

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2019

OR

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

For the transition period from – to –

Commission file number: 001-35629

TILE SHOP HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation)

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

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

55441
(Zip Code)

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

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|----------------------------------|-------------------|---|
| Common stock, \$0.0001 par value | TTS | The Nasdaq Stock Market LLC |

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|-------------------------|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input checked="" type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

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

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

As of October 28, 2019, there were 50,883,029 shares of the registrant's common stock, par value \$0.0001 per share, outstanding.

TILE SHOP HOLDINGS, INC.
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

Tile Shop Holdings, Inc. and Subsidiaries
Consolidated Balance Sheets
(dollars in thousands, except share and per share data)

| | September 30, 2019 (unaudited) | December 31, 2018 (audited) |
|--|--------------------------------------|-----------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 8,371 | \$ 5,557 |
| Restricted cash | 825 | 825 |
| Receivables, net | 4,611 | 3,084 |
| Inventories | 100,080 | 110,095 |
| Income tax receivable | 3,854 | 3,548 |
| Other current assets, net | 7,042 | 7,181 |
| Total Current Assets | 124,783 | 130,290 |
| Property, plant and equipment, net | 137,151 | 158,356 |
| Right of use asset | 143,789 | - |
| Deferred tax assets | 5,385 | 7,225 |
| Other assets | 1,251 | 1,759 |
| Total Assets | \$ 412,359 | \$ 297,630 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 19,855 | \$ 25,853 |
| Income tax payable | 13 | 179 |
| Current portion of lease liability | 26,653 | - |
| Other accrued liabilities | 25,871 | 24,484 |
| Total Current Liabilities | 72,392 | 50,516 |
| Long-term debt | 63,000 | 53,000 |
| Long-term lease liability, net | 138,489 | - |
| Financing lease obligation, net | 317 | 436 |
| Deferred rent | - | 43,579 |
| Other long-term liabilities | 3,482 | 3,752 |
| Total Liabilities | 277,680 | 151,283 |
| Stockholders' Equity: | | |
| Common stock, par value \$0.0001; authorized: 100,000,000 shares; issued and outstanding: 50,812,054 and 52,707,879 shares, respectively | 5 | 5 |
| Preferred stock, par value \$0.0001; authorized: 10,000,000 shares; issued and outstanding: 0 shares | - | - |
| Additional paid-in-capital | 156,037 | 172,255 |
| Accumulated deficit | (21,272) | (25,857) |
| Accumulated other comprehensive income (loss) | (91) | (56) |
| Total Stockholders' Equity | 134,679 | 146,347 |
| Total Liabilities and Stockholders' Equity | \$ 412,359 | \$ 297,630 |

See accompanying Notes to Consolidated Financial Statements.

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

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-----------------|-------------------|------------------|
| | September 30, | | September 30, | |
| | 2019 | 2018 | 2019 | 2018 |
| Net sales | \$ 85,944 | \$ 89,259 | \$ 261,755 | \$ 273,307 |
| Cost of sales | 26,775 | 26,248 | 79,384 | 80,946 |
| Gross profit | 59,169 | 63,011 | 182,371 | 192,361 |
| Selling, general and administrative expenses | 59,804 | 59,131 | 179,314 | 174,928 |
| (Loss) income from operations | (635) | 3,880 | 3,057 | 17,433 |
| Interest expense | (1,027) | (715) | (2,948) | (1,866) |
| Other income | 5 | 40 | 22 | 112 |
| (Loss) income before income taxes | (1,657) | 3,205 | 131 | 15,679 |
| Benefit from (provision for) income taxes | 274 | (652) | (348) | (4,157) |
| Net (loss) income | \$ (1,383) | \$ 2,553 | \$ (217) | \$ 11,522 |
| (Loss) income per common share: | | | | |
| Basic | \$ (0.03) | \$ 0.05 | \$ (0.00) | \$ 0.22 |
| Diluted | \$ (0.03) | \$ 0.05 | \$ (0.00) | \$ 0.22 |
| Weighted average shares outstanding: | | | | |
| Basic | 49,769,739 | 51,920,830 | 50,901,289 | 51,896,678 |
| Diluted | 49,769,739 | 52,303,777 | 50,901,289 | 52,056,136 |
| Dividends declared per share | \$ 0.05 | \$ 0.05 | \$ 0.15 | \$ 0.15 |

See accompanying Notes to Consolidated Financial Statements.

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

| | Three Months Ended | | Nine Months Ended | |
|------------------------------------|--------------------|-----------------|-------------------|------------------|
| | September 30, | | September 30, | |
| | 2019 | 2018 | 2019 | 2018 |
| Net (loss) income | \$ (1,383) | \$ 2,553 | \$ (217) | \$ 11,522 |
| Currency translation adjustment | (37) | (37) | (35) | (44) |
| Other comprehensive loss | (37) | (37) | (35) | (44) |
| Comprehensive (loss) income | \$ (1,420) | \$ 2,516 | \$ (252) | \$ 11,478 |

See accompanying Notes to Consolidated Financial Statements.

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

| | Common stock | | Additional paid-in capital | Retained earnings (deficit) | Accumulated other comprehensive income (loss) | Total |
|--|--------------|--------|----------------------------------|-----------------------------------|--|------------|
| | Shares | Amount | | | | |
| Balance at June 30, 2018 | 52,508,090 | \$ 5 | \$ 176,124 | \$ (27,331) | \$ (8) | \$ 148,790 |
| Issuance of restricted shares | 199,843 | - | - | - | - | - |
| Cancellation of restricted shares | (29,349) | - | - | - | - | - |
| Stock based compensation | - | - | 735 | - | - | 735 |
| Tax withholdings related to net share settlements of stock based compensation awards | - | - | (52) | - | - | (52) |
| Dividends paid | - | - | (2,600) | - | - | (2,600) |
| Foreign currency translation adjustments | - | - | - | - | (37) | (37) |
| Net income | - | - | - | 2,553 | - | 2,553 |
| Balance at September 30, 2018 | 52,678,584 | \$ 5 | \$ 174,207 | \$ (24,777) | \$ (45) | \$ 149,390 |
| 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 | - | - | (2,494) | - | - | (2,494) |
| Foreign currency translation adjustments | - | - | - | - | (37) | (37) |
| Net income | - | - | - | (1,383) | - | (1,383) |
| Balance at September 30, 2019 | 50,812,054 | \$ 5 | \$ 156,037 | \$ (21,272) | \$ (91) | \$ 134,679 |

See accompanying Notes to Consolidated Financial Statements.

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

| | Common stock | | Additional paid-in capital | Retained earnings (deficit) | Accumulated other comprehensive income (loss) | Total |
|--|-------------------|-------------|----------------------------------|-----------------------------------|--|-------------------|
| | Shares | Amount | | | | |
| Balance at December 31, 2017 | 52,156,850 | \$ 5 | \$ 180,109 | \$ (36,239) | \$ (1) | \$ 143,874 |
| Adoption of revenue recognition standard | - | - | - | (60) | - | (60) |
| Balance at January 1, 2018 | <u>52,156,850</u> | <u>\$ 5</u> | <u>\$ 180,109</u> | <u>\$ (36,299)</u> | <u>\$ (1)</u> | <u>\$ 143,814</u> |
| Issuance of restricted shares | 595,125 | - | - | - | - | - |
| Cancellation of restricted shares | (73,391) | - | - | - | - | - |
| Stock based compensation | - | - | 1,950 | - | - | 1,950 |
| Tax withholdings related to net share settlements of stock based compensation awards | - | - | (52) | - | - | (52) |
| Dividends paid | - | - | (7,800) | - | - | (7,800) |
| Foreign currency translation adjustments | - | - | - | - | (44) | (44) |
| Net income | - | - | - | 11,522 | - | 11,522 |
| Balance at September 30, 2018 | <u>52,678,584</u> | <u>\$ 5</u> | <u>\$ 174,207</u> | <u>\$ (24,777)</u> | <u>\$ (45)</u> | <u>\$ 149,390</u> |
| Balance at December 31, 2018 | 52,707,879 | \$ 5 | \$ 172,255 | \$ (25,857) | \$ (56) | \$ 146,347 |
| Adoption of lease standard (see Note 1) | - | - | - | 4,802 | - | 4,802 |
| Balance at January 1, 2019 | <u>52,707,879</u> | <u>\$ 5</u> | <u>\$ 172,255</u> | <u>\$ (21,055)</u> | <u>\$ (56)</u> | <u>\$ 151,149</u> |
| 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 | - | - | (7,706) | - | - | (7,706) |
| Foreign currency translation adjustments | - | - | - | - | (35) | (35) |
| Net income | - | - | - | (217) | - | (217) |
| Balance at September 30, 2019 | <u>50,812,054</u> | <u>\$ 5</u> | <u>\$ 156,037</u> | <u>\$ (21,272)</u> | <u>\$ (91)</u> | <u>\$ 134,679</u> |

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, | |
|--|------------------------------------|------------------|
| | 2019 | 2018 |
| Cash Flows From Operating Activities | | |
| Net (loss) income | \$ (217) | \$ 11,522 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation & amortization | 24,508 | 21,180 |
| Amortization of debt issuance costs | 446 | 607 |
| Loss on disposals of property, plant and equipment | 90 | 76 |
| Impairment charges on property, plant and equipment | - | 319 |
| Change in leases | (1,267) | 2,345 |
| Stock based compensation | 2,169 | 1,950 |
| Deferred income taxes | 190 | 1,415 |
| Changes in operating assets and liabilities: | | |
| Receivables | (1,527) | (1,342) |
| Inventories | 10,015 | (21,051) |
| Prepaid expenses and other assets | 47 | (2,374) |
| Accounts payable | (3,307) | (6,550) |
| Income tax receivable / payable | (362) | 2,520 |
| Accrued expenses and other liabilities | 2,827 | 5,104 |
| Net cash provided by operating activities | 33,612 | 15,721 |
| Cash Flows From Investing Activities | | |
| Purchases of property, plant and equipment | (22,839) | (22,893) |
| Proceeds from insurance | 610 | 13 |
| Net cash used in investing activities | (22,229) | (22,880) |
| Cash Flows From Financing Activities | | |
| Payments of long-term debt and financing lease obligations | (43,153) | (95,235) |
| Advances on line of credit | 53,000 | 114,095 |
| Dividends paid | (7,706) | (7,800) |
| Repurchases of common stock | (10,455) | - |
| Employee taxes paid for shares withheld | (226) | (52) |
| Debt issuance costs | - | (374) |
| Net cash (used in) provided by financing activities | (8,540) | 10,634 |
| Effect of exchange rate changes on cash | (29) | (11) |
| Net change in cash | 2,814 | 3,464 |
| Cash, cash equivalents and restricted cash beginning of period | 6,382 | 7,476 |
| Cash, cash equivalents and restricted cash end of period | \$ 9,196 | \$ 10,940 |
| Cash and cash equivalents | \$ 8,371 | \$ 10,105 |
| Restricted cash | 825 | 835 |
| Cash, cash equivalents and restricted cash end of period | \$ 9,196 | \$ 10,940 |
| Supplemental disclosure of cash flow information | | |
| Purchases of property, plant and equipment included in accounts payable and accrued expenses | \$ 1,320 | \$ 2,229 |
| Cash paid for interest | 2,853 | 1,846 |
| Cash paid for income taxes, net | 471 | 240 |

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”) 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, 2019, the Company had 140 stores in 31 states and the District of Columbia, with an average size of approximately 20,200 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, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2019.

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 year ended December 31, 2018. The accounting policies used in preparing these Consolidated Financial Statements are the same as those described in Note 1 to the Consolidated Financial Statements in such Form 10-K.

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued a final standard that primarily requires organizations that lease assets to recognize the rights and obligations created by those leases on the consolidated balance sheet. This standard also requires expanded disclosures to help financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. The Company adopted this standard effective January 1, 2019 using a modified retrospective approach through a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption.

The Company determines if an arrangement is a lease at inception. Operating leases are included in right of use assets and lease liabilities on the consolidated balance sheets. The right of use assets and lease liabilities are recognized as the present value of the future minimum lease payments over the lease term at commencement date. As most of the leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. The right of use asset is also adjusted for any lease payments made and excludes lease incentives and initial direct costs incurred. The Company’s lease terms may include options to extend or terminate the lease typically at the Company’s own discretion. The Company regularly evaluates the renewal options and when they are reasonably certain of exercise, the Company includes the renewal period in its lease term.

This standard provides a number of optional practical expedients in transition. The Company elected the package of three practical expedients permitted under the transition guidance within this standard, which among other things, allows the Company to carryforward the historical lease classification. The Company did not separate non-lease components from lease components by class of underlying assets and the Company did not apply the recognition requirements of the standard to short-term leases, as allowed by the standard.

The Company also elected to apply the hindsight practical expedient. Its election of the hindsight practical expedient resulted in the shortening of lease terms for certain existing leases and the useful lives of corresponding leasehold improvements. In its application of the hindsight practical expedient, the Company considered recent investments in leased properties and its overall real estate strategy, which resulted in the determination that most renewal options would not be reasonably certain in determining the expected lease term.

Upon adopting this standard, the Company established a right of use asset of \$147.2 million and lease liabilities of \$169.9 million, reduced deferred rent by \$44.6 million, and recorded a cumulative effect adjustment to retained earnings of \$22.0 million. This retained earnings impact was due to the election of the hindsight practical expedient which resulted in a decrease in the cumulative difference between the straight-line rent expense and rental payments that had been made between the inception of each lease and January 1, 2019. The change in the useful life assigned to certain leasehold improvements resulted in a \$15.3 million reduction in fixed assets and retained earnings. The net impact of the cumulative effect adjustments also resulted in a \$1.7 million reduction of

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

deferred tax assets and a corresponding adjustment to retained earnings that was recorded during the nine months ended September 30, 2019. The adoption of this standard did not have a material impact on net income or cash flows during the three and nine months ended September 30, 2019. See Note 8 for further details.

Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued a final standard on accounting for credit losses. The standard is effective for the Company in fiscal year 2020 and requires a change in credit loss calculations using the expected loss method. The Company is evaluating the effect of this standard on its consolidated financial statements and related disclosures.

In August 2018, the FASB issued a final standard which provides guidance on the accounting for costs of implementation activities performed in a cloud computing arrangement that is a service contract. The standard requires customers of cloud computing services to recognize an intangible asset for the software license and, to the extent that payments attributable to the software license are made over time, a liability is also recognized. The standard also allows customers of cloud computing services to capitalize certain implementation costs. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The standard will become effective for the Company at the beginning of its fiscal year 2020, although early adoption is permitted for all entities. The Company is evaluating the effect of the standard on its consolidated financial statements and related disclosures.

Note 2: 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, | |
|-----------------------------------|---|--------------|--|--------------|
| | 2019 | 2018 | 2019 | 2018 |
| Man-made tiles | 47 % | 47 % | 47 % | 46 % |
| Natural stone tiles | 28 | 28 | 28 | 28 |
| Setting and maintenance materials | 13 | 13 | 13 | 13 |
| Accessories | 10 | 10 | 11 | 11 |
| Delivery service | 2 | 2 | 1 | 2 |
| Total | <u>100 %</u> | <u>100 %</u> | <u>100 %</u> | <u>100 %</u> |

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

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

of a reporting period, revenue will be recognized based on the transaction price allocated to the goods delivered and services rendered. The customer deposit balance was \$7.8 million and \$7.4 million as of September 30, 2019 and December 31, 2018, respectively. Revenues recognized during the nine months ended September 30, 2019 that were included in the customer deposit balance as of the beginning of the period were \$7.1 million.

Accounts receivable include amounts due from qualified professional customers who apply for credit. Customers who qualify for an account receive 30-day payment terms. The accounts receivable balance was \$4.6 million and \$3.1 million at September 30, 2019 and December 31, 2018, 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. Historically, the sales returns reserve was presented net of cost of sales in other current liabilities. The Company presents the sales returns reserve as an other current 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, 2019 and December 31, 2018 are as follows:

| | (in thousands) | |
|----------------------------|-----------------------|----------------------|
| | September 30, 2019 | December 31, 2018 |
| Other current liabilities | \$ 5,224 | \$ 5,154 |
| Other current assets | 1,601 | 1,498 |
| Sales returns reserve, net | \$ 3,623 | \$ 3,656 |

Note 3: Inventories

Inventories are stated at the lower of cost (determined on the weighted-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, 2019 and December 31, 2018:

| | (in thousands) | |
|---------------------------|-----------------------|----------------------|
| | September 30, 2019 | December 31, 2018 |
| Finished goods | \$ 96,094 | \$ 98,776 |
| Raw materials | 2,300 | 2,114 |
| Finished goods in transit | 1,686 | 9,205 |
| Total | \$ 100,080 | \$ 110,095 |

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 \$0.8 million and \$0.3 million as of September 30, 2019 and December 31, 2018, respectively.

Note 4: Income Taxes

The Company's effective tax rate on net income (loss) before income taxes for the three months ended September 30, 2019 and 2018 was 16.5% and 20.3%, respectively. The Company's effective tax rate on net income (loss) before income taxes for the nine months ended September 30, 2019 and 2018 was 265.7% and 26.5%, respectively. For the three months ended September 30, 2019 and 2018, the Company recorded a benefit from income taxes of \$0.3 million and a provision for income taxes of \$0.7 million, respectively. For the nine months ended September 30, 2019 and 2018, the Company recorded a provision for income taxes of \$0.3 million and \$4.2 million, respectively. The decrease in the provision for income taxes is due to lower pretax earnings.

The Company records interest and penalties relating to uncertain tax positions in income tax expense. As of September 30, 2019 and 2018, 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 5: Earnings Per Share

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

Basic and diluted earnings per share were calculated as follows:

| | (all amounts in thousands except share and per share data) | | | |
|---|--|------------|---------------------------|------------|
| | For the three months ended | | For the nine months ended | |
| | September 30, | | September 30, | |
| | 2019 | 2018 | 2019 | 2018 |
| Net (loss) income | \$ (1,383) | \$ 2,553 | \$ (217) | \$ 11,522 |
| Weighted average shares outstanding - basic | 49,769,739 | 51,920,830 | 50,901,289 | 51,896,678 |
| Effect of dilutive securities attributable to stock based awards | - | 382,947 | - | 159,458 |
| Weighted average shares outstanding - diluted | 49,769,739 | 52,303,777 | 50,901,289 | 52,056,136 |
| (Loss) income per common share: | | | | |
| Basic | \$ (0.03) | \$ 0.05 | \$ (0.00) | \$ 0.22 |
| Diluted | \$ (0.03) | \$ 0.05 | \$ (0.00) | \$ 0.22 |
| Anti-dilutive securities excluded from earnings per share calculation | 5,047,633 | 1,730,948 | 2,614,058 | 2,116,198 |

Note 6: Other Accrued Liabilities

Other accrued liabilities consisted of the following:

| | (in thousands) | |
|---------------------------------|-----------------------|----------------------|
| | September 30, 2019 | December 31, 2018 |
| Customer deposits | \$ 7,810 | \$ 7,383 |
| Sales returns reserve | 5,224 | 5,154 |
| Payroll and sales taxes | 4,213 | 2,929 |
| Accrued wages and salaries | 3,336 | 3,689 |
| Other current liabilities | 5,288 | 5,329 |
| Total other accrued liabilities | <u>\$ 25,871</u> | <u>\$ 24,484</u> |

Note 7: 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 rate of adjusted LIBOR plus 1.75% and may bear interest in a range between adjusted LIBOR plus 1.50% to adjusted LIBOR plus 2.25%, depending on The Tile Shop's consolidated total rent adjusted leverage ratio. At September 30, 2019 the base interest rate was 6.00% and the LIBOR-based interest rate was 4.02%. Borrowings outstanding consisted of \$63.0 million on the revolving line of credit as of September 30, 2019. In addition, the Company has standby letters of credit outstanding related to its workers compensation and medical insurance policies. As of September 30, 2019 and 2018, the standby letters of credit totaled \$1.3 million and \$1.1 million, respectively. There was \$35.7 million available for borrowing on the revolving line of credit as of September 30, 2019, which may be used to support the Company's growth and for working capital purposes.

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, 2019.

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Note 8: 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.

| Leases (in thousands) | Classification | September 30, 2019 |
|--------------------------------|--|-----------------------|
| Assets | | |
| Operating lease assets | Right of use asset | \$ 143,789 |
| Financing lease assets | Property, plant and equipment, net of accumulated depreciation | 126 |
| Total leased assets | | \$ 143,915 |
| Liabilities | | |
| Current | | |
| Operating | Current portion of lease liability | \$ 26,653 |
| Financing | Other accrued liabilities | 156 |
| Noncurrent | | |
| Operating | Long-term lease liability, net | 138,489 |
| Financing | Other long-term liabilities | 317 |
| Total lease liabilities | | \$ 165,615 |

| Lease cost (in thousands) | Classification | Three Months Ended | September 30, 2019 | Nine Months Ended |
|------------------------------------|-------------------------------|-----------------------|--------------------|----------------------|
| Operating lease cost | SG&A expenses | \$ 8,258 | | \$ 24,268 |
| Financing lease cost | | | | |
| Amortization of leased assets | Depreciation and amortization | 13 | | 37 |
| Interest on lease liabilities | Interest expense | 19 | | 59 |
| Variable lease cost ⁽¹⁾ | SG&A expenses | 3,470 | | 10,177 |
| Short term lease cost | SG&A expenses | 197 | | 679 |
| Net lease cost | | \$ 11,957 | | \$ 35,220 |

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

| Maturity of Lease Liabilities (in thousands) | Operating Leases | Financing Leases | Total |
|--|-------------------|------------------|-------------------|
| 2019 | \$ 8,996 | \$ 54 | \$ 9,050 |
| 2020 | 35,907 | 216 | 36,123 |
| 2021 | 34,819 | 215 | 35,034 |
| 2022 | 31,895 | 90 | 31,985 |
| 2023 | 27,084 | - | 27,084 |
| Thereafter | 61,354 | - | 61,354 |
| Total lease payments | 200,055 | 575 | 200,630 |
| Less: interest | (34,913) | (102) | (35,015) |
| Present value of lease liabilities | \$ 165,142 | \$ 473 | \$ 165,615 |

| Other Information (in thousands) | Three Months Ended | September 30, 2019 | Nine Months Ended |
|---|--------------------|--------------------|-------------------|
| Cash paid for amounts included in the measurement of lease liabilities | | | |
| Operating cash flows from operating leases | \$ 8,798 | | \$ 26,109 |
| Operating cash flows from financing leases | \$ 15 | | \$ 50 |

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| | | | | |
|--|----|------|----|-------|
| Financing cash flows from financing leases | \$ | (51) | \$ | (153) |
| Lease right-of-use assets obtained or modified in exchange for lease obligations | \$ | - | \$ | 5,993 |

| Lease Term and Discount Rate | September 30, 2019 |
|---|--------------------|
| Weighted-average remaining term (years) | |
| Operating leases | 6.3 |
| Financing leases | 2.7 |
| Weighted-average discount rate | |
| Operating leases | 6.22 % |
| Financing leases | 14.73 % |

Note 9: Fair Value of Financial Instruments

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

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

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

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

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

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, 2019 and December 31, 2018 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.

| | Pricing Category | September 30, 2019 | Fair Value at December 31, 2018 |
|---------------------------|---------------------|--------------------|------------------------------------|
| Assets | | (in thousands) | |
| Cash and cash equivalents | Level 1 | \$ 8,371 | \$ 5,557 |
| Restricted cash | Level 1 | 825 | 825 |

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.

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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. The Company measured the fair value of these assets based on projected cash flows and an estimated risk-adjusted rate of return. Projected cash flows are considered Level 3 inputs. During the nine months ended September 30, 2018, the Company identified property, plant and equipment that would be disposed of prior to the end of their useful lives, which resulted in the recognition of a \$0.3 million charge to write-down these assets to their estimated fair value. The Company did not recognize any significant impairment losses during the three and nine months ended September 30, 2019.

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 10: 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, 2019 and 2018 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 \$0.2 million and \$0.3 million for the three months ended September 30, 2019 and 2018, respectively. Total stock based compensation expense related to stock options was \$0.7 million for both the nine months ended September 30, 2019 and 2018. Stock based compensation expense pertaining to stock options is included in selling, general and administrative expenses in the accompanying consolidated statements of income.

As of September 30, 2019, the Company had outstanding stock options to purchase 1,443,382 shares of common stock at a weighted average exercise price of \$10.96.

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, 2019 and 2018. Total stock based compensation expense related to restricted stock was \$1.5 million and \$1.2 million for the three months ended September 30, 2019 and 2018, respectively. Stock based compensation expense pertaining to restricted stock awards is included in selling, general and administrative expenses in the accompanying Consolidated Statements of Income.

As of September 30, 2019, the Company had 1,031,723 outstanding restricted common shares.

Note 11: New Market Tax Credit

2016 New Market Tax Credit

In December 2016, the Company entered into a financing transaction with U.S. Bank Community, LLC ("U.S. Bank") related to a \$9.2 million expansion of the Company's facility in Durant, Oklahoma. In this transaction, which was conducted under a qualified New Markets Tax Credit ("NMTC") program, Tile Shop Lending, Inc. ("Tile Shop Lending") loaned \$6.7 million to Twain Investment Fund 192 LLC (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 community development entity (a "CDE"), which, in turn, loaned the funds on similar terms to Tile Shop of Oklahoma, LLC, an indirect, wholly-owned subsidiary of Holdings. 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

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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 the CDE 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, 2019, the balance of the contribution liability was \$1.9 million, of which \$0.5 million was classified as other accrued liabilities on the Consolidated Balance Sheet and \$1.4 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 its 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, 2019, the balance in the Investment Fund available for reimbursement to the Company was \$0.8 million.

2013 New Market Tax Credit

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

The Company determined that this financing arrangement contains a VIE. The ongoing activities of the Tile Shop Investment Fund LLC – collecting and remitting interest and fees and NMTC compliance – were all considered in the initial design and are not expected to significantly affect economic performance throughout the life of the Tile Shop Investment Fund LLC. Management considered the contractual arrangements that obligate the Company to deliver tax benefits and provide various other guarantees to the structure; the investors’ lack of a material interest in the underlying economics of the project; and the fact that the Company is obligated to absorb losses of the 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 is recognizing the benefit of this net \$4.4 million contribution over the seven-year compliance period as it is being earned through the on-going compliance with the conditions of the NMTC program. As of September 30, 2019, the balance of the contribution liability was \$0.6 million, of which \$0.6 million was classified as other accrued liabilities on the Consolidated Balance Sheet.

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Note 12: Related Party Transactions

On July 9, 2018, Fumitake Nishi, the brother-in-law of the Company's director Robert Rucker and a former Company employee, 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, 2018, the Company purchased \$12.0 million of products from Nanyang. During the three and nine months ended September 30, 2019, the Company purchased \$1.4 million and \$3.5 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.

Note 13: Share Repurchase

On April 29, 2019, the Board of Directors of the Company authorized a share repurchase program (the "Program"), pursuant to which the Company was able to, from time to time, purchase shares of its common stock for an aggregate repurchase price not to exceed \$15,000,000. The Program began on May 2, 2019 and was to continue indefinitely until the full repurchase amount had been utilized or the Board of Directors terminated the Program.

Share repurchases were as follows:

| | Nine Months Ended September 30, 2019 |
|---|---|
| Shares of common stock | 2,307,023 |
| Aggregate purchase price (in thousands) | \$ 10,455 |

The Board of Directors decided to terminate the Program effective October 18, 2019, to focus on debt reduction and continued investment in strategic initiatives.

Note 14: Subsequent Events

On October 22, 2019, the Company announced its intention to delist from the Nasdaq Stock Market ("Nasdaq"), deregister its common stock, suspend the quarterly cash dividend, and terminate the share repurchase program.

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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, 2018 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 intentions regarding delisting from Nasdaq and deregistering our common stock, 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 with respect to dividend payments; our expectations with respect to ongoing compliance with the terms of our credit facility; 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 include, but are not limited to, the level of demand for our products and our ability to introduce new products that satisfy market demand; our ability to grow and remain profitable in the highly competitive retail tile industry; our ability to access additional capital; our ability to attract and retain qualified personnel; unexpected delays or expenses related to opening new stores and maintaining or renovating existing stores; changes to economic or market conditions and customer preferences; disruptions in our supply chain or inventory management; unanticipated issues with respect to remediation of our identified material weaknesses; and those Risk Factors set forth in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018 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, 2019, we operated 140 stores in 31 states and the District of Columbia, with an average size of approximately 20,200 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.

We opened one new store and closed one store at the end of its lease in the first nine months of 2019, and opened two new stores during 2018. Between October 1, 2018 and September 30, 2019, we opened one new store and closed one store. We plan to open an additional four stores in 2019, of which one is a relocation. We believe that there will continue to be additional expansion opportunities in the United States and Canada. We expect store base growth will drive productivity and operational efficiencies. Our growth plans also require us to maintain significant inventory on-hand in order to fulfill transactions at these new locations.

For the three months ended September 30, 2019 and 2018, we reported net sales of \$85.9 million and \$89.3 million, respectively. The decrease in sales for the three months ended September 30, 2019 compared to the three months ended September 30, 2018 was

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primarily due to a decline in comparable stores sales of 3.5%, or \$3.1 million. In addition, net sales generated by stores not included in the comparable store base decreased by \$0.2 million.

For the nine months ended September 30, 2019 and 2018, we reported net sales of \$261.8 million and \$273.3 million, respectively. The decrease in sales for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 was primarily due to a decline in comparable store sales of 4.0%, or \$10.8 million. In addition, net sales generated by stores not included in the comparable store base decreased by \$0.8 million.

The decrease in sales at comparable stores for the three months ended September 30, 2019 was due to weaker store traffic. The decrease in sales at comparable stores for the nine months ended September 30, 2019 was due to weaker store traffic and customer experience issues following the implementation of a new enterprise resource planning system and the launch of our new website.

The table below sets forth information about our comparable store sales (decline) growth for the three and nine months ended September 30, 2019 and 2018.

| | For the three months ended | | For the nine months ended | |
|---|----------------------------|-------|---------------------------|--------|
| | September 30, | | September 30, | |
| | 2019 | 2018 | 2019 | 2018 |
| Comparable store sales (decline) growth | (3.5)% | 2.1 % | (4.0)% | (2.3)% |

For the three months ended September 30, 2019 and 2018, we reported gross profit of \$59.2 million and \$63.0 million, respectively. The gross margin rate was 68.8% and 70.6% for the three months ended September 30, 2019 and 2018, respectively. For the nine months ended September 30, 2019 and 2018, we reported gross profit of \$182.4 million and \$192.4 million, respectively. The gross margin rate was 69.7% and 70.4% for the nine months ended September 30, 2019 and 2018, respectively. The decrease in gross margin rate was primarily due to higher levels of shrink and damaged inventory write-offs combined with a lower freight collection rate.

For the three months ended September 30, 2019 and 2018, we reported loss from operations of \$0.6 million and income from operations of \$3.9 million, respectively. For the nine months ended September 30, 2019 and 2018, we reported income from operations of \$3.1 million and \$17.4 million, respectively. The decrease in income from operations was primarily driven by a decrease in net sales and increased selling, general and administrative expenses.

Net cash provided by operating activities was \$33.6 million and \$15.7 million for the nine months ended September 30, 2019 and 2018, respectively, which was used to fund operations, new store construction activities, store remodels, merchandising, information technology investment and dividends. Share repurchases were funded by increased debt during the nine months ended September 30, 2019. We expect to continue to fund our capital expenditures and daily operations from our operating cash flows.

We repurchased 2.3 million shares for \$10.5 million during the nine months ended September 30, 2019. Our Board of Directors had previously authorized a \$15.0 million share repurchase program. The Board of Directors terminated the share repurchase program effective October 18, 2019.

On October 22, 2019, the Company announced its intention to delist from the Nasdaq Stock Market (“Nasdaq”), deregister its common stock, suspend the quarterly cash dividend, and terminate the share repurchase program. The Company intends to file a Form 25 with the Securities and Exchange Commission (the “SEC”) on or about November 1, 2019 in order to delist from Nasdaq. The Company anticipates that the last day of trading on Nasdaq will be on or about November 8, 2019. On or about November 12, 2019, the Company intends to file a Form 15 with the SEC, at which time the Company anticipates that its obligations to file periodic reports under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), including annual, quarterly and current reports on Form 10-K, Form 10-Q and Form 8-K, respectively, will be suspended, and that all requirements associated with being an Exchange Act-registered company, including the requirement to file current and periodic reports, will terminate 90 days thereafter.

Key Components of our Consolidated Statements of Income

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.

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Comparable store sales growth is a 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 stores sales growth calculation. Comparable store sales growth amounts include 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.

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.

Selling, General, and Administrative Expenses – Selling, general, and administrative expenses consists primarily of compensation costs, occupancy, utilities, maintenance costs, advertising costs, shipping and transportation expenses to move inventory from our distribution centers to our stores, 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 selling, general, and administrative expenses.

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

Non-GAAP Measure

We calculate Adjusted EBITDA by taking net income calculated in accordance with accounting principles generally accepted in the United States (“GAAP”), and adjusting for interest expense, income taxes, depreciation and amortization, and stock based compensation expense. Adjusted EBITDA margin is equal to Adjusted EBITDA divided by net sales.

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

The reconciliation of Adjusted EBITDA to net income for the three and nine months ended September 30, 2019 and 2018 is as follows:

| | (in thousands) | | | |
|-----------------------------|--------------------|---------------------------|------------------|---------------|
| | Three Months Ended | | | |
| | September 30, | | | |
| | 2019 | % of sales ⁽¹⁾ | 2018 | % of sales |
| Net (loss) income | \$ (1,383) | (1.6)% | \$ 2,553 | 2.9 % |
| Interest expense | 1,027 | 1.2 | 715 | 0.8 |
| Income taxes | (274) | (0.3) | 652 | 0.7 |
| Depreciation & amortization | 8,308 | 9.7 | 7,202 | 8.1 |
| Stock based compensation | 660 | 0.8 | 735 | 0.8 |
| Adjusted EBITDA | <u>\$ 8,338</u> | <u>9.7 %</u> | <u>\$ 11,857</u> | <u>13.3 %</u> |

(in thousands)
 Nine Months Ended
 September 30,

| | 2019 | % of sales ⁽¹⁾ | 2018 | % of sales |
|-----------------------------|-----------|---------------------------|-----------|------------|
| Net (loss) income | \$ (217) | (0.1)% | \$ 11,522 | 4.2 % |
| Interest expense | 2,948 | 1.1 | 1,866 | 0.7 |
| Income taxes | 348 | 0.1 | 4,157 | 1.5 |
| Depreciation & amortization | 24,508 | 9.4 | 21,180 | 7.7 |
| Stock based compensation | 2,169 | 0.8 | 1,950 | 0.7 |
| Adjusted EBITDA | \$ 29,756 | 11.4 % | \$ 40,675 | 14.9 % |

⁽¹⁾ Amounts do not foot due to rounding.

We calculate pretax return on capital employed by taking income from operations divided by capital employed. Capital employed equals total assets less accounts payable, income taxes payable, other accrued liabilities, lease liability, deferred rent and other long-term liabilities. We believe this non-GAAP financial measure is useful in assessing the effectiveness of our capital allocation over time. Other companies may calculate pretax return on capital employed differently, which limits the usefulness of the measure for comparative purposes.

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

(\$ in thousands)

| | September 30, | |
|---|---------------------|---------------------|
| | 2019 ⁽¹⁾ | 2018 ⁽¹⁾ |
| Income from Operations (trailing twelve months) | \$ 3,762 | \$ 13,769 |
| Total Assets | 389,561 | 281,996 |
| Less: Accounts payable | (25,280) | (29,015) |
| Less: Income tax payable | (72) | (71) |
| Less: Other accrued liabilities | (26,119) | (26,751) |
| Less: Lease liability ⁽²⁾ | (114,490) | (42,401) |
| Less: Other long-term liabilities | (3,669) | (4,346) |
| Capital Employed | \$ 219,931 | \$ 179,412 |
| Pretax Return on Capital Employed | 1.7 % | 7.7 % |

⁽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.

Our management does not consider these non-GAAP financial measures in isolation or as an alternative to financial measures determined in accordance with GAAP. The principal limitation of these non-GAAP financial measures is 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 its non-GAAP financial measures in connection with GAAP results. We urge investors to review the reconciliation of our non-GAAP financial measures to the comparable GAAP financial measures and not to rely on any single financial measure to evaluate our business.

Results of Operations
Comparison of the three months ended September 30, 2019 to the three months ended September 30, 2018

(in thousands)

| | 2019 | % of sales ⁽¹⁾ | 2018 | % of sales ⁽¹⁾ |
|--|------------|---------------------------|-----------|---------------------------|
| Net sales | \$ 85,944 | | \$ 89,259 | |
| Cost of sales | 26,775 | 31.2 % | 26,248 | 29.4 % |
| Gross profit | 59,169 | 68.8 % | 63,011 | 70.6 % |
| Selling, general and administrative expenses | 59,804 | 69.6 % | 59,131 | 66.2 % |
| (Loss) income from operations | (635) | (0.7)% | 3,880 | 4.3 % |
| Interest expense | (1,027) | (1.2)% | (715) | (0.8)% |
| Other income | 5 | 0.0 % | 40 | 0.0 % |
| (Loss) income before income taxes | (1,657) | (1.9)% | 3,205 | 3.6 % |
| Benefit from (provision for) income taxes | 274 | 0.3 % | (652) | (0.7)% |
| Net (loss) income | \$ (1,383) | (1.6)% | \$ 2,553 | 2.9 % |

⁽¹⁾ Amounts do not foot due to rounding.

Net Sales Net sales for the third quarter of 2019 decreased \$3.3 million, or 3.7%, compared with the third quarter of 2018, primarily due to a \$3.1 million decrease in net sales generated by comparable stores. The decrease in sales at comparable stores for the three months ended September 30, 2019 was due to weaker store traffic. In addition, net sales generated by stores not included in the comparable store base decreased \$0.2 million.

Gross Profit Gross profit for the third quarter of 2019 decreased \$3.8 million, or 6.1%, compared with the third quarter of 2018 primarily due to a decrease in net sales. The gross margin rate was 68.8% and 70.6% for the three months ended September 30, 2019 and 2018, respectively. The decrease in gross margin rate was primarily due to higher levels of shrink and damaged inventory write-offs combined with a lower freight collection rate.

Selling, General, and Administrative Expenses Selling, general, and administrative expenses for the third quarter of 2019 increased \$0.7 million, or 1.1%, compared with the third quarter of 2018. The increase in selling, general, and administrative expenses was due to an increase in advertising costs, partially offset by a decrease in legal and variable store compensation expense.

Interest Expense Interest expense was \$1.0 million and \$0.7 million for the third quarter of 2019 and 2018, respectively. The increase was due to higher average debt balances and higher interest rates during the third quarter of 2019.

Provision for Income Taxes Income tax provision decreased \$0.9 million for the third quarter of 2019 compared with the third quarter of 2018 due to a decrease in income before income taxes. Our effective tax rate for the three months ended September 30, 2019 and 2018 was 16.5% and 20.3%, respectively.

Comparison of the nine months ended September 30, 2019 to the nine months ended September 30, 2018

(in thousands)

| | 2019 | % of sales ⁽¹⁾ | 2018 | % of sales |
|--|------------|---------------------------|------------|------------|
| Net sales | \$ 261,755 | | \$ 273,307 | |
| Cost of sales | 79,384 | 30.3 % | 80,946 | 29.6 % |
| Gross profit | 182,371 | 69.7 % | 192,361 | 70.4 % |
| Selling, general and administrative expenses | 179,314 | 68.5 % | 174,928 | 64.0 % |
| Income from operations | 3,057 | 1.2 % | 17,433 | 6.4 % |
| Interest expense | (2,948) | (1.1)% | (1,866) | (0.7)% |
| Other income | 22 | 0.0 % | 112 | 0.0 % |
| Income before income taxes | 131 | 0.1 % | 15,679 | 5.7 % |
| Provision for income taxes | (348) | (0.1)% | (4,157) | (1.5)% |
| Net (loss) income | \$ (217) | (0.1)% | \$ 11,522 | 4.2 % |

Net Sales Net sales for the nine months ended September 30, 2019 decreased \$11.6 million, or 4.2%, compared with the nine months ended September 30, 2018, primarily due to a \$10.8 million decrease in net sales generated by comparable stores. The decrease in sales at comparable stores for the nine months ended September 30, 2019 was due to weaker store traffic, customer experience issues

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following the implementation of a new enterprise resource planning system and the launch of our new website. In addition, net sales generated by stores not included in the comparable store base decreased \$0.8 million.

Gross Profit Gross profit for the nine months ended September 30, 2019 decreased \$10.0 million, or 5.2%, compared with the nine months ended September 30, 2018. The gross margin rate was 69.7% and 70.4% for the nine months ended September 30, 2019 and 2018, respectively. The decrease in gross margin rate was primarily due to higher levels of shrink and damaged inventory write-offs combined with a lower freight collection rate.

Selling, General, and Administrative Expenses Selling, general, and administrative expenses for the nine months ended September 30, 2019 increased \$4.4 million, or 2.5%, compared with the nine months ended September 30, 2018. The increase in selling, general, and administrative expenses was due to a \$3.3 million increase in depreciation expense and \$1.3 million increase in advertising expense.

Interest Expense Interest expense was \$2.9 million and \$1.9 million for the nine months ended September 30, 2019 and 2018, respectively. The increase was due to higher average debt balances and higher interest rates during the nine months ended September 30, 2019.

Provision for Income Taxes Income tax provision decreased \$3.8 million for the nine months ended September 30, 2019 compared with the nine months ended September 30, 2018 due to a decrease in income before income taxes. The decrease in the tax provision was due to lower net income before tax.

Liquidity and Capital Resources

Our principal liquidity requirements have been for working capital and capital expenditures. Our principal sources of liquidity are \$8.4 million of cash and cash equivalents at September 30, 2019, our cash flow from operations, and borrowings available under our credit facility. We expect to use this liquidity for opening new stores, purchasing additional merchandise inventory, maintaining our existing stores, reducing outstanding debt, and general corporate purposes.

On September 18, 2018, we and our 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 us 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 rate of adjusted LIBOR plus 1.75% and may bear interest in a range between adjusted LIBOR plus 1.50% to adjusted LIBOR plus 2.25%, depending on The Tile Shop's consolidated total rent adjusted leverage ratio. At September 30, 2019, the base interest rate was 6.00% and the LIBOR-based interest rate was 4.02%. Borrowings outstanding consisted of \$63.0 million on the revolving line of credit as of September 30, 2019. We also have standby letters of credit outstanding related to our workers compensation and medical insurance policies. As of September 30, 2019 and 2018, the standby letters of credit totaled \$1.3 million and \$1.1 million, respectively. There was \$35.7 million available for borrowing on the revolving line of credit as of September 30, 2019, 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, 2019.

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 \$22.8 million and \$22.9 million for the nine months ended September 30, 2019 and 2018, respectively. Capital expenditures made in 2019 include investments in store merchandising, store remodels, and information technology.

Cash flows

The following table summarizes our cash flow for the nine months ended September 30, 2019 and 2018.

| | (in thousands) | |
|---|-------------------|-----------|
| | Nine Months Ended | |
| | September 30, | |
| | 2019 | 2018 |
| Net cash provided by operating activities | \$ 33,612 | \$ 15,721 |
| Net cash used in investing activities | (22,229) | (22,880) |
| Net cash (used in) provided by financing activities | (8,540) | 10,634 |

Operating activities

Net cash provided by operating activities during the nine months ended September 30, 2019 was \$33.6 million compared with \$15.7 million during the nine months ended September 30, 2018. The increase is attributable to improved working capital management, partially offset by lower net income.

Investing activities

Net cash used in investing activities totaled \$22.2 million for the nine months ended September 30, 2019 compared with \$22.9 million for the nine months ended September 30, 2018. Net cash used in investing activities in each period was primarily for capital purchases of store fixtures, equipment, building improvements and leasehold improvements for stores opened or remodeled, asset additions in our distribution and manufacturing facilities, information technology infrastructure, and general corporate information technology assets.

Financing activities

Net cash used in financing activities was \$8.5 million for the nine months ended September 30, 2019 compared with net cash provided by financing activities of \$10.6 million for the nine months ended September 30, 2018. Net cash used in financing activities during the nine months ended September 30, 2019 was primarily \$43.2 million for payments of long-term debt and financing lease obligations, \$10.5 million for repurchases of common stock, and \$7.7 million in dividends paid to stockholders, offset by advances on the revolving line of credit of \$53.0 million.

Cash and cash equivalents totaled \$8.4 million at September 30, 2019 compared with \$5.6 million at December 31, 2018. Working capital was \$52.4 million at September 30, 2019 compared with \$79.8 million at December 31, 2018. The decrease in working capital during the third quarter of 2019 was due to the new accounting standard for leases, which added a current portion of lease liability to the consolidated balance sheet.

Off-Balance Sheet Arrangements

As of September 30, 2019 and December 31, 2018, 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, 2019, there were no material changes to our contractual obligations outside the ordinary course of business.

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued a final standard that primarily requires organizations that lease assets to recognize the rights and obligations created by those leases on the consolidated balance sheet. This standard also requires expanded disclosures to help financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. We adopted this standard effective January 1, 2019 using a modified retrospective approach through a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption.

We determine if an arrangement is a lease at inception. Operating leases are included in right of use assets and lease liabilities on the consolidated balance sheets. The right of use assets and lease liabilities are recognized as the present value of the future minimum lease payments over the lease term at commencement date. As most of the leases do not provide an implicit rate, we use the

incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. The right of use asset is also adjusted for any lease payments made and excludes lease incentives and initial direct costs incurred. Our lease terms may include options to extend or terminate the lease typically at our own discretion. We regularly evaluate the renewal options and when they are reasonably certain of exercise, we include the renewal period in its lease term.

This standard provides a number of optional practical expedients in transition. We elected the package of three practical expedients permitted under the transition guidance within this standard, which among other things, allows us to carryforward the historical lease classification. We did not separate non-lease components from lease components by class of underlying assets and we did not apply the recognition requirements of the standard to short-term leases, as allowed by the standard.

We also elected to apply the hindsight practical expedient. Our election of the hindsight practical expedient resulted in the shortening of lease terms for certain existing leases and the useful lives of corresponding leasehold improvements. In our application of the hindsight practical expedient, we considered recent investments in leased properties and our overall real estate strategy, which resulted in the determination that most renewal options would not be reasonably certain in determining the expected lease term.

Upon adopting this standard, we established a right of use asset of \$147.2 million and lease liabilities of \$169.9 million, reduced deferred rent by \$44.6 million, and recorded a cumulative effect adjustment to retained earnings of \$22.0 million. This retained earnings impact was due to the election of the hindsight practical expedient which resulted in a decrease in the cumulative difference between the straight-line rent expense and rental payments that had been made between the inception of each lease and January 1, 2019. We also adjusted the useful life assigned to certain leasehold improvements, which resulted in a \$15.3 million reduction in fixed assets and retained earnings. The net impact of the cumulative effect adjustments also resulted in a \$1.7 million reduction of deferred tax assets and a corresponding adjustment to retained earnings that was recorded during the nine months ended September 30, 2019. The adoption of this standard did not have a material impact on net income or cash flows during the three and nine months ended September 30, 2019.

Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued a final standard on accounting for credit losses. This standard is effective for us in fiscal year 2020 and requires a change in credit loss calculations using the expected loss method. We are evaluating the effect of this standard on our consolidated financial statements and related disclosures.

In August 2018, the FASB issued a final standard which provides guidance on the accounting for costs of implementation activities performed in a cloud computing arrangement that is a service contract. The standard requires customers of cloud computing services to recognize an intangible asset for the software license and, to the extent that payments attributable to the software license are made over time, a liability is also recognized. The standard also allows customers of cloud computing services to capitalize certain implementation costs. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The standard will become effective for us at the beginning of its fiscal year 2020, although early adoption is permitted for all entities. We are evaluating the effect of the standard on our consolidated financial statements and related disclosures.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our primary risk exposures or management of market risks from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that information relating to the Company is accumulated and communicated to management, including our principal officers as appropriate to allow timely decisions regarding required disclosure. Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2019 and have concluded that our disclosure controls and procedures were not effective as of September 30, 2019 due to material weaknesses in our internal control over financial reporting as described below.

On January 1, 2019, we implemented a new enterprise resource planning ("ERP") system on a company-wide basis. As previously disclosed, during the nine months ended September 30, 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 information technology (“IT”) general controls 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.

We have adjusted, and intend to consider further adjustments to, our previously disclosed plans relating to addressing these material weaknesses. As discussed in Part I, Item 2 of this Quarterly Report on Form 10-Q, we announced on October 22, 2019 our intention to delist our common stock from the Nasdaq and deregister our common stock with the SEC. Upon the effectiveness of the deregistration with the SEC, our obligations associated with being an Exchange Act-registered company, including the requirement to file current and periodic reports, will terminate.

Changes in Internal Control over Financial Reporting

No changes to our internal control over financial reporting occurred during the quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are, 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, our ultimate liability in connection with these matters is not expected to have a material adverse effect on our 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, 2018 other than with respect to the risk factors discussed below.

Implementation of our new enterprise resource planning system has adversely impacted and could continue to negatively affect our business.

We rely extensively on our information technology (“IT”) systems to assist us in managing our business and summarizing our operational results. On January 1, 2019 we deployed a company-wide new enterprise resource planning (“ERP”) system. The new ERP system was implemented to position the Company for long-term growth, further enhance operating efficiencies and provide more effective management of our business operations, including sales order processing, inventory control, purchasing and supply chain management, and financial reporting. Implementing the new ERP system has been costly and has required, and may continue to require, the investment of significant personnel and financial resources. In addition to the risks inherent in the conversion to any new IT system, including the loss of information, disruption to our normal operations, and changes in accounting procedures, the implementation of our new ERP system has resulted in operational and reporting disruptions related to the conversion of existing customer orders, processing of new customer orders and maintaining an effective internal control environment.

Failure to properly or adequately address any issues with our new ERP system could result in increased costs and the diversion of management’s and employees’ attention and resources and could materially adversely affect our operating results, internal control over financial reporting and ability to manage our business effectively. While the ERP system is intended to further improve and enhance our information management systems, the ongoing implementation of this new ERP system exposes us to the risks of integrating that system with our existing systems and processes, including possible continued disruption of our financial reporting.

We have identified two material weaknesses in our internal control over financial reporting which, if not remediated, could result in material misstatements of our financial statements.

We identified material weaknesses in internal control over financial reporting that pertain to our ERP system conversion that took place on January 1, 2019 involving (1) the ineffective design and implementation of effective controls with respect to the ERP system conversion, and (2) the ineffective design and implementation of IT general controls for information systems that are relevant to the preparation of financial statements. A material weakness is a deficiency, or combination of deficiencies, in internal control over

financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

These material weaknesses could adversely impact our ability to record, process and report financial information accurately, and to prepare financial statements within the time periods specified by the rules and forms of the Securities and Exchange Commission. This failure could negatively affect the market price and trading liquidity of our common stock, cause investors to lose confidence in our reported financial information, subject us to civil and criminal investigations and penalties and materially and adversely impact our business and financial condition. We are adjusting our previously announced plans to address the material weaknesses following our announcement that we plan to delist from Nasdaq and deregister our common stock. We cannot ensure that we will not identify additional material weaknesses in our internal control over financing reporting in the future.

We intend to delist our common stock from the Nasdaq Stock Market and deregister our common stock under the Exchange Act.

As previously disclosed, we have given notice to the Nasdaq Stock Market (“Nasdaq”) of our intent to voluntarily delist our common stock from Nasdaq and to deregister our common stock under the Exchange Act. We intend to file a Form 25 with the SEC on or about November 1, 2019 in order to delist our common stock from Nasdaq, which will terminate the registration of our common stock under Section 12(b) of the Exchange Act ten days thereafter. We anticipate that the last day of trading on Nasdaq will be on or about November 8, 2019. Our common stock may thereafter be eligible for trading on an over-the-counter market, if one or more brokers chooses to make a market for our common stock; however, there can be no assurances regarding any such trading.

On or about November 12, 2019, we intend to file a Form 15 with the SEC, at which time we anticipate that our obligation to file periodic reports under the Exchange Act, including annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K will be suspended, and that all requirements associated with being an Exchange Act-registered company, including the requirement to file current and periodic reports, will terminate 90 days thereafter. Accordingly, there will be significantly less information regarding us available to stockholders and potential investors.

Following delisting and deregistration, the combination of this reduced amount of information and the likelihood of reduced liquidity in the over-the-counter trading environment may impact the value of our common stock.

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 | Approximate Dollar Value of Shares that May Yet be Purchased Under Plans or Programs (in thousands) |
|--|-------------------------------------|---------------------------------|--|---|
| July 1, 2019 - July 31, 2019 | 48,053 ⁽¹⁾ | \$ 0.94 ⁽¹⁾ | - | \$ 4,545 |
| August 1, 2019 - August 31, 2019 | 6,390 ⁽²⁾ | 0.00 ⁽²⁾ | - | 4,545 |
| September 1, 2019 - September 30, 2019 | 58,297 ⁽²⁾ | 0.00 ⁽²⁾ | - | 4,545 |
| | <u>112,740</u> | <u>\$ 0.40</u> | <u>-</u> | <u>\$ 4,545 ⁽³⁾</u> |

- (1) A total of 10,994 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 Incentive 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 37,059 shares were repurchased by the Company pursuant to the terms of the underlying restricted stock agreements, as allowed by the 2012 Omnibus Incentive 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 Incentive 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.
- (3) On April 29, 2019, the Company's Board of Directors authorized a share repurchase program (the "Program"), pursuant to which the Company was able to, from time to time, purchase shares of its common stock for an aggregate repurchase price not to exceed \$15.0 million. The Program began on May 2, 2019 and was to continue indefinitely until the full repurchase amount had been utilized or the Board of Directors terminated the Program. The Board of Directors terminated the Program on October 18, 2019.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibits

- [3.1](#) [Certificate of Incorporation of Tile Shop Holdings, Inc. \(incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-4 \(Reg. No. 333-182482\) 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\).](#)
- [4.1](#) [Specimen Common Stock Certificate \(incorporated by reference to Exhibit 4.1 of Amendment No. 1 to the Company's Registration Statement on Form S-4 \(Reg. No. 333-182482\) filed with the Securities and Exchange Commission on July 23, 2012\).](#)
- [10.1*](#) [Employment Agreement, by and between the Company and Nancy DiMattia, dated September 6, 2019.](#)
- [10.2*](#) [Employment Agreement, by and between the Company and Mark Davis, dated September 6, 2019.](#)
- [10.3*](#) [Amendment to Terms of Employment, by and between the Company and Kirk Geadelmann, dated September 6, 2019.](#)
- [31.1*](#) [Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002.](#)
- [31.2*](#) [Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002.](#)
- [32.1**](#) [Certifications of Chief Executive Officer Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.](#)
- [32.2**](#) [Certifications of Chief Financial Officer Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.](#)
- 101.INS* XBRL Instance Document.
- 101.SCH* XBRL Taxonomy Extension Schema Document.
- 101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF* XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB* XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed herewith

** Furnished herewith

SIGNATURES

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

TILE SHOP HOLDINGS, INC.

Dated: November 4, 2019

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

Dated: November 4, 2019

By: /s/ NANCY DIMATTIA
Nancy DiMattia
Chief Financial Officer



September 06, 2019

Nancy DiMattia
[Address Omitted]
[Address Omitted]

Dear Nancy:

We are delighted to offer you a position at Tile Shop Holdings, Inc. (the "Company"). This letter serves as an employment agreement to confirm the terms of your employment:

Position: Senior Vice President and Chief Financial Officer

Start Date: September 6, 2019

Status: Full-Time, Regular

Reporting to: You will report to the Chief Executive Officer, who will direct your day-to-day responsibilities, and you will work closely with other senior officers of the Company.

Base Salary: Base salary (annualized) of \$250,000, paid in accordance with the Company's normal payroll procedures.

You should note that the Company may modify salaries and benefits from time to time as its Board of Directors or the Compensation Committee thereof deems necessary or appropriate, and all forms of compensation referred to in this agreement are subject to applicable withholding and payroll taxes.

Cash Incentive Compensation: Beginning in the Company's 2020 fiscal year, your annual cash incentive compensation opportunity will be between 0% and 100% of your base salary, with a target of 50%, and receipt of such cash incentive compensation will be based on achieving Company-wide goals and personal goals and objectives.

- Benefits: You will be eligible to receive the Company's standard benefit package for employees of your level.
- Equity Awards: Subject to approval by the Company's Board of Directors, you will be granted equity awards with an aggregate value of \$100,000, up to 50% of which may be restricted stock, with the remainder as non-qualified stock options, at your election. The non-qualified stock options and restricted stock will vest evenly over a four-year period and will otherwise be subject to the terms of the Company's 2012 Omnibus Award Plan (the "Plan") and the applicable award agreements for such awards. The non-qualified stock options will have a ten-year life upon issuance. The value of the non-qualified stock options and restricted stock and the exercise price of the non-qualified stock options will be determined at the close of business on the grant date of the awards.
- Vacation: The most favorable of (i) 4 weeks or (ii) the then-current Company vacation policy applicable to you.
- Moving Expenses: The Company will pay, upon submission of supporting documentation, reasonable expenses incurred by you in connection with your move to Minnesota. The Company has no obligation to pay for any real estate losses that may be incurred by you in connection with such move.
- Change of Control: (A)
In the event of a Change of Control (as defined in the Plan) of the Company, if (1) you are not offered employment or continued employment by the Successor Entity (as defined in the Plan) 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 (as defined in the Plan) or (b) you resign from employment with the Successor Entity as a result of a Constructive Termination (as defined below), all of your unvested stock options will vest and become exercisable immediately prior to such Change of Control or cessation of employment, as applicable.
- (B)
"Constructive Termination" will occur if 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.
-

Severance: (A)

If you are terminated without Severance Cause (as defined below) or resign for Good Reason (as defined below), you will be entitled to receive an amount equal to (1) 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") and (2) an amount equal to six times the monthly amount that the Company paid for your participation in the Company's health insurance plan during the month immediately preceding your termination date. The foregoing amounts will be payable pro rata over the Severance Period in accordance with the Company's normal payroll practices; provided, however, that the Company will not make any severance payments unless and until (a) you execute and deliver to the Company a general release in the form of Exhibit B hereto (the "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. Notwithstanding the above, if you are a "specified employee" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), then any amounts payable to you during the first six months and one day following the date of termination that constitute nonqualified deferred compensation within the meaning of Section 409A of the Code (as determined by the Company in its sole discretion) will not be paid to you until the date that is six months and one day following such termination to the extent necessary to avoid adverse tax consequences under Section 409A of the Code.

(B)

"Severance Cause" 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 Company's Board of Directors; (2) conviction of, or plea of nolo contendere 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 Company's Board of Directors to you.

(C)

"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.

Please understand that your employment with the Company is for no specified period and constitutes “at-will” employment. As a result, you are free to resign at any time, for any reason or for no reason, with or without notice. Similarly, the Company is free to conclude its employment relationship with you at any time, with or without cause, and with or without notice.

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

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

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

Nancy, we are looking forward to your arrival and expect your direct contributions to have a significant positive impact on the organization.

Sincerely,

TILE SHOP HOLDINGS, INC.

By: /s/ Cabell Lolmaugh
Name: Cabell Lolmaugh
Title: Chief Executive Officer

ACCEPTANCE AND ACKNOWLEDGMENT

I accept the offer of employment from the Company as Senior Vice President and Chief Financial Officer as set forth in the employment agreement dated September 6, 2019. I understand and acknowledge that my employment with the Company is for no particular duration and is at-will, meaning that I, or the Company, may terminate the employment relationship at any time, with or without cause and with or without prior notice.

I understand and agree that the terms and conditions set forth in the employment agreement represent the entire agreement between the Company and me superseding all prior negotiations and agreements, whether written or oral. I understand that the terms and conditions described in the employment agreement, along with the Company's Nondisclosure, Confidentiality, Assignment and Noncompetition Agreement are the terms and conditions of my employment. No one other than an executive officer of the Company is authorized to sign any employment or other agreement that modifies the terms of the employment agreement and the Company's Nondisclosure, Confidentiality, Assignment and Noncompetition Agreement, and any such modification must be in writing and signed by such individual. I understand that the Company may modify salary and benefits as well as other plans and programs from time to time as its Board of Directors or the Compensation Committee thereof deems necessary or appropriate

Signature: /s/ Nancy DiMattia

Name: Nancy DiMattia

Date: September 6, 2019

TILE SHOP HOLDINGS, INC.

NONDISCLOSURE, CONFIDENTIALITY, ASSIGNMENT AND
NONCOMPETITION AGREEMENT

THIS NONDISCLOSURE, CONFIDENTIALITY, ASSIGNMENT AND NONCOMPETITION AGREEMENT (this "Agreement") is made this 6th day of September, 2019, by and between Tile Shop Holdings, Inc., a Delaware corporation (collectively with any predecessors, successors, and assignees, the "Company"), and Nancy DiMattia ("I" or "me"), to be effective on September 6, 2019.

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. [RESERVED]

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 3 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 is 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.

ASSOCIATE

/s/ Nancy DiMattia
Nancy DiMattia

TILE SHOP HOLDINGS, INC.

By: /s/ Cabell Lolmaugh
Name: Cabell Lolmaugh
Title: Chief Executive Officer

Schedule A

List all Prior Inventions

Schedule B

List all Conflicting Obligations

WAIVER OF CLAIMS AND GENERAL RELEASE

This Waiver of Claims and General Release (the "Release") is to confirm that the undersigned's at-will employment with Tile Shop Holdings, Inc. (the "Company") is terminated effective as of _____ (the "Termination Date"). Effective as of the Termination Date, by execution of this Release, the undersigned ("you") hereby relinquish all authority you have to act on behalf of the Company and any of its subsidiaries.

Please read this Release carefully. To help you understand the Release and your rights as a terminated employee, you are advised to consult with your attorney before signing it.

Consistent with the provisions of that certain Employment Agreement by and between you and the Company dated as of September 6, 2019 (the "Employment Agreement"), the Company will provide you with severance pay pursuant to the terms of the Employment Agreement. In consideration for the severance payments and other good and valuable consideration set forth in the Employment Agreement, you hereby agree as follows:

1. Release. You hereby release and forever discharge the Company and each of its past and present officers, directors, employees, agents, advisors, consultants, successors and assigns from any and all claims and liabilities of any nature by you including, but not limited to, all actions, causes of actions, suits, debts, sums of money, attorneys' fees, costs, accounts, covenants, controversies, agreements, promises, damages, claims, grievances, arbitrations, and demands whatsoever, known or unknown, at law or in equity, by contract (express or implied), tort, pursuant to statute, or otherwise, that you now have, ever have had or will ever have based on, by reason of, or arising out of, any event, occurrence, action, inaction, transition or thing of any kind or nature occurring prior to or on the effective date of this Release. Without limiting the generality of the above, you specifically release and discharge any and all claims and causes of action arising, directly or indirectly, from your employment at the Company, arising under applicable state, federal and local law, including but not limited to the Employee Retirement Income Security Act of 1974 (except as to claims pertaining to vested benefits under employee benefit plan(s) of the Company), Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act of 1967, as amended (the "ADEA"), the Equal Pay Act, the Rehabilitation Act, the Americans With Disabilities Act, and any other law, statute, ordinance, rule, regulation, decision or order pertaining to employment or pertaining to discrimination on the basis of age, alienage, race, color, creed, gender, national origin, religion, physical or mental disability, marital status, citizenship, sexual orientation, non-work activities or any other protected class or conduct. Payment of any amounts and the provision of any benefits provided for in this Release do not signify any admission of wrongdoing by the Company or any of its affiliates.

You also agree that if you file, or there is filed on your behalf, a charge, complaint, or action, the payment and benefits described in this Release are in complete satisfaction of any and all claims in connection with such charge, complaint, or action and you waive, and agree not to take, any award of money or other damages from such charge, complaint, or action.

By signing this Release you are not releasing or waiving (a) any vested interest you may have in any employee retirement plan (as defined in ERISA Section 3(2)) by virtue of your employment with the Company; (b) any rights or claims that may arise after the Termination Date; (c) the post-employment payment and benefits described in the third paragraph of this Release; (d) the right to institute legal action for the purpose of enforcing the provisions of this Release; (e) the right to apply for state unemployment compensation benefits; (f) any right you may have to workers' compensation benefits; (g) any rights you may have under COBRA; (h) the right to file a charge or complaint with a governmental agency such as the Equal Employment Opportunity Commission ("EEOC"), the National Labor Relations Board ("NLRB"), the Occupational Safety and Health Administration ("OSHA"), the Securities and Exchange Commission ("SEC") or any other federal, state or local governmental agency, subject to the preceding paragraph of this Section 1; (i) the right to communicate with, testify, assist, or participate in an investigation, hearing, or proceeding conducted by, the EEOC, NLRB, OSHA, SEC, or other governmental agency; (j) the right to receive and retain a monetary award from a government-administered whistleblower award program for providing information directly to a governmental agency; and (k) any rights of indemnification or contribution afforded you by the Indemnification Agreement, dated September 6, 2019 between you and the Company, by statute or by common law, including any insurance coverage maintained by or on behalf of the Company.

2. Opportunity to Consider. You have been advised that you have 21 days from the date on which you received this Release to consider whether you wish to sign it. However, the Company will not accept, and you may not execute, this Release until the Termination Date. You are also advised to consult with an attorney prior to signing this Release. The date on which you received this Release is accurately reflected in Section 10 below.

3. Opportunity to Rescind. You may cancel this Release as to the release of claims arising under the Minnesota Human Rights Act within 15 days after signing it and as to the release of claims arising under the ADEA within 7 days of signing it. The Release will not become effective or enforceable until both rescission periods have passed. If you decide to rescind the Release you must mail or hand deliver the notice of rescission to: Chief Executive Officer, Tile Shop Holdings, Inc., 14000 Carlson Parkway, Plymouth, Minnesota 55441. If you mail the notice of rescission, the notice must be postmarked within the 15 or 7 day period, as applicable, and must be sent via certified mail, return receipt requested, as addressed above. If you exercise the right to rescind under this Section 3, all other provisions of the Release will immediately be null and void and you will not receive severance pay as described in the Employment Agreement or otherwise.

4. Confidentiality of this Release. You agree that you will keep the terms of this Release strictly confidential and not disclose, directly or indirectly, any information concerning them to any third party, with the exception of your spouse (if you have a spouse), and financial or legal advisors, provided that they agree to keep such information confidential as set forth herein and not disclose it to others, and except as may be required by court order or legal process.

5. Breach. You agree that all of the payments and benefits provided for in this Release are subject to termination, reduction or cancellation in the event of your material breach of this Release.

6. Enforcement. The parties agree that any legal proceeding brought to enforce the provisions of this Release may be brought only in the courts of the State of Minnesota or the federal courts located in Minnesota and each party hereby consents to the jurisdiction of such courts.

7. Severability. If any of the terms of this Release is held to be invalid and unenforceable, other than the release of claims provided in Section 1, and cannot be rewritten or interpreted by the court to be valid, enforceable and to meet the intent of the parties expressed herein, then the remaining terms of this Release are severable and will not be affected thereby. In the event any aspect of the release of claims in Section 1 is held to be invalid or unenforceable in any respect, the remaining provisions of this Release will be voidable at the option of the Company and you agree to return any payments made and benefits provided by the Company except that nothing in this Release will be construed as permitting the Company to obligate or require tender back of any payments or benefits provided in exchange for your release of ADEA claims.

8. Miscellaneous. This Release and the Employment Agreement constitutes the entire agreement between the parties about or relating to your termination of employment with the Company, or the Company's obligations to you with respect to your termination and fully supersedes any and all prior agreements or understandings between the parties except for those express provisions contained in the Employment Agreement and the Tile Shop Holdings, Inc. Nondisclosure, Confidentiality, Assignment and Noncompetition Agreement that are intended to survive the termination of the employment relationship.

9. Representations. You affirm that the consideration for signing this Release is described in the Employment Agreement as referenced herein and that no other promises or agreements of any kind have been made to or with you by any person or entity whatsoever to cause you to sign this Release, and that you fully understand the meaning and intent of this instrument. You agree that at all times during your employment you were properly compensated for all hours you worked, that you received all benefits and leave to which you were entitled, and that you suffered no work related accident, illness or injury. You agree that you will not disparage the Company in any way, nor will you make any public comments or communications that tend to cast the Company, its owners, directors, officers or employees in a negative light. The Company agrees that none of the Company's officers, owners, directors or management employees will disparage you in any way, nor will the Company's officers, owners, directors or management employees make any public comments or communications that tend to cast you in a negative light.

You also affirm that you are the legal party in interest in this Release, with legal title to all rights and claims asserted and hereby released; that you have not filed for bankruptcy or assigned or transferred any rights against the Company to any other person or entity; and that you have returned to the Company all of its property in your possession or control, including but not limited to, all documents and materials, whether on computer disc, hard drive, or other form, and all copies thereof that in any way relate to the business of the Company. You further affirm that you have fully complied with the Tile Shop Holdings, Inc. Nondisclosure, Confidentiality, Assignment and Noncompetition Agreement that you signed before beginning employment with the Company.

10. Section 409A and Taxes Generally. This Release is intended to comply with Section 409A of the Internal Revenue Code of 1986, as amended, and the regulations, notices and

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

Notwithstanding any other provision of this Release, if on the Termination Date, you are a “specified employee” within the meaning of Section 409A and determined in accordance with Section 409A, any payments and benefits provided under this Release that constitute “nonqualified deferred compensation” subject to Section 409A that are provided to you on account of your separation from service will not be paid until the first payroll date to occur following the six month anniversary of the Termination Date (“Specified Employee Payment Date”). The aggregate amount of any payments that would otherwise have been made during such six month period will be paid in a lump sum on the Specified Employee Payment Date, without interest, and thereafter, any remaining payments will be paid without delay in accordance with their original schedule. If you die during the six month period, any delayed payments will be paid to your estate in a lump sum upon your death.

11. Date of Receipt. You acknowledge that you received this Release on _____, that you have carefully read this Release, voluntarily agree to all of its terms and conditions, understand its contents and the final and binding effect of this Release, and that you have signed the same as your own free act with the full intent of releasing the Company from all claims you may have against it.

[Next Page is Signature Page]

IN WITNESS WHEREOF, the parties have caused this Release to be duly executed and delivered as of the day and year indicated below.

EMPLOYEE

Nancy DiMattia

Date Signed:

TILE SHOP HOLDINGS, INC.

By:

Name:

Title: Chief Executive Officer

Date Signed:_____



September 06, 2019

[Address Omitted]

[Address Omitted]

Mark Davis

Dear Mark:

We are delighted to offer you a new position at Tile Shop Holdings, Inc. (the "Company"). This letter serves as an employment agreement to confirm the new terms of your employment:

Position: Vice President Investor Relations and Chief Accounting Officer

Start Date: September 6, 2019

Status: Full-Time, Regular

Reporting to: You will report to the Chief Financial Officer, who will direct your day-to-day responsibilities, and you will work closely with other senior officers of the Company.

Base Salary: Base salary (annualized) of \$182,290, paid in accordance with the Company's normal payroll procedures.

You should note that the Company may modify salaries and benefits from time to time as its Board of Directors or the Compensation Committee thereof deems necessary or appropriate, and all forms of compensation referred to in this agreement are subject to applicable withholding and payroll taxes.

Cash Incentive Compensation: Your annual cash incentive compensation opportunity will be between 0% and 80% of your base salary, with a target of 40%, and receipt of such cash incentive compensation will be based on achieving Company-wide goals and personal goals and objectives, pro-rated for any partial year during which you are employed by the Company.

Benefits: You will be eligible to receive the Company's standard benefit package for employees of your level.

Equity Awards: Subject to approval by the Company's Board of Directors, you will be granted equity awards with an aggregate value of \$100,000, up to 50% of which may be restricted stock, with the remainder as non-qualified stock options, at your election. The non-qualified stock options and restricted stock will vest evenly over a four-year period and will otherwise be subject to the terms of the Company's 2012 Omnibus Award Plan (the "Plan") and the applicable award agreements for such awards. The non-qualified stock options will have a ten-year life upon issuance. The value of the non-qualified stock options and restricted stock and the exercise price of the non-qualified stock options will be determined at the close of business on the grant date of the awards.

Vacation: The most favorable of (i) 3 weeks or (ii) the then-current Company vacation policy applicable to you.

Change of Control: (A)
In the event of a Change of Control (as defined in the Plan) of the Company, if (1) you are not offered employment or continued employment by the Successor Entity (as defined in the Plan) 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 (as defined in the Plan) or (b) you resign from employment with the Successor Entity as a result of a Constructive Termination (as defined below), all of your unvested stock options will vest and become exercisable immediately prior to such Change of Control or cessation of employment, as applicable.

(B)
"Constructive Termination" will occur if 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.

Severance: (A)

If you are terminated without Severance Cause (as defined below) or resign for Good Reason (as defined below), you will be entitled to receive an amount equal to (1) 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”) and (2) an amount equal to six times the monthly amount that the Company paid for your participation in the Company’s health insurance plan during the month immediately preceding your termination date. The foregoing amounts will be payable pro rata over the Severance Period in accordance with the Company’s normal payroll practices; provided, however, that the Company will not make any severance payments unless and until (a) you execute and deliver to the Company a general release in the form of Exhibit B hereto (the “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. Notwithstanding the above, if you are a “specified employee” within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”), then any amounts payable to you during the first six months and one day following the date of termination that constitute nonqualified deferred compensation within the meaning of Section 409A of the Code (as determined by the Company in its sole discretion) will not be paid to you until the date that is six months and one day following such termination to the extent necessary to avoid adverse tax consequences under Section 409A of the Code.

(B)

“Severance Cause” 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 Company’s Board of Directors; (2) conviction of, or plea of nolo contendere 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 Company’s Board of Directors to you.

(C)

“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.

Please understand that your employment with the Company is for no specified period and constitutes “at-will” employment. As a result, you are free to resign at any time, for any reason or for no reason, with or without notice. Similarly, the Company is free to conclude its employment relationship with you at any time, with or without cause, and with or without notice.

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

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

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

Mark, we are looking forward to your new role with the Company and expect your direct contributions to have a significant positive impact on the organization.

Sincerely,

TILE SHOP HOLDINGS, INC.

By: /s/ Cabell Lolmaugh
Name: Cabell Lolmaugh
Title: Chief Executive Officer

ACCEPTANCE AND ACKNOWLEDGMENT

I accept the offer of employment from the Company as Vice President Investor Relations and Chief Accounting Officer as set forth in the employment agreement dated September 6, 2019. I understand and acknowledge that my employment with the Company is for no particular duration and is at-will, meaning that I, or the Company, may terminate the employment relationship at any time, with or without cause and with or without prior notice.

I understand and agree that the terms and conditions set forth in the employment agreement represent the entire agreement between the Company and me superseding all prior negotiations and agreements, whether written or oral. I understand that the terms and conditions described in the employment agreement, along with the Company's Nondisclosure, Confidentiality, Assignment and Noncompetition Agreement are the terms and conditions of my employment. No one other than an executive officer of the Company is authorized to sign any employment or other agreement that modifies the terms of the employment agreement and the Company's Nondisclosure, Confidentiality, Assignment and Noncompetition Agreement, and any such modification must be in writing and signed by such individual. I understand that the Company may modify salary and benefits as well as other plans and programs from time to time as its Board of Directors or the Compensation Committee thereof deems necessary or appropriate

Signature: /s/ Mark Davis

Name: Mark Davis

Date: September 6, 2019

TILE SHOP HOLDINGS, INC.

NONDISCLOSURE, CONFIDENTIALITY, ASSIGNMENT AND
NONCOMPETITION AGREEMENT

THIS NONDISCLOSURE, CONFIDENTIALITY, ASSIGNMENT AND NONCOMPETITION AGREEMENT (this "Agreement") is made this 6th day of September, 2019, by and between Tile Shop Holdings, Inc., a Delaware corporation (collectively with any predecessors, successors, and assignees, the "Company"), and Mark Davis ("I" or "me"), to be effective on September 6, 2019.

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.
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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 3 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 is 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.

ASSOCIATE

/s/ Mark Davis
Mark Davis

TILE SHOP HOLDINGS, INC.

By: /s/ Cabell Lolmaugh
Name: Cabell Lolmaugh
Title: Chief Executive Officer

Schedule A

List all Prior Inventions

Schedule B

List all Conflicting Obligations

WAIVER OF CLAIMS AND GENERAL RELEASE

This Waiver of Claims and General Release (the "Release") is to confirm that the undersigned's at-will employment with Tile Shop Holdings, Inc. (the "Company") is terminated effective as of _____ (the "Termination Date"). Effective as of the Termination Date, by execution of this Release, the undersigned ("you") hereby relinquish all authority you have to act on behalf of the Company and any of its subsidiaries.

Please read this Release carefully. To help you understand the Release and your rights as a terminated employee, you are advised to consult with your attorney before signing it.

Consistent with the provisions of that certain Employment Agreement by and between you and the Company dated as of September 6, 2019 (the "Employment Agreement"), the Company will provide you with severance pay pursuant to the terms of the Employment Agreement. In consideration for the severance payments and other good and valuable consideration set forth in the Employment Agreement, you hereby agree as follows:

1. Release. You hereby release and forever discharge the Company and each of its past and present officers, directors, employees, agents, advisors, consultants, successors and assigns from any and all claims and liabilities of any nature by you including, but not limited to, all actions, causes of actions, suits, debts, sums of money, attorneys' fees, costs, accounts, covenants, controversies, agreements, promises, damages, claims, grievances, arbitrations, and demands whatsoever, known or unknown, at law or in equity, by contract (express or implied), tort, pursuant to statute, or otherwise, that you now have, ever have had or will ever have based on, by reason of, or arising out of, any event, occurrence, action, inaction, transition or thing of any kind or nature occurring prior to or on the effective date of this Release. Without limiting the generality of the above, you specifically release and discharge any and all claims and causes of action arising, directly or indirectly, from your employment at the Company, arising under applicable state, federal and local law, including but not limited to the Employee Retirement Income Security Act of 1974 (except as to claims pertaining to vested benefits under employee benefit plan(s) of the Company), Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act of 1967, as amended (the "ADEA"), the Equal Pay Act, the Rehabilitation Act, the Americans With Disabilities Act, and any other law, statute, ordinance, rule, regulation, decision or order pertaining to employment or pertaining to discrimination on the basis of age, alienage, race, color, creed, gender, national origin, religion, physical or mental disability, marital status, citizenship, sexual orientation, non-work activities or any other protected class or conduct. Payment of any amounts and the provision of any benefits provided for in this Release do not signify any admission of wrongdoing by the Company or any of its affiliates.

You also agree that if you file, or there is filed on your behalf, a charge, complaint, or action, the payment and benefits described in this Release are in complete satisfaction of any and all claims in connection with such charge, complaint, or action and you waive, and agree not to take, any award of money or other damages from such charge, complaint, or action.

By signing this Release you are not releasing or waiving (a) any vested interest you may have in any employee retirement plan (as defined in ERISA Section 3(2)) by virtue of your employment with the Company; (b) any rights or claims that may arise after the Termination Date; (c) the post-employment payment and benefits described in the third paragraph of this Release; (d) the right to institute legal action for the purpose of enforcing the provisions of this Release; (e) the right to apply for state unemployment compensation benefits; (f) any right you may have to workers' compensation benefits; (g) any rights you may have under COBRA; (h) the right to file a charge or complaint with a governmental agency such as the Equal Employment Opportunity Commission ("EEOC"), the National Labor Relations Board ("NLRB"), the Occupational Safety and Health Administration ("OSHA"), the Securities and Exchange Commission ("SEC") or any other federal, state or local governmental agency, subject to the preceding paragraph of this Section 1; (i) the right to communicate with, testify, assist, or participate in an investigation, hearing, or proceeding conducted by, the EEOC, NLRB, OSHA, SEC, or other governmental agency; (j) the right to receive and retain a monetary award from a government-administered whistleblower award program for providing information directly to a governmental agency; and (k) any rights of indemnification or contribution afforded you by the Indemnification Agreement, dated September 6, 2019 between you and the Company, by statute or by common law, including any insurance coverage maintained by or on behalf of the Company.

2. Opportunity to Consider. You have been advised that you have 21 days from the date on which you received this Release to consider whether you wish to sign it. However, the Company will not accept, and you may not execute, this Release until the Termination Date. You are also advised to consult with an attorney prior to signing this Release. The date on which you received this Release is accurately reflected in Section 10 below.

3. Opportunity to Rescind. You may cancel this Release as to the release of claims arising under the Minnesota Human Rights Act within 15 days after signing it and as to the release of claims arising under the ADEA within 7 days of signing it. The Release will not become effective or enforceable until both rescission periods have passed. If you decide to rescind the Release you must mail or hand deliver the notice of rescission to: Chief Executive Officer, Tile Shop Holdings, Inc., 14000 Carlson Parkway, Plymouth, Minnesota 55441. If you mail the notice of rescission, the notice must be postmarked within the 15 or 7 day period, as applicable, and must be sent via certified mail, return receipt requested, as addressed above. If you exercise the right to rescind under this Section 3, all other provisions of the Release will immediately be null and void and you will not receive severance pay as described in the Employment Agreement or otherwise.

4. Confidentiality of this Release. You agree that you will keep the terms of this Release strictly confidential and not disclose, directly or indirectly, any information concerning them to any third party, with the exception of your spouse (if you have a spouse), and financial or legal advisors, provided that they agree to keep such information confidential as set forth herein and not disclose it to others, and except as may be required by court order or legal process.

5. Breach. You agree that all of the payments and benefits provided for in this Release are subject to termination, reduction or cancellation in the event of your material breach of this Release.

6. Enforcement. The parties agree that any legal proceeding brought to enforce the provisions of this Release may be brought only in the courts of the State of Minnesota or the federal courts located in Minnesota and each party hereby consents to the jurisdiction of such courts.

7. Severability. If any of the terms of this Release is held to be invalid and unenforceable, other than the release of claims provided in Section 1, and cannot be rewritten or interpreted by the court to be valid, enforceable and to meet the intent of the parties expressed herein, then the remaining terms of this Release are severable and will not be affected thereby. In the event any aspect of the release of claims in Section 1 is held to be invalid or unenforceable in any respect, the remaining provisions of this Release will be voidable at the option of the Company and you agree to return any payments made and benefits provided by the Company except that nothing in this Release will be construed as permitting the Company to obligate or require tender back of any payments or benefits provided in exchange for your release of ADEA claims.

8. Miscellaneous. This Release and the Employment Agreement constitutes the entire agreement between the parties about or relating to your termination of employment with the Company, or the Company's obligations to you with respect to your termination and fully supersedes any and all prior agreements or understandings between the parties except for those express provisions contained in the Employment Agreement and the Tile Shop Holdings, Inc. Nondisclosure, Confidentiality, Assignment and Noncompetition Agreement that are intended to survive the termination of the employment relationship.

9. Representations. You affirm that the consideration for signing this Release is described in the Employment Agreement as referenced herein and that no other promises or agreements of any kind have been made to or with you by any person or entity whatsoever to cause you to sign this Release, and that you fully understand the meaning and intent of this instrument. You agree that at all times during your employment you were properly compensated for all hours you worked, that you received all benefits and leave to which you were entitled, and that you suffered no work related accident, illness or injury. You agree that you will not disparage the Company in any way, nor will you make any public comments or communications that tend to cast the Company, its owners, directors, officers or employees in a negative light. The Company agrees that none of the Company's officers, owners, directors or management employees will disparage you in any way, nor will the Company's officers, owners, directors or management employees make any public comments or communications that tend to cast you in a negative light.

You also affirm that you are the legal party in interest in this Release, with legal title to all rights and claims asserted and hereby released; that you have not filed for bankruptcy or assigned or transferred any rights against the Company to any other person or entity; and that you have returned to the Company all of its property in your possession or control, including but not limited to, all documents and materials, whether on computer disc, hard drive, or other form, and all copies thereof that in any way relate to the business of the Company. You further affirm that you have fully complied with the Tile Shop Holdings, Inc. Nondisclosure, Confidentiality, Assignment and Noncompetition Agreement that you signed before beginning employment with the Company.

10. Section 409A and Taxes Generally. This Release is intended to comply with Section 409A of the Internal Revenue Code of 1986, as amended, and the regulations, notices and

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

Notwithstanding any other provision of this Release, if on the Termination Date, you are a “specified employee” within the meaning of Section 409A and determined in accordance with Section 409A, any payments and benefits provided under this Release that constitute “nonqualified deferred compensation” subject to Section 409A that are provided to you on account of your separation from service will not be paid until the first payroll date to occur following the six month anniversary of the Termination Date (“Specified Employee Payment Date”). The aggregate amount of any payments that would otherwise have been made during such six month period will be paid in a lump sum on the Specified Employee Payment Date, without interest, and thereafter, any remaining payments will be paid without delay in accordance with their original schedule. If you die during the six month period, any delayed payments will be paid to your estate in a lump sum upon your death.

11. Date of Receipt. You acknowledge that you received this Release on _____, that you have carefully read this Release, voluntarily agree to all of its terms and conditions, understand its contents and the final and binding effect of this Release, and that you have signed the same as your own free act with the full intent of releasing the Company from all claims you may have against it.

[Next Page is Signature Page]

IN WITNESS WHEREOF, the parties have caused this Release to be duly executed and delivered as of the day and year indicated below.

EMPLOYEE

Mark Davis

Date Signed:

TILE SHOP HOLDINGS, INC.

By:

Name:

Title: Chief Executive Officer

Date Signed:_____

**AMENDMENT TO TERMS OF EMPLOYMENT
AND
WAIVER OF CLAIMS AND GENERAL RELEASE**

This Amendment to Terms of Employment and Waiver of Claims and General Release (this “Amendment and Release”) is entered into as of September 6, 2019 between Tile Shop Holdings, Inc. (the “Company”) and Kirk Gadelmann (“Gadelmann”).

RECITALS

WHEREAS, the parties entered into a written agreement governing Gadelmann’s employment with the Company as its Chief Financial Officer on June 30, 2014, which was amended on April 21, 2017 (as amended, the “Employment Agreement”), and which agreement is further amended pursuant to this Amendment and Release;

WHEREAS, on August 13, 2019 Gadelmann informed the Company that he intended to terminate his employment with the Company at such time as was appropriate and his successor had been appointed and commenced his or her employment;

WHEREAS, the parties agreed on the terms of Gadelmann’s continued employment during the Transition Period (as defined below) and the compensation payable to Gadelmann and severance benefits, as well as his waiver of claims and general release in favor of the Company;

WHEREAS, Gadelmann has been encouraged to carefully read this Amendment and Release and to consult with his attorney before signing it.

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

AGREEMENT

1. Employment Term and Compensation.

(a) Gadelmann has remained as the Chief Financial Officer of the Company until his successor has been appointed and commenced her employment. Gadelmann shall continue to serve as an employee of the Company for a period of three (3) months (until December 6, 2019) in order to facilitate an orderly transition of the role of Chief Financial Officer (such three-month period, the “Transition Period”). Gadelmann’s duties during the Transition Period shall be mutually agreed upon by Gadelmann and the Company’s Chief Executive Officer.

(b) Gadelmann has continued to receive his then current base salary and benefits as compensation for his service as Chief Financial Officer prior to commencement of the Transition Period. In consideration for this Amendment and Release and as compensation for Gadelmann’s services during the Transition Period, Gadelmann shall receive a monthly base salary of ten thousand dollars (\$10,000) and continue to receive his current benefits. The base salary during the Transition Period shall be paid in accordance with the Company’s standard

payroll practices and be subject to all applicable withholdings and deductions. Upon completion of the Transition Period, Geadelmann's employment shall automatically terminate (such date, the "Termination Date") without further action required by either party. Effective as of the Termination Date, by execution of this Amendment and Release, Geadelmann hereby relinquishes all authority Geadelmann has to act on behalf of the Company and any of its subsidiaries.

(c) If Geadelmann successfully completes the Transition Period, or the Company ends Geadelmann's employment relationship with the Company during the Transition Period other than "for cause," Geadelmann will have an opportunity to reaffirm certain terms of this Amendment and Release in exchange for additional consideration, which is described in the form attached hereto and incorporated herein by reference as Exhibit A. As used in this Section 1, "for cause" means (i) a material breach of this Amendment and Release which goes uncured pursuant to Section 5 of this Amendment and Release; (ii) Geadelmann is convicted of, or pleads non contendere to, any crime involving the misuse or misappropriation of money or other property of the Company or a felony; (iii) Geadelmann commits an intentional tort against the Company; or (iv) Geadelmann commits any flagrant act of dishonesty or disloyalty or any act involving gross moral turpitude.

(d) Notwithstanding any other term or provision to the contrary herein, at any time and for any reason, the Company may, in its sole and absolute discretion, end its employment relationship with Geadelmann, but on the conditions that the Company (i) complies with Section 1(c) if such termination is not for cause; and (ii) pays the Transition Period compensation and benefits (*i.e.*, salary of ten thousand dollars (\$10,000) and Geadelmann's current benefits), through the remaining portion of the Transition Period or for a maximum period of three (3) months).

2. Release. For the good and valuable consideration set forth in this Amendment and Release, Geadelmann hereby agrees as follows:

Geadelmann hereby releases and forever discharges the Company and each of its past and present officers, directors, employees, agents, advisors, consultants, successors and assigns from any and all claims and liabilities of any nature by Geadelmann including, but not limited to, all actions, causes of actions, suits, debts, sums of money, attorneys' fees, costs, accounts, covenants, controversies, agreements, promises, damages, claims, grievances, arbitrations, and demands whatsoever, known or unknown, at law or in equity, by contract (express or implied), tort, pursuant to statute, or otherwise, that Geadelmann now has, ever has had or will ever have based on, by reason of, or arising out of, any event, occurrence, action, inaction, transition or thing of any kind or nature occurring prior to or on the effective date of this Amendment and Release. Without limiting the generality of the above, Geadelmann specifically releases and discharges any and all claims and causes of action arising, directly or indirectly, from Geadelmann's employment at the Company, arising under applicable state, federal and local law, including but not limited to the Employee Retirement Income Security Act of 1974 (except as to claims pertaining to vested benefits under employee benefit plan(s) of the Company), Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act of 1967, as amended (the "ADEA"), the Equal Pay Act, the Rehabilitation Act, the Americans With Disabilities Act, and any other law, statute, ordinance, rule, regulation, decision or order pertaining to employment or pertaining to discrimination on the basis of age, alienage, race, color, creed, gender, national origin, religion,

physical or mental disability, marital status, citizenship, sexual orientation , non-work activities or any other protected class or conduct. Payment of any amounts and the provision of any benefits provided for in this Amendment and Release do not signify any admission of wrongdoing by the Company or any of its affiliates.

Geadelmann also agrees that if Geadelmann files, or there is filed on Geadelmann's behalf, a charge, complaint, or action, the payment and benefits described in this Amendment and Release are in complete satisfaction of any and all claims in connection with such charge, complaint, or action and Geadelmann waives, and agrees not to take, any award of money or other damages from such charge, complaint, or action.

By signing this Amendment and Release Geadelmann is not releasing or waiving (a) any vested interest Geadelmann may have in any employee retirement plan (as defined in ERISA Section 3(2)) by virtue of Geadelmann's employment with the Company; (b) any rights or claims that may arise after the Termination Date; (c) the right to institute legal action for the purpose of enforcing the provisions of this Amendment and Release; (d) the right to apply for state unemployment compensation benefits; (e) any right Geadelmann may have to workers' compensation benefits; (f) any rights Geadelmann may have under COBRA; (g) the right to file a charge or complaint with a governmental agency such as the Equal Employment Opportunity Commission ("EEOC"), the National Labor Relations Board ("NLRB"), the Occupational Safety and Health Administration ("OSHA"), the Securities and Exchange Commission ("SEC") or any other federal, state or local governmental agency, subject to the preceding paragraph of this Section 1; (h) the right to communicate with, testify, assist, or participate in an investigation, hearing, or proceeding conducted by, the EEOC, NLRB, OSHA, SEC, or other governmental agency; (i) the right to receive and retain a monetary award from a government-administered whistleblower award program for providing information directly to a governmental agency; and (j) any rights of indemnification or contribution afforded Geadelmann by the Indemnification Agreement, dated August 12, 2014 between Geadelmann and the Company, by statute or by common law, including any insurance coverage maintained by or on behalf of the Company.

3. Opportunity to Consider. Geadelmann has been advised that Geadelmann has twenty-one (21) days from the date on which Geadelmann received this Amendment and Release to consider whether Geadelmann wishes to sign it. However, the Company will not accept, and Geadelmann may not execute, this Agreement and Release until the commencement of the Transition Period. Geadelmann is also advised to consult with an attorney prior to signing this Agreement and Release. The date on which Geadelmann received this Amendment and Release is accurately reflected in Section 11 below.

4. Opportunity to Rescind. Geadelmann may cancel this Amendment and Release as to the release of claims arising under the Minnesota Human Rights Act within fifteen (15) days after signing it and as to the release of claims arising under the ADEA within seven (7) days of signing it. The Amendment and Release will not become effective or enforceable until both rescission periods have passed. If Geadelmann decides to rescind this Amendment and Release Geadelmann must mail or hand deliver the notice of rescission to: Cabell Lolmaugh, Chief Executive Officer and President, Tile Shop Holdings, Inc., 14000 Carlson Parkway, Plymouth MN 55441. If Geadelmann mails the notice of rescission, the notice must be postmarked within the fifteen (15) or seven (7) day period, as applicable, and must be sent via certified mail, return receipt

requested, as addressed above. If Geadelmann exercises the right to rescind under this Section 4, all other provisions of the Amendment and Release shall immediately be null and void and Geadelmann will not receive consideration as described in this Amendment and Release.

5. Breach. In the event of a material breach of this Amendment and Release by Geadelmann, the Company shall deliver written notice to Geadelmann describing such material breach. Geadelmann shall have two (2) business days from the date Geadelmann receives such written notice to cure the material breach. If Geadelmann fails to cure the material breach after receiving written notice under this Section 5, Geadelmann agrees that all payments and benefits provided for in this Amendment and Release are subject to termination, reduction, or cancellation.

6. Enforcement. The parties agree that any legal proceeding brought to enforce the provisions of this Amendment and Release may be brought only in the courts of the State of Minnesota or the federal courts located in Minnesota and each party hereby consents to the jurisdiction of such courts.

7. Severability. If any of the terms of this Amendment and Release shall be held to be invalid and unenforceable, other than the release of claims provided in Section 2, and cannot be rewritten or interpreted by the court to be valid and enforceable and to meet the intent of the parties expressed herein, then the remaining terms of this Amendment and Release are severable and shall not be affected thereby. In the event any aspect of the release of claims in Section 2 is held to be invalid or unenforceable in any respect, the remaining provisions of this Amendment and Release shall be voidable at the option of the Company and Geadelmann agrees to return any payments made and benefits provided by the Company except that nothing in this Amendment and Release shall be construed as permitting the Company to obligate or require tender back of any payments or benefits provided in exchange for Geadelmann's release of ADEA claims.

8. Miscellaneous. This Amendment and Release constitute the entire agreement between the parties about or relating to the termination of Geadelmann's employment with the Company, and the Company's obligations to Geadelmann with respect to Geadelmann's termination and fully supersedes any and all prior agreements or understandings between the parties, except for those express provisions contained in the Employment Agreement and the Tile Shop Holdings, Inc. Nondisclosure, Confidentiality, Assignment and Noncompetition Agreement that are intended to survive the termination of the employment relationship.

9. Representations. Geadelmann affirms that the consideration for signing this Amendment and Release is described herein and that no other promises or agreements of any kind have been made to or with Geadelmann by any person or entity whatsoever to cause Geadelmann to sign this Amendment and Release, and that Geadelmann fully understands the meaning and intent of this instrument. Geadelmann agrees that at all times during Geadelmann's employment Geadelmann was properly compensated for all hours Geadelmann worked, that Geadelmann received all benefits and leave to which Geadelmann was entitled, and that Geadelmann suffered no work related accident, illness or injury. Geadelmann agrees that Geadelmann will not disparage the Company in any way.

Gadelmann also affirms that Gadelmann is the legal party in interest in this Amendment and Release, with legal title to all rights and claims asserted and hereby released; that Gadelmann has not filed for bankruptcy or assigned or transferred any rights against the Company to any other person or entity; and that Gadelmann has returned to the Company all of its property in Gadelmann's possession or control, including but not limited to, all documents and materials, whether on computer disc, hard drive, or other form, and all copies thereof which in any way relate to the business of the Company. Gadelmann further affirm that Gadelmann has fully complied with the Tile Shop Holdings, Inc. Nondisclosure, Confidentiality, Assignment and Noncompetition Agreement that Gadelmann signed before beginning employment with the Company.

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

Notwithstanding any other provision of this Amendment and Release, if, on the Termination Date, Gadelmann is a "specified employee" within the meaning of Section 409A(a)(2)(B)(i) and determined in accordance with Section 409A, any payments and benefits provided under this Amendment and Release that constitute "nonqualified deferred compensation" subject to Section 409A that are provided to Gadelmann on account of Gadelmann's separation from service shall not be paid until the first payroll date to occur following the six (6) month anniversary of the Termination Date ("Specified Employee Payment Date"). The aggregate amount of any payments that would otherwise have been made during such six (6) month period shall be paid in a lump sum on the Specified Employee Payment Date, without interest, and thereafter, any remaining payments shall be paid without delay in accordance with their original schedule. If Gadelmann dies during such six (6) month period, any delayed payments shall be paid to Gadelmann's estate in a lump sum upon Gadelmann's death.

11. Date of Receipt. Gadelmann acknowledges that Gadelmann received a draft of this Amendment and Release on August 26, 2019, that Gadelmann has carefully read this Amendment and Release, that Gadelmann voluntarily agrees to all of its terms and conditions, that Gadelmann understands its contents and the final and binding effect of this Amendment and

Release, and that Gadelmann has signed the same as Gadelmann's own free act with the full intent of releasing the Company from all claims Gadelmann may have against it.

[Next Page is Signature Page]

IN WITNESS WHEREOF, the parties have caused this Amendment and Release to be duly executed and delivered as of the day and year indicated below.

EMPLOYEE **TILE SHOP HOLDINGS, INC.**

/s/ Kirk Geadelmann

Name: Kirk Geadelmann

Date Signed: September 10, 2019

By: /s/ Cabell Lolmaugh

Name: Cabell Lolmaugh
Title: President and CEO

Date Signed: September 11, 2019

(Signature Page to Amendment of Employment Terms and Waiver of Claims and General Release)

EXHIBIT A

Tile Shop Holdings, Inc. (the "Company") and Kirk Gadelmann ("Gadelmann") are parties to that certain Amendment to Terms of Employment and Waiver of Claims and General Release (the "Amendment and Release"), entered into as of [December __,] 2019. For good and valuable consideration, Company and Gadelmann further agree as follows:

1. Gadelmann's employment with the Company is voluntarily ending on December 6, 2019 ("Termination Date").

2. In consideration for Gadelmann signing this Exhibit A, the Company shall permit Gadelmann to exercise all stock options held by Gadelmann and vested on the Termination Date for a period of one (1) year following the Termination Date.

3. Gadelmann, along with his heirs, executors, administrators, successors, and assigns, reaffirms his agreement with and acceptance of all of the terms and provisions contained in the Agreement and Release, including without limitation those contained in Section 2 of the Agreement and Release, as of the date of Gadelmann's signature on this document.

4. Gadelmann has been advised that Gadelmann has twenty-one (21) days from the date on which Gadelmann received this Exhibit A to consider whether Gadelmann wishes to sign it. However, the Company will not accept, and Gadelmann may not execute, this Exhibit A until on or after the Termination Date. Gadelmann is also advised to consult with an attorney prior to signing this document.

5. Gadelmann may cancel this Exhibit A, but only this Exhibit A and specifically not the Amendment and Release, within fifteen (15) days after signing it. This Exhibit A will not become effective or enforceable until such rescission period has passed. If Gadelmann decides to rescind this Exhibit A, Gadelmann must mail or hand deliver the notice of rescission to: Cabell Lolmaugh, Chief Executive Officer and President, Tile Shop Holdings, Inc., 14000 Carlson Parkway, Plymouth MN 55441. If Gadelmann mails the notice of rescission, the notice must be postmarked within the fifteen (15) day period and must be sent via certified mail, return receipt requested, as addressed above. If Gadelmann exercises the right to rescind this Exhibit A, this Exhibit A shall immediately be null and void and Gadelmann will not receive the valuable consideration described herein.

[Next Page is Signature Page]

IN WITNESS WHEREOF, the parties have caused this Exhibit A to the Agreement and Release to be duly executed and delivered as of the day and year indicated below.

EMPLOYEE **TILE SHOP HOLDINGS, INC.**

Name: Kirk Gadelmann

By: _____

Name: Cabell Lolmaugh
Title: President and CEO

Date Signed: [December __], 2019

Date Signed: [December __], 2019

(Signature Page to Exhibit A to Amendment of Employment Terms and Waiver of Claims and General Release)

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 4, 2019

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

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 4, 2019

/s/ NANCY DIMATTIA
Nancy DiMattia
Chief Financial Officer

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

In connection with the Quarterly Report of Tile Shop Holdings, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2019 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 4, 2019

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

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

In connection with the Quarterly Report of Tile Shop Holdings, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2019 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 4, 2019

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.
