases in advertising expenses totaling $1.8 million and a $1.1 million reduction in consulting, audit, legal and IT fees contributed to the lower level of SG&A expenses during the three months ended September 30, 2020.

Net cash provided by operating activities was $57.3 million and $33.6 million for the nine months ended September 30, 2020 and 2019, respectively. The operating cash flows generated during the nine months ended September 30, 2020 were used primarily to sustain operations and reduce the Company's debt balance by $56.0 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 control of the merchandise or final delivery of the product has occurred. 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. Sales are reduced by a reserve for anticipated sales returns that we estimate based on historical returns.

The comparable store sales operating metric is the percentage change in sales of comparable stores period-over-period. A store is considered comparable on the first day of the 13th full month of operation. When a store is relocated, it is excluded from the comparable store sales calculation. Comparable store sales includes total charges to customers less any actual returns. We include the change in allowance for anticipated sales returns applicable to comparable stores in the comparable store sales calculation. Comparable store sales data reported by other companies may be prepared on a different basis and therefore may not be useful for purposes of comparing our results to those of other businesses. Company management believes the comparable store sales operating metric provides useful information to both management and investors to evaluate the Company's performance, the effectiveness of its strategy and its competitive position.

Cost of Sales – Cost of sales consists primarily of material costs, freight, customs and duties fees, and storage and delivery of product to the customers, as well as physical inventory losses and costs associated with manufacturing of setting and maintenance materials.

Gross Profit – Gross profit is net sales less cost of sales. Gross margin rate is the percentage determined by dividing gross profit by net sales.

Selling, General, and Administrative Expenses – SG&A expenses consist primarily of compensation costs, occupancy, utilities, maintenance costs, advertising costs, shipping and transportation expenses to move inventory from our distribution centers to our stores, and depreciation and amortization.

Pre-opening Costs – Our pre-opening costs are those typically associated with the opening of a new store and generally include rent expense, compensation costs and promotional costs. We expense pre-opening costs as incurred and include these costs in SG&A expenses.

Income Taxes – We are subject to income tax in the United States as well as other tax jurisdictions in which we conduct business.

Results of Operations

Comparison of the three months ended September 30, 2020 to the three months ended September 30, 2019

	(in thousands)			
	2020	% of sales[1]	2019	% of sales[1]
Net sales	$ 81,492		$ 85,944	
Cost of sales	26,188	32.1 %	26,775	31.2 %
Gross profit	55,304	67.9 %	59,169	68.8 %
Selling, general and administrative expenses	52,403	64.3 %	59,804	69.6 %
Income (loss) from operations	2,901	3.6 %	(635)	(0.7)%
Interest expense	(239)	(0.3)%	(1,027)	(1.2)%
Other income	-	- %	5	0.0 %
Income (loss) before income taxes	2,662	3.3 %	(1,657)	(1.9)%
Benefit (provision) for income taxes	(748)	(0.9)%	274	0.3 %
Net income (loss)	$ 1,914	2.3 %	$ (1,383)	(1.6)%

(1) Amounts may not foot due to rounding.

Net Sales Net sales for the third quarter of 2020 decreased $4.5 million, or 5.2%, compared with the third quarter of 2019, primarily due to a $5.5 million decrease in net sales generated by comparable stores. The decrease in sales at comparable stores for the three months ended September 30, 2020 was primarily due to a decrease in traffic that was partially attributable to a reduction in store hours during the third quarter of 2020 when compared to the third quarter of 2019. Additionally, elevated levels of in-stock outages also contributed to the lower level of sales during the third quarter of 2020. Sales generated by stores not included in the comparable store base increased $1.0 million during the three months ended September 30, 2020 compared to the three months ended September 30, 2019.

Gross Profit Gross profit for the third quarter of 2020 decreased $3.9 million, or 6.5%, compared with the third quarter of 2019 primarily due to the decrease in net sales. The gross margin rate was 67.9% and 68.8% for the three months ended September 30, 2020 and 2019, respectively. The decrease in gross margin rate was primarily driven by a higher mix of freight delivery services rendered to our customers during the three months ended September 30, 2020 compared to the three months ended September 30, 2019. An increase in inventory write-downs incurred in connection with routine product transitions also contributed to the lower level of gross margin during the three months ended September 30, 2020.

Selling, General, and Administrative Expenses SG&A expenses for the third quarter of 2020 decreased $7.4 million, or 12.4%, compared with the third quarter of 2019. The decrease in SG&A expenses was partially attributable to our decision to decrease our hours of operations following the onset of COVID-19. Lower staffing costs resulting from this decision resulted in a $3.1 million reduction in compensation and benefits expenses during the three months ended September 30, 2020 when compared to the three months ended September 30, 2019. Additionally, decreases in advertising expenses totaling $1.8 million and a $1.1 million reduction in consulting, audit, legal and IT fees contributed to the lower level of SG&A expenses during the three months ended September 30, 2020. Legal expenses incurred in connection with shareholder litigation during the three months ended September 30, 2020 totaled $0.6 million.

Interest Expense Interest expense was $0.2 million and $1.0 million for the third quarter of 2020 and 2019, respectively. The decrease was due to a lower average debt balance and lower interest rates during the third quarter of 2020.

Provision for Income Taxes Provision for income taxes increased $1.0 million for the third quarter of 2020 compared with the third quarter of 2019. The increase in the tax provision was primarily due to the increase in pretax income. Our effective tax rate for the three months ended September 30, 2020 and 2019 was 28.1% and 16.5%, respectively.

Comparison of the nine months ended September 30, 2020 to the nine months ended September 30, 2019

	(in thousands)			
	2020	% of sales[1]	2019	% of sales[1]
Net sales	$ 243,501		$ 261,755	
Cost of sales	77,828	32.0 %	79,384	30.3 %
Gross profit	165,673	68.0 %	182,371	69.7 %
Selling, general and administrative expenses	161,972	66.5 %	179,314	68.5 %
Income from operations	3,701	1.5 %	3,057	1.2 %
Interest expense	(1,646)	(0.7)%	(2,948)	(1.1)%
Other income	-	- %	22	0.0 %
Income before income taxes	2,055	0.8 %	131	0.1 %
Benefit (provision) for income taxes	2,601	1.1 %	(348)	(0.1)%
Net income (loss)	$ 4,656	1.9 %	$ (217)	(0.1)%

[1] Amounts may not foot due to rounding.

Net Sales Net sales for the nine months ended September 30, 2020 decreased $18.3 million, or 7.0%, compared with the nine months ended September 30, 2019, primarily due to a $21.5 million decrease in net sales generated by comparable stores. The decrease in sales at comparable stores for the nine months ended September 30, 2020 was primarily due to a decrease in traffic following the onset of COVID-19 and our response to the pandemic, which included the reduction of store hours. Net sales generated by stores not included in the comparable store base increased $3.2 million.

Gross Profit Gross profit for the nine months ended September 30, 2020 decreased $16.7 million, or 9.2%, compared with the nine months ended September 30, 2019. The gross margin rate was 68.0% and 69.7% for the nine months ended September 30, 2020 and 2019, respectively. The decrease in gross margin rate was primarily driven by an increase in cost of products sold and a higher mix of delivery services rendered during 2020.

Selling, General, and Administrative Expenses SG&A expenses for the nine months ended September 30, 2020 decreased $17.3 million, or 9.7%, compared with the nine months ended September 30, 2019. The decrease in SG&A expenses was primarily due to a $12.8 million reduction in compensation and benefits costs due to lower variable compensation expenses, headcount reductions and a decrease in store hours following the onset of COVID-19. Additionally, decreases in advertising expenses totaling $4.2 million and a reduction in replenishment trucks sent from our distribution centers to our stores resulting in a $0.9 million reduction in transportation costs contributed to the lower level of SG&A expenses during the nine months ended September 30, 2020. The SG&A expense reductions were partially offset by a $2.2 million asset impairment charge taken during the first quarter of 2020. Legal expenses incurred in connection with shareholder litigation during the nine months ended September 30, 2020 totaled $2.0 million.

Interest Expense Interest expense was $1.6 million and $2.9 million for the nine months ended September 30, 2020 and 2019, respectively. The decrease was due to a lower average debt balance during the nine months ended September 30, 2020.

Provision for Income Taxes Provision for income taxes decreased $2.9 million for the nine months ended September 30, 2020 compared with the nine months ended September 30, 2019. Our effective tax rate for the nine months ended September 30, 2020 and 2019 was (126.6)% and 265.7%, respectively. The tax benefit recognized during the nine months ended September 30, 2020 and the change in the effective tax rate was primarily due the enactment of the CARES Act, which gives the Company the ability to carry back federal net operating losses to years with a federal statutory tax rate of 35%.

Non-GAAP Measures

We calculate Adjusted EBITDA by taking net income (loss) calculated in accordance with accounting principles generally accepted in the United States ("GAAP"), and adjusting for interest expense, income taxes, depreciation and amortization, and stock based compensation expense. Adjusted EBITDA margin is equal to Adjusted EBITDA divided by net sales. We calculate pretax return on capital employed by taking income (loss) from operations divided by capital employed. Capital employed equals total assets less accounts payable, income taxes payable, other accrued liabilities, deferred rent, lease liability and other long-term liabilities. Other companies may calculate both Adjusted EBITDA and pretax return on capital employed differently, limiting the usefulness of these measures for comparative purposes.

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, for budgeting and planning purposes and for assessing the effectiveness of capital allocation over time. 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.

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.

The reconciliation of Adjusted EBITDA to net income for the three and nine months ended September 30, 2020 and 2019 is as follows:

	(in thousands) Three Months Ended September 30,			
	2020	% of sales[1]	2019	% of sales[1]
Net income (loss)	$ 1,914	2.3 %	$ (1,383)	(1.6)%
Interest expense	239	0.3 %	1,027	1.2 %
Income taxes	748	0.9 %	(274)	(0.3)%
Depreciation and amortization	7,656	9.4 %	8,308	9.7 %
Stock based compensation	567	0.7 %	660	0.8 %
Adjusted EBITDA	$ 11,124	13.7 %	$ 8,338	9.7 %

	(in thousands) Nine Months Ended September 30,			
	2020	% of sales[1]	2019	% of sales[1]
Net income (loss)	$ 4,656	1.9 %	$ (217)	(0.1)%
Interest expense	1,646	0.7 %	2,948	1.1 %
Income taxes	(2,601)	(1.1)%	348	0.1 %
Depreciation and amortization	23,738	9.7 %	24,508	9.4 %
Stock based compensation	1,671	0.7 %	2,169	0.8 %
Adjusted EBITDA	$ 29,110	12.0 %	$ 29,756	11.4 %

[1] Amounts do not foot due to rounding.

The calculation of pretax return on capital employed is as follows:

($ in thousands)	**September 30,**	
	2020[1]	**2019[1]**
(Loss) income from operations (trailing twelve months)	$ (712)	$ 3,762
Total Assets	378,380	389,561
Less: Accounts payable	(15,605)	(25,280)
Less: Income tax payable	(110)	(72)
Less: Other accrued liabilities	(35,986)	(26,119)
Less: Lease liability[2]	(154,962)	(114,490)
Less: Other long-term liabilities	(4,185)	(3,669)
Capital Employed	$ 167,532	$ 219,931
Pretax Return on Capital Employed	(0.4)%	1.7 %

[(1)] Income statement accounts represent the activity for the trailing twelve months ended as of each of the balance sheet dates. Balance sheet accounts represent the average account balance for the four quarters ended as of each of the balance sheet dates.

[(2)] Represents the average lease liability and deferred rent account balances for the four quarters ended as of each of the balance sheet dates.

Liquidity and Capital Resources

Our principal liquidity requirements have been for working capital and capital expenditures. Our principal sources of liquidity are $9.0 million of cash and cash equivalents at September 30, 2020, our cash flow from operations, and borrowings available under our Credit Agreement. We expect to use this liquidity for purchasing additional merchandise inventory, maintaining our existing stores, and general corporate purposes.

Following the onset of COVID-19, we took immediate steps to curtail operating expenses and conserve cash. Actions taken to reduce expenses included workforce reductions, the temporary suspension of incentive compensation programs, salaried employee wage reductions, adjustments to the number of replenishment trucks sent from our distribution centers to our stores, decreases in advertising spend and curtailment of other SG&A costs. These cost savings measures, combined with a lower level of variable selling expenses, have contributed to a $17.3 million reduction of SG&A expenses during the nine months ended September 30, 2020 when compared to the nine months ended September 30, 2019. Actions taken to conserve cash included cutting anticipated spending on capital projects and negotiating rent deferrals with our landlords. These actions contributed to the cash generating activities that enabled us to reduce our debt balance by $56.0 million during the nine months ended September 30, 2020. While we are encouraged by the current business trend, the recent escalation of COVID-19 cases across many of the markets we serve could continue to have a negative impact on our business. Accordingly, we are taking a conservative approach to adding headcount, increasing trucking schedules, and taking other actions that would lead to an increase in SG&A expense.

On September 18, 2018, Holdings and its operating subsidiary, The Tile Shop, LLC, entered into a Credit Agreement with Bank of America, N.A., Fifth Third Bank and Citizens Bank (the “Credit Agreement”). The Credit Agreement provides the Company with a senior credit facility consisting of a $100.0 million revolving line of credit through September 18, 2023. Borrowings pursuant to the Credit Agreement initially bear interest at a LIBOR or base rate. The LIBOR-based rate ranges from LIBOR plus 1.50% to 2.25% depending on our rent adjusted leverage ratio. The base rate is equal to the greatest of (a) the Federal funds rate plus 0.50%, (b) the Bank of America “prime rate,” and (c) the Eurodollar rate plus 1.00%, in each case plus 0.50% to 1.25% depending on our rent adjusted leverage ratio. At September 30, 2020, the base interest rate was 4.25% and the LIBOR-based interest rate was 2.15%. Borrowings outstanding consisted of $7.0 million on the revolving line of credit as of September 30, 2020. We also have standby letters of credit outstanding related to our workers’ compensation and medical insurance policies. As of September 30, 2020 and 2019, the standby letters of credit totaled $1.9 million and $1.3 million, respectively. There was $91.1 million available for borrowing on the revolving line of credit as of September 30, 2020, which may be used to support our growth and for working capital purposes.

The Credit Agreement is secured by virtually all of our assets, including but not limited to, inventory, receivables, equipment and real property. 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, or make investments. The Credit Agreement also includes financial and other covenants, including covenants to maintain certain fixed charge coverage ratios and consolidated total rent adjusted leverage ratios. We were in compliance with the covenants as of September 30, 2020.

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 twelve months.

Capital Expenditures

Capital expenditures were $1.3 million and $22.8 million for the nine months ended September 30, 2020 and 2019, respectively. The decrease in capital expenditures was driven by our plan to limit capital spending and focus on reducing debt during the nine months ended September 30, 2020.

Cash flows

The following table summarizes our cash flow data for the nine months ended September 30, 2020 and 2019.

	(in thousands) Nine Months Ended September 30,	
	2020	2019
Net cash provided by operating activities	$ 57,347	$ 33,612
Net cash used in investing activities	(1,315)	(22,229)
Net cash used in financing activities	(56,278)	(8,540)

Operating activities

Net cash provided by operating activities during the nine months ended September 30, 2020 was $57.3 million compared with $33.6 million during the nine months ended September 30, 2019. The increase was primarily attributable to an improvement in net income, actions taken to reduce inventory levels, and an increase in customer deposits during the nine months ended September 30, 2020.

Investing activities

Net cash used in investing activities totaled $1.3 million for the nine months ended September 30, 2020 compared with $22.2 million for the nine months ended September 30, 2019. The decrease in capital expenditures was driven by our plan to limit capital spending and focus on reducing debt during the nine months ending September 30, 2020.

Financing activities

Net cash used in financing activities was $56.3 million for the nine months ended September 30, 2020 compared with $8.5 million for the nine months ended September 30, 2019. Net cash used in financing activities during the nine months ended September 30, 2020 was applied toward reducing our long-term debt by $56.0 million during the nine months ending September 30, 2020.

Cash and cash equivalents totaled $9.0 million at September 30, 2020 compared with $9.1 million at December 31, 2019. Working capital was $25.8 million at September 30, 2020 compared with $52.3 million at December 31, 2019. The decrease in working capital was primarily due to a decrease in inventory and an increase in customer deposits.

Off-Balance Sheet Arrangements

As of September 30, 2020 and December 31, 2019, 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 September 30, 2020, there were no material changes to our contractual obligations outside the ordinary course of business.

Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued a final standard on accounting for credit losses. The new standard was initially effective for us in 2020, and requires a change in credit loss calculations using the expected loss method. In November 2019, the FASB issued Accounting Standards Update 2019-10, “Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates,” which, among other things, defers the effective date of Accounting Standards Update 2016-13, the standard on accounting for credit losses, for public filers that are considered smaller reporting companies as defined by the Securities and Exchange Commission (the “SEC”) to fiscal years beginning after December 15, 2022, including interim periods within those years. Early adoption is permitted. We are evaluating the effect of this standard on our consolidated financial statements and related disclosures.

In March 2020, the FASB issued guidance providing optional expedients and exceptions to account for the effects of reference rate reform to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued. The optional guidance is effective as of beginning of the reporting period when the election is made through December 31, 2022. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

With the exception of the impacts of COVID-19, which are discussed elsewhere in this document, there have been no material changes in our reported market risks or risk management policies since the filing of our Annual Report on Form 10-K for the year ended December 31, 2019, which was filed with the SEC on March 13, 2020.

ITEM 4. CONTROLS AND PROCEDURES

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 SEC, 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 September 30, 2020 and have concluded that our disclosure controls and procedures were not effective as of September 30, 2020 due to material weaknesses in our internal control over financial reporting as described below.

On January 1, 2019, we implemented an ERP system on a company-wide basis. As previously disclosed, during the year ended December 31, 2019, we identified two material weaknesses in internal control over financial reporting that arose from the new ERP system implementation. The two material weaknesses are:

- The ineffective design and implementation of effective controls with respect to the ERP system conversion. Specifically, we did not exercise sufficient corporate governance and oversight, design effective controls over the ERP implementation to ensure appropriate data conversion and data integrity, or provide sufficient end-user training to our employees to ensure that our employees could effectively operate the system and carry out their responsibilities.

- The ineffective design and implementation of IT general controls (ITGCs) for the ERP system that are relevant to the preparation of our financial statements. Specifically, we did not (i) maintain adequate control over user access to the ERP system to ensure appropriate segregation of duties and to restrict access to financial applications and data; and (ii) maintain adequate documentation practices surrounding management and control of IT changes affecting financial IT applications. Our business process controls (automated and manual) are dependent on the affected ITGCs and, therefore, are also deemed ineffective because they are adversely impacted by ineffective ITGCs.

Planned Remediation of Material Weaknesses

We have adjusted, and intend to consider further adjustments to, our previously disclosed plans relating to addressing these material weaknesses. The identified material weaknesses in internal control over financial reporting will not be considered remediated until controls have been designed and/or controls are in operation for a sufficient period of time for our management to conclude that the material weaknesses have been remediated. We will continue to assess the effectiveness of our remediation efforts in connection with our evaluations of internal control over financial reporting.

Changes in Internal Control Over Financial Reporting

There were no changes in internal control over financial reporting (as defined by Rules 13a-15(f) or 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is, from time to time, party to lawsuits, threatened lawsuits, disputes and other claims arising in the normal course of business. The Company assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. Where it is probable that the Company will incur a loss and the amount of the loss can be reasonably estimated, the Company records a liability in its consolidated financial statements. These legal accruals may be increased or decreased to reflect any relevant developments on a quarterly basis. Where a loss is not probable or the amount of the loss is not estimable, the Company does not record an accrual, consistent with applicable accounting guidance. Based on information currently available to the Company, advice of counsel, and available insurance coverage, the Company believes that its established accruals are adequate and the liabilities arising from the legal proceedings will not have a material adverse effect on its consolidated financial condition. However, in light of the inherent uncertainty in legal proceedings, there can be no assurance that the ultimate resolution of a matter will not exceed established accruals. As a result, the outcome of a particular matter or a combination of matters may be material to the Company's results of operations for a particular period, depending upon the size of the loss or the Company's income for that particular period.

As previously disclosed, the Company was a nominal defendant and certain current and former directors were individual defendants in litigation brought by K-Bar Holdings LLC and Wynnefield Capital, Inc. ("Plaintiffs"), in the Delaware Court of Chancery (the "Action"), in November 2019. Plaintiffs pleaded the Action as a derivative claim on behalf of the Company and also on behalf of a putative class of certain holders of the Company's common stock as of October 18, 2019 (the "Putative Class"). Plaintiffs alleged breaches of fiduciary duty in connection with, among other things, the Company's decision to delist from Nasdaq and deregister its common stock under the Exchange Act, as amended. As previously disclosed, on June 30, 2020, the Company, the individual defendants, and Plaintiffs reached an agreement to settle all claims in the Action, which was documented in a Stipulation of Settlement dated August 7, 2020 (the "Stipulation of Settlement"). Among other terms, the Stipulation of Settlement provides for a settlement fund of $12.0 million, which was funded by the Company's insurers, and which will be distributed to members of the Putative Class pursuant to an allocation and claims distribution process proposed by the Plaintiffs and approved by the Court. The Stipulation of Settlement was approved by the Court on October 12, 2020. The Court also granted the Plaintiffs' counsel a $2.7 million award of attorney's fees in connection with the settlement of the derivative claims. The Company's insurers have agreed to cover the fee award to the Plaintiffs' attorneys. The Company recorded a $14.7 million other current liability and a $14.7 million other current asset in the Consolidated Balance Sheet as of September 30, 2020 to reflect the Company's obligation to the Putative Class, the attorney fee award and the corresponding receivable from the insurance companies.

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, 2019 other than with respect to the risk factor discussed below. In addition, many of the risk factors disclosed in Item 1A of our Annual Report have been, and we anticipate will continue to be further, heightened or exacerbated by the impact of the COVID-19 pandemic.

The COVID-19 pandemic has negatively impacted, and we anticipate will continue to adversely affect, our business, financial condition, results of operations and cash flows, and our ability to maintain compliance with our current, or obtain new, lending facilities.

The novel strain of coronavirus, COVID-19, was first identified in China in late 2019. It has since spread globally and was declared a pandemic by the World Health Organization in March 2020. The COVID-19 pandemic has materially adversely affected our business, and we anticipate it will continue to negatively impact us at least throughout the duration of the pandemic. Due to the inherent uncertainty of the unprecedented and rapidly evolving situation, the full extent of the impact of the COVID-19 pandemic on our business and financial performance, including our ability to comply with the financial covenants under our Credit Agreement, remains uncertain. The United States has entered a recession as a result of the COVID-19 pandemic, which may prolong and exacerbate the negative impact on us.

In response to COVID-19, governmental authorities have implemented numerous measures to try to contain the virus, such as travel bans and restrictions, prohibitions on group events and gatherings, shutdowns of certain businesses, curfews, shelter in place orders and recommendations to practice social distancing. Although many governmental measures have had specific expiration dates, some of those measures have already been extended more than once, and there is considerable uncertainty regarding the duration of such measures and the implementation of any potential future measures, especially as cases continue to increase across the United States, with the potential for additional challenges resulting from the colder winter months, including the possibility that cases will continue to climb as more activities move indoors and the onset of cold and flu season. Such measures have impacted, and may continue to affect, our workforce, operations, suppliers and customers. For instance, several of our stores were required to limit their hours or close entirely, and our store traffic and sales decreased by approximately 50% during the initial weeks following the end of the first quarter of 2020 when compared to the same period in 2019. While many retailers elected to expand their hours as state and local restrictions started to ease, we maintained a reduced hours schedule. The decision to limit the number of hours our stores were open had an adverse impact on customer traffic and sales. We also experienced an elevated level of product outages during the third quarter of 2020 due to vendor production delays. In many instances, vendor plants were forced to close or operate at a reduced capacity pursuant to a government mandate following the onset of COVID-19. While most vendors have been able to resume normal operations, many continue to work through large backlogs, and we could be materially adversely affected by any product shortages resulting from such backlogs.

We reduced the size of our workforce following the onset of COVID-19 and may need to take additional actions to further reduce the size of our workforce in the future; such reductions incur costs, and we can provide no assurance that we will be able to rehire our workforce in the event our business experiences a subsequent recovery. Furthermore, while we have implemented work from home policies for a portion of our workforce, our store-based workforce comes into close contact with our customers as part of their day-to-day responsibilities, which increases the likelihood that they could contract COVID-19, which could potentially adversely affect our ability to adequately staff our stores and require us to incur additional costs to sanitize the impacted location. When a health risk is identified, we continue to follow a practice to close our stores, quarantine affected staff and complete a rigorous cleaning process before reopening the store, which process can take 2-3 days to complete and has had an adverse impact on our sales. In addition, employees working remotely may not have the resources available to enable them to maintain the same level of productivity and efficiency, and increased reliance on remote access to our information systems increases our exposure to potential cybersecurity threats.

We took steps to curtail our operating expenses and conserve cash, including the temporary suspension of incentive compensation programs and a reduction of salaried employee compensation; limitation of inventory purchases; curtailment of anticipated spending on capital projects; and negotiation of rent deferrals with our landlords during the second quarter of 2020. We took a conservative approach to adding back incremental costs to our expense structure during the third quarter of 2020, and we have maintained a reduced hours schedule for our stores. We may elect or need to take additional remedial measures in the future as the information available to us continues to develop, including with respect to our workforce, relationships with our third-party vendors, and our customers. There is no certainty that the remedial measures we have implemented to date, or any additional remedial steps we may take in the future, will be sufficient to mitigate the risks posed by COVID-19. Further, such measures could potentially materially adversely affect our business, financial condition and results of operations and create additional risks for us.

The recent escalation of COVID-19 cases across many of the markets we serve could have a negative impact on us. Specifically, we could be adversely impacted by limitations on our employees to perform their work due to illness caused by the pandemic or local, state, or federal orders requiring our stores to close or employees to remain at home; limitation of carriers to deliver our product to customers; product shortages; limitations on the ability of our customers to conduct their business and purchase our products and services; and limitations on the ability of our customers to pay us in a timely manner. These events could have a material, adverse effect on our results of operations, cash flows and liquidity.

The ultimate magnitude of COVID-19, including the full extent of the material negative impact on our financial and operational results, will depend on future developments, including the duration and severity of the pandemic, including the extent of the current resurgence of cases in the United States and the possibility that cases will continue to increase as the weather becomes colder, and the related length of its impact on the global economy, which remain uncertain and cannot be predicted at this time. The resumption of our normal business operations may be delayed or constrained by lingering effects of COVID-19 on our customers, suppliers and/or third-party service providers. Furthermore, the extent to which our mitigation efforts are successful, if at all, is not currently ascertainable. Due to the daily evolution of the COVID-19 pandemic and the responses to curb its spread, we cannot predict the full impact of the COVID-19 pandemic on our business and results of operations, but our business, financial condition, results of operations and cash flows have already been materially adversely impacted, and we anticipate they will continue to be adversely affected by the COVID-19 pandemic and its negative effects on global economic conditions. Any recovery from the COVID-19 pandemic and related economic impact may also be slowed or reversed by a variety of factors, such as the current widespread resurgence in COVID-19 infections. In addition, even after the COVID-19 pandemic has subsided, we may continue to experience adverse impacts to our business as a result of its national and, to some extent, global economic impact, including the current recession and any recession that may occur in the future.

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

	Total Number of Shares Purchased		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Program	Maximum Number of Shares that May Yet be Purchased Under Plans or Programs
July 1, 2020 - July 31, 2020	27,486	(1)	$ 0.83	-	-
August 1, 2020 - August 31, 2020	2,397	(2)	0.00	-	-
September 1, 2020 - September 30, 2020	6,062	(2)	0.00	-	-
	35,945		$ 0.63	-	-

(1) A total of 14,779 shares were withheld by the Company to satisfy tax withholding obligations due upon the vesting of restricted stock grants, as allowed by the 2012 Omnibus Award Plan. The Company did not pay cash to repurchase these shares, nor were these repurchases part of a publicly announced plan or program. An additional 12,707 shares were repurchased by the Company pursuant to the terms of the underlying restricted stock agreements, as allowed by the 2012 Omnibus Award Plan. The Company paid $0.0001 per share, the par value, to repurchase these shares. These repurchases were not part of a publicly announced plan or program.

(2) These shares were repurchased by the Company pursuant to the terms of the underlying restricted stock agreements, as allowed by the 2012 Omnibus Award Plan. The Company paid $0.0001 per share, the par value, to repurchase these shares. These repurchases were not part of a publicly announced plan or program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

The following table sets forth, as of September 30, 2020, information regarding beneficial ownership of our common stock by each person, or group of affiliated persons, known by us to beneficially own more than 5% of our common stock.

Beneficial ownership is determined according to the rules of the SEC, and generally means that a person has beneficial ownership of a security if he, she, or it possesses sole or shared voting or investment power of that security. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons named in the table below have sole voting and investment power with respect to all shares of common stock shown that they beneficially own, subject to community property laws where applicable. The information does not necessarily indicate beneficial ownership for any other purpose.

We have based our calculation of the percentage of beneficial ownership based on 51,693,455 shares of our common stock outstanding on September 30, 2020.

Unless otherwise noted below, the address for each of the shareholders in the table below is c/o Tile Shop Holdings, Inc., 14000 Carlson Parkway, Plymouth, Minnesota 55441.

Name of Beneficial Owner	**Number of Shares Beneficially Owned**	**Percent**
5% Stockholders:[(6)]		
Peter J. Jacullo III, Director[(1)]	8,576,902	16.6%
Peter H. Kamin, Chairman of the Board[(2)]	6,848,884	13.2%
Robert A. Rucker[(3)]	5,530,493	10.7%
B. Riley Financial, Inc.[(4)]	4,144,303	8.0%
Savitr Capital LLC[(5)]	2,770,535	5.4%

(1) Based on a Schedule 13D/A filed with the SEC on January 16, 2020 by JWTS, Inc., a Delaware corporation (“JWTS”), Peter J. Jacullo III, and the Katherine D. Jacullo Children’s 1993 Irrevocable Trust (the “Jacullo Trust”), and a Form 4 filed by Mr. Jacullo with the SEC on July 22, 2020. JWTS directly holds 4,441,180 shares of common stock and has sole voting and dispositive power with respect to such shares. Mr. Jacullo is the President and sole member of the board of directors of JWTS, holds sole voting and dispositive power over the securities held by JWTS, and may be deemed to beneficially own the securities held by JWTS. The Jacullo Trust directly holds 3,676,989 shares of common stock and has sole voting and dispositive power with respect to such shares. Mr. Jacullo is a co-trustee of the Jacullo Trust, holds shared voting and dispositive power over the securities held by the Jacullo Trust, and may be deemed to beneficially own the securities held by the Jacullo Trust. Mr. Jacullo disclaims beneficial ownership of the shares of common stock held by the Jacullo Trust, except to the extent of his pecuniary interest therein. Mr. Jacullo directly holds 458,733 shares of common stock over which he has sole voting and dispositive power, including 71,900 shares of unvested restricted common stock.

(2) Based on a Schedule 13D/A filed with the SEC on January 14, 2020 by Peter H. Kamin and a Form 4 filed by Mr. Kamin with the SEC on July 22, 2020. Includes (i) 1,694,608 shares of common stock held by the Peter H. Kamin Revocable Trust dated February 2003, of which Peter H. Kamin is the trustee; (ii) 1,033,562 shares of common stock held by the Peter H. Kamin Childrens Trust dated March 1997, of which Mr. Kamin is the trustee; (iii) 97,453 shares of common stock held by the Peter H. Kamin Family Foundation, of which Mr. Kamin is the trustee; (iv) 328,711 shares of common stock held by the Peter H. Kamin GST Trust, of which Mr. Kamin is the trustee; (v) 333,307 shares of common stock held by 3K Limited Partnership, of which Mr. Kamin is the general partner; and (vi) 3,361,243 shares of common stock directly held by Mr. Kamin, including 107,849 shares of unvested restricted common stock. Mr. Kamin has sole voting and dispositive power over the shares.

(3) Based on a Schedule 13D/A filed with the SEC on January 27, 2020 by The Tile Shop, Inc. (“TS, Inc.”) and Robert A. Rucker. Includes 5,452,428 shares of common stock held by TS, Inc., 3,380 shares of common stock held by Mr. Rucker’s spouse, 23,660 shares of common stock held by Mr. Rucker as custodian for minor children under the Uniform Gifts to Minors Act, and 51,025 shares held directly by Mr. Rucker. Mr. Rucker holds sole voting and dispositive power over all such securities. Mr. Rucker is the sole officer and member of the board of directors of TS, Inc., holds sole voting and dispositive power over the securities held by TS, Inc., and may be deemed to beneficially own the securities held by TS, Inc. The principal address for TS, Inc. and Mr. Rucker is 15236 Boulder Pt. Rd., Eden Prairie, Minnesota 55347.

(4) Based on a Schedule 13D/A filed with the SEC on October 15, 2020 by B. Riley Financial, Inc. (“BRF”), B. Riley Capital Management, LLC (“BRCM”), BRC Partners Management GP, LLC (“BRPGP”), BRC Partners Opportunity Fund, LP (“BRPLP”), B. Riley Securities, Inc. (“BRS”) and Bryant R. Riley (collectively, the “B. Riley Reporting Persons”). BRPLP directly holds 2,478,645 shares of common stock, and BRS directly holds 1,623,058 shares of common stock. BRPGP is a subsidiary of BRCM, a registered investment advisor, and is the general partner of BRPLP. BRF is the parent company of BRCM. As a result, BRPGP, BRCM and BRF may be deemed to indirectly beneficially own the shares of common stock held by BRPLP. BRF is the parent company of BRS. As a result, BRF may be deemed to indirectly beneficially own the shares of common stock held by BRS. Mr. Riley may beneficially own 42,600 shares of common stock held as sole trustee of the Robert Antin Children Irrevocable Trust. Mr. Riley disclaims beneficial ownership of the shares held by the Robert Antin Children Irrevocable Trust except to the extent of his pecuniary interest therein. BRF and Mr. Riley, the Co-Chief Executive Officer and Chairman of the Board of Directors of BRF, may be deemed to indirectly beneficially own the shares of common stock held directly by BRPLP or BRS. BRF and Mr. Riley disclaim beneficial ownership of the shares held by BRPLP and BRS except to the extent of its or his pecuniary interest therein. Each of the B. Riley Reporting Persons disclaims beneficial ownership of the securities reported in the Schedule 13D/A except to the extent of such B. Riley Reporting Person’s pecuniary interest therein. Each of BRPLP, BRPGP, BRCM, BRF and Mr. Riley may be deemed to have shared voting and dispositive power over the shares of common stock directly held by BRPLP. Each of BRS, BRF and Mr. Riley may be deemed to have shared voting and dispositive power over the shares of common stock directly held by BRS. Mr. Riley may be deemed to have sole voting and dispositive power over the shares of common stock held by the Robert Antin Children Irrevocable Trust. The business address for the B. Riley Reporting Persons is 11100 Santa Monica Blvd., Suite 800, Los Angeles, California 90025.

(5) Based on a Schedule 13G filed with the SEC on January 28, 2020 by Savitr Capital LLC (“Savitr”), Savitr holds shared voting and dispositive power over 2,770,535 shares of common stock. The business address of Savitr is 600 Montgomery Street, 47th Floor, San Francisco, California 94111.

(6) BlackRock, Inc. (“BlackRock”) filed a Schedule 13G/A with the SEC on January 31, 2019, reporting that it holds sole voting power over 6,371,225 shares and sole dispositive power over 6,448,065 shares of common stock. While BlackRock did not file an amendment to its Schedule 13G for the year ended December 31, 2019, BlackRock’s Form 13F filed with the SEC on August 14, 2020 did not disclose any holdings of our common stock. The business address of BlackRock is 55 East 52nd Street, New York, New York 10055.

ITEM 6. EXHIBITS

Exhibit No.	Description
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 (Reg. No. 333-182482) 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 (Reg. No. 333-182482) filed with the Securities and Exchange Commission on July 2, 2012).
10.1+*	Employment Agreement, dated October 16, 2020, by and between the Tile Shop Holdings, Inc. and Joe 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.
99.1	Stipulation of Settlement, dated August 7, 2020 (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 7, 2020).
101*	The following financial statements from the Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 are formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statements of Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements.
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

+ Management compensatory plan or arrangement
* 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: November 9, 2020	By: /s/ CABELL H. LOLMAUGH Cabell H. Lolmaugh Chief Executive Officer
Dated: November 9, 2020	By: /s/ NANCY DIMATTIA Nancy DiMattia Chief Financial Officer

Exhibit 10.1

The Tile Shop
WWW.TILESHOP.COM

Jamie Elliott
Director of Talent Acquisition
The Tile Shop
Phone: 952-797-4349
E-mail: Jamie.elliott@tileshop.com

Offer of Employment: 07/21/2020

Joe Kinder
Watertown, MN

Dear Joe,

Congratulations! I am pleased to extend this letter to you as a formal offer of promotion with The Tile Shop Corporate Headquarters. The position being offered is that of ***Senior Vice President of Supply Chain & Distribution.*** This position is a named executive officer of the company and will be reporting directly to the President & CEO.

Specifically, this offer of employment includes the following:

- You will be paid an annual salary of $218,000.
- Eligible to participate in the Company's corporate bonus program. Under this plan, you will have a target bonus opportunity of 40% of your annual salary based on the Company's performance. More details surrounding the corporate bonus plan are attached.
- Relocation from Alabama to Minnesota per The Tile Shop Relocation Policy. Relocation contract and details surrounding the policy are attached.
- Paid Time Off per the attached Corporate Policy, along with 7 paid Holidays.
- You will be qualified on the first day of the month, following sixty (60) days of employment, to participate in the standard benefits program in effect for employees, including medical, dental, life, and accident insurance.
- 401(k) Retirement Savings Plan.
- Change of Control:

    (A) In the event of a Change of Control of the Company, if (1) you are not offered employment or continued employment by the Successor Entity upon consummation of such Change of Control, or

    (2) prior to the first anniversary of such Change of Control, (a) you are discharged by the Successor Entity other than for Cause or (b) you resign from employment with the Successor Entity as a result of a Constructive Termination (as defined below), all of your unvested restricted stock award grants will vest and become exercisable immediately prior to such Change of Control or cessation of employment, as applicable.

    (B) "Constructive Termination" will occur if you resign from your employment with the Successor Entity within 30 days following (1) a material reduction in your annual base salary or job responsibility or (2) the relocation of your principal office location to a facility or location located more than 50 miles from your principal office location on the date of the Change of Control.

(C) If you are terminated without Severance Cause (as defined below) or resign for Good Reason (as defined below) due to a Change of Control, you will be entitled to receive an amount equal to your then-current base salary for a six-month period commencing with the effective date of your termination of employment with the Company (the “Severance Period”). The foregoing amount will be payable pro rate over the Severance Period in accordance with the Company’s normal payroll practices; provided, however, that the Company will not pay any severance payments unless and until (a) you execute and deliver to the Company a general release (b) such Release is executed and delivered to the Company within 21 days after your termination date and (c) all time periods for revoking the Release have lapsed. If you are terminated during the month of December of any calendar year and are 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 you in December of the preceding calendar year will be paid to you on the first date in January on which you would otherwise be entitled to any payment. Following your termination date, all benefits offered by the Company, including health insurance benefits, will cease. From and after such date, you may elect to continue your participation in the Company’s health insurance benefits at your expense pursuant to COBRA by notifying the Company in the time specified in the COBRA notice you will be provided and paying the monthly premium yourself.

(D) “Severance Cause” means (1) willful misconduct in connection with your employment or willful failure to perform your responsibilities in the best interests of the Company, as determined by the CFO; (2) conviction of, or plea of nolo contendre or guilty to, a felony other than an act involving a traffic related infraction; (3) any act of fraud, theft, embezzlement or other material dishonesty by you that harmed the Company; (4) 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 (5) repeated failure to perform your duties and obligations of your position with the Company, which failure is not cured within 30 days after notice of such failure from the CFO to you.

(E) “Good Reason” for your resignation will exist if you resign from your employment with the Company as a result of (1) a material reduction in your annual base salary or job responsibility or (2) the relocation of your principal office location to a facility or location located more than 50 miles from your current principal office location.

- This offer is contingent upon review by our corporate office and successful completion of our reference checking process, including but not limited to a background investigation, drug screen, personal references, and prior work history.
- As a Senior VP, you will be required, as a condition of your employment with The Tile Shop, to sign a 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.

The Company reserves the right to make changes to the corporate bonus plan and other benefits outlined in the letter above and attached.

Joe, we hope you decide to accept this promotion at The Tile Shop Corporate Headquarters. We are confident that your skills and abilities will be a tremendous asset to our team and that you will be afforded opportunities to learn and advance your career with us. We recognize that you retain the option, as does the company, of ending your employment at any time, with or without notice and with or without cause. As such, your employment with The Tile Shop is at-will, and neither this letter nor any other oral or written representations may be considered a contract for any period of time. If you accept the offer of employment, please sign below. If you have any questions, please do not hesitate to contact Jamie Elliott at 952-797-4349. We would love you to start your Corporate Career at The Tile Shop on July 31st, 2020, at 8:00am.

Congratulations!!

Sincerely,
/s/ Cabell Lolmaugh
Cabell Lolmaugh
President & CEO
The Tile Shop

I accept the offer of employment under the terms and conditions listed above.

/s/ Joseph Kinder	October 16, 2020
Name	Date

EXHIBIT A

TILE SHOP HOLDINGS, INC.

NONDISCLOSURE, CONFIDENTIALITY, ASSIGNMENT AND NONCOMPETITION AGREEMENT

THIS NONDISCLOSURE, CONFIDENTIALITY, ASSIGNMENT AND NONCOMPETITION AGREEMENT (this "Agreement") is made this 31st day of July, 2020, by and between Tile Shop Holdings, Inc., a Delaware corporation (collectively with any predecessors, successors, and assignees, the "Company"), and Joe Kinder ("I" or " me"), to be effective on July 31, 2020.

In consideration of my engagement or continued engagement as an officer, employee, director, advisor, partner, independent contractor or consultant of the Company (an "Associate"), and for other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, I hereby agree as follows:

1. DEFINITIONS.

1.1. "Affiliate" means any direct or indirect subsidiary of the Company.

1.2. "Confidential Information" means any and all confidential and/or proprietary knowledge, data or information concerning the business, business relationships and financial affairs of the Company or its Affiliates whether or not in writing and whether or not labeled or identified as confidential or proprietary. By way of illustration, but not limitation, Confidential Information includes (a) Inventions and (b) research and development activities of the Company or its Affiliates, services and marketing plans, business plans, budgets and unpublished financial statements, licenses, prices and costs, customer and supplier information and information disclosed to the Company or its Affiliates or to me by third parties of a proprietary or confidential nature or under an obligation of confidence. Confidential Information is contained in various media, including without limitation, patent applications, computer programs in object and/or source code, flow charts and other program documentation, manuals, plans, drawings, designs, technical specifications, laboratory notebooks, supplier and customer lists, internal financial data and other documents and records of the Company or its Affiliates. Notwithstanding the foregoing, nothing in this Agreement is intended to or will be used in any way to prevent disclosure of Confidential Information in accordance with the immunity provisions set forth in the Defend Trade Secrets Act of 2016 (18 U.S.C. § 1833(b)), meaning the disclosure is (1) in confidence to a government official or attorney solely for the purpose of reporting or investigating a suspected legal violation; or (2) under seal in connection with a lawsuit or other proceeding (including an anti-retaliation lawsuit) .

1.3. "Inventions" means all ideas, concepts, discoveries, inventions, developments, improvements, formulations, products, processes, know-how, designs, formulas, methods, developmental or experimental work, clinical data, original works of authorship, software programs, software and systems documentation, trade secrets, technical data, or licenses to use (whether or not patentable or registrable under copyright or similar statutes), that are or were made, conceived, devised, invented, developed or reduced to practice or tangible medium by me, either alone or jointly with others (a) during any period that I am an Associate of the Company, whether or not during normal working hours or on the premises of the Company, that relate, directly or indirectly, to the business of the Company or its Affiliates, (b) at the request of or for the benefit of the Company during any period prior to my engagement as an Associate of the Company that relate, directly or indirectly, to the business of the Company or its Affiliates, or (c) that arise out of, or are incidental to, my engagement as an Associate of the Company.

1.4. "Prior Inventions" means any inventions made, conceived, devised, invented, developed or first reduced to practice by me, under my direction or jointly with others prior to the date of this Agreement and that do not constitute Inventions within the meaning of Section 1.3 above. Prior Inventions also means an invention for which no equipment, supplies, facility or trade secret information of the Company was used and which was developed entirely on my own time, and (1) which does not relate (a) directly to the business of the Company or (b) to the Company's actual or demonstrably anticipated research or development, or (2) which does not result from any work performed by the me for the Company.

1.5. "Third Party Information" means any confidential or proprietary information received by the Company or its Affiliates from third parties.

2. CONFIDENTIALITY.

2.1. Recognition of the Company's Rights. I understand that the Company continually obtains and develops valuable Confidential Information that may or has become known to me in connection with my engagement as an Associate of the Company. I acknowledge that all Confidential Information is and will remain the exclusive property of the Company or the third party providing such Confidential Information to myself, the Company, or the Company's Affiliates.

2.2. Nondisclosure of Confidential Information. I agree that during the term of my engagement as an Associate of the Company and thereafter, I will hold in strictest confidence and will not disclose, use, lecture upon, publish or otherwise make available to any third party (other than personnel of the Company or its Affiliates who need to know such information in connection with their work for the Company), any Confidential Information of the Company, except as such disclosure, use or publication may be required in connection with my work for the Company, or as expressly authorized in writing by an executive officer of the Company. I agree that I will use such Confidential Information only in the performance of my duties for the Company and in accordance with any Company policies with respect to the protection of Confidential Information. I agree not to use such Confidential Information for my own benefit or for the benefit of any other person or business entity.

2.3. Third Party Information. In addition, I understand that the Company has received and in the future will receive Third Party Information subject to a duty on the Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes.
During the term of my engagement as an Associate of the Company and thereafter, I will hold

Third Party Information in the strictest confidence and will not disclose to anyone (other than personnel of the Company or its Affiliates who need to know such information in connection with the performance of their duties for the Company) or use any Third Party Information, except as such disclosure or use may be required in connection with the performance of my duties for the Company, or as expressly authorized in writing by an executive officer of the Company.

2.4. Exceptions. My obligations under Sections 2.2 and 2.3 hereof will not apply to the extent that certain Confidential Information (a) is or becomes generally known within the Company's industry through no fault of mine; (b) was known to me at the time it was disclosed as evidenced by my written records at the time of disclosure; (c) is lawfully and in good faith made available to me by a third party who did not derive it from the Company or the Company' s Affiliates and who imposes no obligation of confidence to me, the Company, or the Company's Affiliates; or (d) is required to be disclosed by a governmental authority or by order of a court of competent jurisdiction, provided that such disclosure is subject to all applicable governmental or judicial protection available for like material and reasonable advance notice is given to the Company.

2.5. Protection and Return of Confidential Information. I agree to exercise all reasonable precautions to protect the integrity and confidentiality of Confidential Information in my possession and not to remove any materials containing Confidential Information from the premises of the Company, except to the extent necessary in the performance of my duties for the Company or unless expressly authorized in writing by an executive officer of the Company. Upon the termination of my engagement as an Associate of the Company, or at any time upon the Company's request, I will return immediately to the Company any and all notes, memoranda, specifications, devices, formulas and documents, together with copies thereof, and any other material containing or disclosing any Confidential Information of the Company or Third Party Information then in my possession or under my control.

3. ASSIGNMENT OF INVENTIONS.

3.1. Ownership of Inventions. I acknowledge that all Inventions already existing at the date of this Agreement or that arise after the date of this Agreement, belong to and are the absolute property of the Company and will not be used by me for any purpose other than carrying out my duties as an Associate of the Company.

3.2. Assignment of Inventions; Enforcement of Rights. Subject to Section 3.6, I hereby assign and agree to assign in the future to the Company all of my right, title and interest to any and all Inventions and any and all related patent rights, copyrights and applications and registrations therefore. I also agree to assign all my right, title and interest in and to any particular Inventions to a third party as directed by the Company. During and after my engagement as an Associate of the Company, I will cooperate with the Company, at the Company's expense, in obtaining proprietary protection for the Inventions and I will execute all documents that the Company reasonably requests in order to perfect the Company's rights in the Inventions. I hereby appoint the Company my attorney to execute and deliver any such documents on my behalf in the event I should fail or refuse to do so within a reasonable period following the Company's request. I understand that, to the extent this Agreement is construed in accordance with the laws of any country or state that limits the assignability to the Company of certain inventions, this Agreement will be interpreted not to apply to any such invention that a court rules or the Company agrees is subject to such limitation.

3.3. Works for Hire. I acknowledge that all original works of authorship made by me (solely or jointly with others) within the scope of my engagement as an Associate of the Company or any prior engagement by the Company, that are protectable by copyright are intended to be "works made for hire", as that term is defined in Section 101 of the United States Copyright Act of 1976 (the "Act"), and will be the property of the Company and the Company will be the sole author within the meaning of the Act. If the copyright to any such copyrightable work is not the property of the Company by operation of law, I will, without further consideration, assign to the Company all of my right, title and interest in such copyrightable work and will cooperate with the Company and its designees, at the Company's expense, to secure, maintain and defend for the Company's benefit copyrights and any extensions and renewals thereof on any and all such work. I hereby waive all claims to moral rights **in** any Inventions.

3.4. Records. I agree to keep and maintain adequate and current records (in the form of notes, sketches, drawings and **in** any other form that may be required by the Company) of all Inventions made by me during the period of my engagement as an Associate of the Company or any prior engagement by the Company, which records will be available to and remain the sole property of the Company at all times.

3.5. Obligation to Keep Company Informed. During the period of my engagement as an Associate of the Company, and for six months after termination of my engagement as an Associate of the Company, I agree to promptly disclose to the Company fully and in writing all Inventions authored, conceived or reduced to practice by me, either alone or jointly with others. In addition, I will promptly disclose to the Company all patent applications filed by me or on my behalf within one year after termination of my engagement as an Associate of the Company.

3.6. Prior Inventions. I further represent that the attached Schedule A contains a complete list of all Prior Inventions. I agree to update and/or amend Schedule A during my employment as may be necessary and to promptly notify the Company of the same. Such Prior Inventions are considered to be my property or the property of third parties and are not assigned to the Company hereunder. If there is no such Schedule A attached hereto, I represent that there are no such Prior Inventions. If I am claiming any Prior Inventions on Schedule A, I agree that, if in the course of my engagement as an Associate of the Company or any prior engagement by the Company, I incorporate any Prior Invention into a Company product, process or machine, the Company will automatically be granted and will have a non-exclusive, royalty-free, irrevocable, transferable, perpetual, world-wide license (with rights to sublicense) to make, have made, modify, use and sell such Prior Invention as part of, or in connection with, such product, process or machine. Notwithstanding the foregoing, I agree that I will not incorporate, or permit to be incorporated, Prior Inventions in any Company Inventions without the Company's prior written consent.

4. OTHER AGREEMENTS.

4.1. No Conflicting Obligations. I hereby represent to the Company that, except as identified on Schedule B, I am not bound by any agreement or any other previous or existing business relationship that conflicts with or prevents the full performance of my duties and obligations to the Company (including my duties and obligations under this or any other agreement with the Company) during my engagement as an Associate of the Company. I agree I will not enter into any agreement, either written or oral, that conflicts with this Agreement.

4.2. No Improper Use of Information of Prior Employers or Others. I understand that the Company does not desire to acquire from me any trade secrets, know-how or confidential business information I may have acquired from others. Therefore, I agree during my engagement as an Associate of the Company, I will not improperly use or disclose any proprietary information or trade secrets of any former or concurrent employer, or any other person or entity with whom I have an agreement or to whom I owe a duty to keep such information in confidence. Those persons or entities with whom I have such agreements or to whom I owe such a duty are identified on Schedule B.

5. NON-COMPETITION. I agree that while I am engaged as an Associate of the Company and for a period of one year after termination or cessation of such engagement for any reason, I will not, without the Company's prior written consent, directly or indirectly, as a principal, employee, consultant, partner, or stockholder of, or in any other capacity with, any business enterprise (other than in my capacity as a holder of not more than 1% of the combined voting power of the outstanding stock of a publicly held company) (a) engage in direct or indirect competition with the Company or its Affiliates, (b) conduct a business of the type or character engaged in by the Company or its Affiliates at the time of termination or cessation of my engagement as an Associate of the Company, or (c) develop products or services competitive with those of the Company or its Affiliates.

6. GENERAL NON-SOLICITATION. I agree that while I am engaged as an Associate of the Company and for a period of one year after termination or cessation of such engagement for any reason, I will not solicit, divert or take away, or attempt to divert or take away, the business or patronage of any of the clients, customers or accounts, or prospective clients, customers or accounts, of the Company or its Affiliates that were contacted, solicited or served by me while I was engaged as an Associate of the Company or any Affiliate.

7. NON-SOLICITATION OF EMPLOYEES AND CONSULTANTS. I agree that while I am engaged as an Associate of the Company and for a period of one year after termination or cessation of such engagement for any reason, I will not directly or indirectly hire, recruit, or solicit any employee, independent contractor or consultant of the Company or its Affiliates, or induce or attempt to induce any employee independent contractor or consultant of the Company or its Affiliates to discontinue his or her relationship with the Company or its Affiliates.

8. NOTICE OF SUBSEQUENT EMPLOYMENT OR ENGAGEMENT. I will, for a period of one year after the termination or cessation of my engagement as an Associate of the Company, notify the Company of any change of address, and of any subsequent employment or engagement (stating the name and address of the employer and the nature of the position) or any other business activity.

9. GENERAL.

9.1. Assignment; Successors and Assigns. This Agreement may not be assigned by either party except that the Company may assign this Agreement to any Affiliate or in connection with the merger, consolidation or sale of all or substantially all of its business or assets. This Agreement will be binding upon and will inure to the benefit of the parties hereto and their respective successors and other legal representatives and, to the extent that any assignment hereof is permitted hereunder, their assignees.

9.2. Entire Agreement. The obligations pursuant to Sections 2 and J of this Agreement will apply to any time during which I was previously engaged as an Associate of the Company, or am in the future engaged as an Associate of the Company or any Affiliate if no other agreement governs nondisclosure and assignment of inventions during such period. This Agreement supersedes all prior agreements, written or oral, with respect to the subject matter of this Agreement.

9.3. Severability. In the event that any one or more of the provisions contained herein is, for any reason, held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability will not affect any other provisions of this Agreement, and all other provisions will remain in full force and effect. If any of the provisions of this Agreement is held to be excessively broad, it will be reformed and construed by limiting and reducing it so as to be enforceable to the maximum extent permitted by law.

9.4. Amendments and Waivers. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, will be effective unless in writing and signed by the party to be charged. No delay or omission by the Company in exercising any right under this Agreement will operate as a waiver of that or any other right. A waiver or consent given by the Company on any occasion if effective only in that instance and will not be construed as a bar to or waiver of any right on any other occasion.

9.5. Employment. I understand that this Agreement does not constitute a contract of employment or create an obligation on the part of the Company to continue my employment (if any) with the Company. I understand that my employment (if any) is "at will" and that my obligations under this Agreement will not be affected by any change in my position, title or function with, or compensation, by the Company. Any subsequent change or changes in my duties, salary or compensation will not affect the validity or scope of this Agreement.

9.6. Legal and Equitable Remedies. I acknowledge that (a) the business of the Company and its Affiliates is global in scope and its services may be marketed and sold throughout the world; (b) the Company and its Affiliates compete with other businesses that are or could be located in any part of the world; (c) the Company has required that I make the covenants contained in this Agreement as a condition to my engagement as an Associate of the Company; and (d) the restrictions contained in this Agreement are necessary for the protection of the business and goodwill of the Company and its Affiliates and are reasonable for such purpose. I agree that any breach of this Agreement by me will cause irreparable damage to the Company and its Affiliates and that in the event of such breach, the Company will be entitled, in addition to monetary damages and to any other remedies available to the Company under this Agreement and at law, to equitable relief, including injunctive relief, and to payment by myself of all costs incurred by the Company in enforcing of the provisions of this Agreement, including reasonable attorneys' fees. I agree that should I violate any obligation imposed on me in this Agreement, I will continue to be bound by the obligation until a period equal to the term of such obligation has expired without violation of such obligation.

9.7. Governing Law. This Agreement will be construed as a sealed instrument and will in all events and for all purposes be governed by, and construed in accordance with, the laws of the State of Delaware without regard to any choice of law principle that would dictate the application of the laws of another jurisdiction. Any action, suit or other legal proceeding that I may commence to resolve any matter arising under or relating to any provision of this Agreement will be commenced only in a court of the State of Delaware (or, if appropriate, a federal court located within the State of Delaware), and I hereby consent to the jurisdiction of such court with respect to any action, suit or proceeding commenced in such court by the Company.

[Next Page is Signature Page]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

/s/ Joseph Kinder
Joe Kinder

/s/ Cabell Lolmaugh
TILE SHOP HOLDINGS, INC.

Title: Chief Executive Officer

Exhibit 31.1

CERTIFICATIONS

I, Cabell H. Lolmaugh, 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: November 9, 2020

/s/ CABELL H. LOLMAUGH
Cabell H. Lolmaugh
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Nancy DiMattia, 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: November 9, 2020

/s/ NANCY DIMATTIA
Nancy DiMattia
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Tile Shop Holdings, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Cabell H. Lolmaugh, 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/ CABELL H. LOLMAUGH
Cabell H. Lolmaugh
Chief Executive Officer

November 9, 2020

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.

Exhibit 32.2

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 ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nancy DiMattia, 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/ NANCY DIMATTIA
Nancy DiMattia
Chief Financial Officer

November 9, 2020

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.