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

FORM 10-Q

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

For the quarterly period ended September 30, 2023

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	**45-5538095**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
14000 Carlson Parkway **Plymouth, Minnesota**	**55441**
(Address of principal executive offices)	**(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	**TTSH**	**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. x Yes ☐ No

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

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

Large accelerated filer	☐	Accelerated filer	x
Non-accelerated filer	☐	Smaller reporting company	x
		Emerging growth company	☐

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

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

As of October 30, 2023, there were 44,530,888 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 per share data)

	September 30, 2023 (unaudited)	December 31, 2022 (audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 16,371	$ 5,948
Restricted cash	655	1,811
Receivables, net	3,501	3,411
Inventories	98,710	120,952
Income tax receivable	435	3,859
Other current assets, net	10,352	10,422
Total Current Assets	130,024	146,403
Property, plant and equipment, net	65,133	71,095
Right of use asset	119,619	118,501
Deferred tax assets	4,470	6,536
Other assets	3,461	3,287
Total Assets	$ 322,707	$ 345,822
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 26,247	$ 23,506
Income tax payable	113	3
Current portion of lease liability	27,214	27,866
Other accrued liabilities	32,756	31,916
Total Current Liabilities	86,330	83,291
Long-term debt	10,000	45,400
Long-term lease liability, net	103,786	103,353
Other long-term liabilities	3,836	5,009
Total Liabilities	203,952	237,053
Stockholders' Equity:		
Common stock, par value $0.0001; authorized: 100,000,000 shares; issued and outstanding: 44,561,554 and 44,377,445 shares, respectively	4	4
Preferred stock, par value $0.0001; authorized: 10,000,000 shares; issued and outstanding: 0 shares	-	-
Additional paid-in capital	128,582	127,997
Accumulated deficit	(9,745)	(19,180)
Accumulated other comprehensive loss	(86)	(52)
Total Stockholders' Equity	118,755	108,769
Total Liabilities and Stockholders' Equity	$ 322,707	$ 345,822

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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net sales	$ 92,112	$ 97,154	$ 292,688	$ 307,230
Cost of sales	32,549	32,542	104,285	104,754
Gross profit	59,563	64,612	188,403	202,476
Selling, general and administrative expenses	56,734	59,109	173,715	182,459
Income from operations	2,829	5,503	14,688	20,017
Interest expense	(453)	(319)	(1,920)	(786)
Income before income taxes	2,376	5,184	12,768	19,231
Provision for income taxes	(532)	(1,361)	(3,333)	(4,981)
Net income	$ 1,844	$ 3,823	$ 9,435	$ 14,250
Income per common share:				
Basic	$ 0.04	$ 0.08	$ 0.22	$ 0.28
Diluted	$ 0.04	$ 0.08	$ 0.22	$ 0.28
Weighted average shares outstanding:				
Basic	43,522,768	50,423,923	43,385,316	50,674,870
Diluted	43,733,706	50,717,426	43,555,988	51,080,404

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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income	$ 1,844	$ 3,823	$ 9,435	$ 14,250
Currency translation adjustment	(3)	(46)	(34)	(87)
Other comprehensive income	(3)	(46)	(34)	(87)
Comprehensive income	$ 1,841	$ 3,777	$ 9,401	$ 14,163

See accompanying Notes to Consolidated Financial Statements.

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

	Common stock					
	Shares	Amount	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total
Balance at June 30, 2022	52,270,922	$ 5	$ 127,298	$ 5,714	$ (29)	$ 132,988
Cancellation of restricted shares	(77,292)	-	-	-	-	-
Stock based compensation	-	-	563	-	-	563
Tax withholdings related to net share settlements of stock based compensation awards	(14,678)	-	(48)	-	-	(48)
Repurchases of common stock	(4,094,592)	-	-	(15,545)	-	(15,545)
Foreign currency translation adjustments	-	-	-	-	(46)	(46)
Net income	-	-	-	3,823	-	3,823
Balance at September 30, 2022	48,084,360	$ 5	$ 127,813	$ (6,008)	$ (75)	$ 121,735
Balance at June 30, 2023	44,567,055	$ 4	$ 128,257	$ (11,589)	$ (83)	$ 116,589
Issuance of common stock upon exercise of options	1,790	-	4	-	-	4
Stock based compensation	-	-	366	-	-	366
Tax withholdings related to net share settlements of stock based compensation awards	(7,291)	-	(45)	-	-	(45)
Foreign currency translation adjustments	-	-	-	-	(3)	(3)
Net income	-	-	-	1,844	-	1,844
Balance at September 30, 2023	44,561,554	$ 4	$ 128,582	$ (9,745)	$ (86)	$ 118,755

See accompanying Notes to Consolidated Financial Statements.

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

	Common stock					
	Shares	Amount	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total
Balance at December 31, 2021	51,963,377	$ 5	$ 126,920	$ (4,713)	$ 12	$ 122,224
Issuance of restricted shares	592,396	-	-	-	-	-
Cancellation of restricted shares	(258,038)	-	-	-	-	-
Stock based compensation	-	-	1,617	-	-	1,617
Tax withholdings related to net share settlements of stock based compensation awards	(118,783)	-	(724)	-	-	(724)
Repurchases of common stock	(4,094,592)	-	-	(15,545)	-	(15,545)
Foreign currency translation adjustments	-	-	-	-	(87)	(87)
Net income	-	-	-	14,250	-	14,250
Balance at September 30, 2022	48,084,360	$ 5	$ 127,813	$ (6,008)	$ (75)	$ 121,735
Balance at December 31, 2022	44,377,445	$ 4	$ 127,997	$ (19,180)	$ (52)	$ 108,769
Issuance of restricted shares	611,154	-	-	-	-	-
Issuance of common stock upon exercise of options	1,790	-	4	-	-	4
Cancellation of restricted shares	(329,536)	-	-	-	-	-
Stock based compensation	-	-	1,072	-	-	1,072
Tax withholdings related to net share settlements of stock based compensation awards	(99,299)	-	(491)	-	-	(491)
Foreign currency translation adjustments	-	-	-	-	(34)	(34)
Net income	-	-	-	9,435	-	9,435
Balance at September 30, 2023	44,561,554	$ 4	$ 128,582	$ (9,745)	$ (86)	$ 118,755

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,	
	2023	2022
Cash Flows From Operating Activities		
Net income	$ 9,435	$ 14,250
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,394	19,011
Amortization of debt issuance costs	193	363
Gain on disposals of property, plant and equipment	(51)	-
Impairment charges	618	-
Non-cash lease expense	19,561	19,418
Stock based compensation	1,072	1,617
Deferred income taxes	2,066	320
Changes in operating assets and liabilities:		
Receivables, net	(90)	(902)
Inventories	22,242	(24,305)
Other current assets, net	(302)	(3,479)
Accounts payable	2,490	1,831
Income tax receivable / payable	3,533	(263)
Accrued expenses and other liabilities	(20,989)	(20,676)
Net cash provided by operating activities	56,172	7,185
Cash Flows From Investing Activities		
Purchases of property, plant and equipment	(11,046)	(10,340)
Proceeds from the sale of property, plant and equipment	58	-
Net cash used in investing activities	(10,988)	(10,340)
Cash Flows From Financing Activities		
Payments of long-term debt	(50,400)	(45,000)
Advances on line of credit	15,000	70,400
Proceeds from exercise of stock options	4	-
Employee taxes paid for shares withheld	(491)	(724)
Repurchases of common stock	-	(15,545)
Debt issuance costs	-	(360)
Net cash (used in) provided by financing activities	(35,887)	8,771
Effect of exchange rate changes on cash	(30)	(75)
Net change in cash, cash equivalents and restricted cash	9,267	5,541
Cash, cash equivalents and restricted cash beginning of period	7,759	10,013
Cash, cash equivalents and restricted cash end of period	$ 17,026	$ 15,554
Cash and cash equivalents	$ 16,371	$ 12,423
Restricted cash	655	3,131
Cash, cash equivalents and restricted cash end of period	$ 17,026	$ 15,554
Supplemental disclosure of cash flow information		
Purchases of property, plant and equipment included in accounts payable and accrued expenses	$ 986	$ 129
Cash paid for interest	1,960	882
Cash (received) paid for income taxes, net	(2,266)	4,922

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, man-made and luxury vinyl 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, 2023, the Company had 143 stores in 31 states and the District of Columbia, with an average size of approximately 20,000 square feet. The Company has distribution centers located in Michigan, New Jersey, Oklahoma, Virginia and Wisconsin. The Company also has a sourcing office 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, 2023 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2023.

These statements should be read in conjunction with the Consolidated Financial Statements and footnotes included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2022. 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.

Note 2: Restatement of Previously Issued Financial Statements

In connection with the preparation of the unaudited interim financial statements for the period ended September 30, 2023, the Company identified an error related to operating lease agreements that were extended prior to the end of the second quarter of 2023, but not reflected in the unaudited financial information as of the quarter ended June 30, 2023. The Company assessed the materiality of the error identified in accordance with the SEC’s Staff Accounting Bulletin No. 99 and concluded that the changes were material and that certain of the unaudited interim consolidated financial statements should be restated.

The impact of this change on the unaudited Consolidated Balance Sheet presented as of June 30, 2023 follows:

(in thousands)	As reported	Adjustment	As restated
Right of use asset	$ 114,616	$ 2,152	$ 116,768
Total Assets	325,439	2,152	327,591
Long-term lease liability, net	98,845	2,152	100,997
Total Liabilities	208,850	2,152	211,002
Total Liabilities and Stockholders' Equity	325,439	2,152	327,591

The impact of the error was immaterial to the unaudited Consolidated Statements of Income, Consolidated Statements of Stockholders’ Equity and the Consolidated Statement of Cash Flows for the period ended June 30, 2023 and do not require restatement.

Note 3: Revenues

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

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

The following table presents revenues disaggregated by product category:

	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
Man-made tiles[1]	54 %	51 %	53 %	50 %
Natural stone tiles	21	25	22	25
Setting and maintenance materials	15	15	15	15
Accessories	8	7	8	7
Delivery service	2	2	2	3
Total	100 %	100 %	100 %	100 %

[1] Man-made tile revenues include sales of luxury vinyl tile products.

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

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

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

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

The Company determines the transaction price of its contracts based on the pricing established at the time a customer places an order. The transaction price does not include sales tax as the Company is a pass-through conduit for collecting and remitting sales tax. Any discounts applied to an order are allocated proportionately to the base price of the goods and services ordered. Deposits made by customers are recorded in other accrued liabilities. Deferred revenues associated with customer deposits are recognized at the time the Company transfers control of the items ordered or renders the delivery service. In the event an order is partially fulfilled as of the end of a reporting period, revenue will be recognized based on the transaction price allocated to the goods delivered and services rendered. The customer deposit balance was $12.5 million and $11.3 million as of September 30, 2023 and December 31, 2022, respectively. Revenues recognized during the nine months ended September 30, 2023 that were included in the customer deposit balance as of the beginning of the period were $11.1 million.

The Company extends financing to qualified professional customers who apply for credit. Customers who qualify for an account receive 30-day payment terms. The accounts receivable balance was $3.5 million and $3.4 million at September 30, 2023 and December 31, 2022, 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 does not adjust the promised amount of consideration for the effects of the financing component.

Customers may return purchased items for an exchange or refund. The Company records a reserve for estimated product returns based on the historical returns trends and the current product sales performance. The Company presents the sales returns reserve as an other current accrued liability and the estimated value of the inventory that will be returned as an other current asset in the Consolidated Balance Sheet. The components of the sales returns reserve reflected in the Consolidated Balance Sheets as of September 30, 2023 and December 31, 2022 were as follows:

	(in thousands)	
	September 30, 2023	December 31, 2022
Other current accrued liabilities	$ 4,089	$ 4,993
Other current assets	1,347	1,687
Sales returns reserve, net	$ 2,742	$ 3,306

Note 4: Inventories

Inventories are stated at the lower of cost (determined using the moving average cost method) or net realizable value. Inventories consist primarily of merchandise held for sale. Inventories were comprised of the following as of September 30, 2023 and December 31, 2022:

	(in thousands) September 30, 2023	December 31, 2022
Finished goods	$ 97,463	$ 119,517
Raw materials	1,247	1,435
Total	$ 98,710	$ 120,952

The Company provides provisions for losses related to shrinkage and other amounts that are otherwise not expected to be fully recoverable. These provisions are calculated based on historical shrinkage, selling price, margin and current business trends. The provision for losses related to shrinkage and other amounts was $1.0 million and $0.7 million as of September 30, 2023 and December 31, 2022, respectively.

Note 5: Income Taxes

The provision for income taxes was $0.5 million and $1.4 million for the third quarter of 2023 and 2022, respectively. The decrease in income tax expense was primarily due to a decrease in pre-tax earnings during the third quarter of 2023 as compared to the third quarter of 2022. The Company’s effective tax rate for the three months ended September 30, 2023 and 2022 was 22.4% and 26.3%, respectively. The decrease in the effective tax rate is largely due to tax benefits associated with employee equity award vestings.
The provision for income taxes was $3.3 million and $5.0 million for the nine months ended September 30, 2023 compared with the nine months ended September 30, 2022. The decrease in income tax expense was primarily due to a decrease in pre-tax earnings. The Company’s effective tax rate for the nine months ended September 30, 2023 and 2022 was 26.1% and 25.9%, respectively.

The Company records interest and penalties relating to uncertain tax positions in income tax expense. As of both September 30, 2023 and 2022, the Company had not recognized any liabilities for uncertain tax positions, nor had interest and penalties related to uncertain tax positions been accrued.

Note 6: 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:

	(dollars in thousands, except per share data)			
	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
Net income	$ 1,844	$ 3,823	$ 9,435	$ 14,250
Weighted average shares outstanding - basic	43,522,768	50,423,923	43,385,316	50,674,870
Effect of dilutive securities attributable to stock based awards	210,938	293,503	170,672	405,534
Weighted average shares outstanding - diluted	43,733,706	50,717,426	43,555,988	51,080,404
Income per common share:				
Basic	$ 0.04	$ 0.08	$ 0.22	$ 0.28
Diluted	$ 0.04	$ 0.08	$ 0.22	$ 0.28
Anti-dilutive securities excluded from earnings per share calculation	312,217	1,176,621	515,226	821,794

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

Note 7: Other Accrued Liabilities

Other accrued liabilities consisted of the following:

	(in thousands) September 30, 2023	December 31, 2022
Customer deposits	$ 12,477	$ 11,315
Sales returns reserve	4,089	4,993
Accrued wages and salaries	5,871	6,040
Payroll and sales taxes	2,381	2,286
Other current liabilities	7,938	7,282
Total other accrued liabilities	$ 32,756	$ 31,916

Note 8: Long-term Debt

On September 30, 2022, Holdings and its operating subsidiary, The Tile Shop, LLC, and certain subsidiaries of each entered into a Credit Agreement with JPMorgan Chase Bank, N.A. and the lenders party thereto, including Fifth Third Bank (the “Credit Agreement”). The Credit Agreement provides the Company with a senior credit facility consisting of a $75.0 million revolving line of credit through September 30, 2027. Borrowings pursuant to the Credit Agreement initially bear interest at a rate per annum equal to: (i) Adjusted Term SOFR Rate (as defined in the Credit Agreement), plus a margin ranging from 1.25% to 1.75%; (ii) Adjusted Daily Simple SOFR (as defined in the Credit Agreement), plus a margin ranging from 1.25% to 1.75%; or (iii) the Alternate Base Rate (as defined in the Credit Agreement), plus a margin ranging from 0.25% to 0.75%. The margin is determined based on The Tile Shop, LLC’s Rent Adjusted Leverage Ratio (as defined in the Credit Agreement). Borrowings outstanding as of September 30, 2023 were SOFR-based interest rate loans. The SOFR-based interest rate was 6.92% on September 30, 2023.

The Credit Agreement is secured by virtually all of the assets of the Company, including, but not limited to, inventory, accounts receivable, equipment and general intangibles. The Credit Agreement contains customary events of default, conditions to borrowing and restrictive covenants, including restrictions on the Company’s ability to dispose of assets, engage in acquisitions or mergers, make distributions on or repurchases of capital stock, incur additional debt, incur liens or make investments. The Credit Agreement also includes financial and other covenants, including covenants to maintain a Fixed Charge Coverage Ratio (as defined in the Credit Agreement) of no less than 1.20 to 1.00 and a Rent Adjusted Leverage Ratio (as defined in the Credit Agreement) of no greater than 3.50 to 1.00. The Company was in compliance with the covenants as of September 30, 2023.

Borrowings outstanding consisted of $10.0 million on the revolving line of credit as of September 30, 2023. As of September 30, 2023, there was $63.3 million available for borrowing on the revolving line of credit, which may be used to purchase inventory, acquire assets to maintain our stores and distribution centers, build new stores and general corporate purposes.

The Company has standby letters of credit outstanding related to its workers compensation plan and property leases. Standby letters of credit totaled $1.7 million as of September 30, 2023 and were secured by the Company’s credit facility.

Note 9: Leases

The Company leases its retail stores, certain distribution space, and office space. Leases generally have an initial 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. Leasehold improvements are amortized using the straight-line method over the shorter of the original lease term, the renewal term if the lease renewal is reasonably certain or the useful life of the improvement.

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

Leases (in thousands)	Classification	September 30, 2023	December 31, 2022
Assets			
Operating lease assets	Right of use asset	$ 119,619	$ 118,501
Total leased assets		$ 119,619	$ 118,501
Liabilities			
Current			
Operating	Current portion of lease liability	$ 27,214	$ 27,866
Noncurrent			
Operating	Long-term lease liability, net	103,786	103,353
Total lease liabilities		$ 131,000	$ 131,219

		Three Months Ended	
Lease cost (in thousands)	Classification	September 30, 2023	September 30, 2022
Operating lease cost	SG&A expenses	$ 9,052	$ 7,848
Variable lease cost[1]	SG&A expenses	3,800	3,709
Short term lease cost	SG&A expenses	42	104
Net lease cost		$ 12,894	$ 11,661

		Nine Months Ended	
Lease cost (in thousands)	Classification	September 30, 2023	September 30, 2022
Operating lease cost	SG&A expenses	$ 26,890	$ 25,130
Variable lease cost[1]	SG&A expenses	11,179	10,670
Short term lease cost	SG&A expenses	223	346
Net lease cost		$ 38,292	$ 36,146

[1] Variable lease cost consists primarily of taxes, insurance, and common area or other maintenance costs for the Company's leased facilities.

	Nine Months Ended	
Other Information (in thousands)	September 30, 2023	September 30, 2022
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 28,619	$ 28,147
Lease right-of-use assets obtained or modified in exchange for lease obligations	$ 21,769	$ 12,420

Note 10: Fair Value of Financial Instruments

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

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

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

Quoted prices for similar assets or liabilities in active markets;

Quoted prices for identical or similar assets or liabilities in non-active markets;

Inputs other than quoted prices that are observable for the asset or liability; and

Inputs that are derived principally from or corroborated by other observable market data.

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

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

The following table sets forth by level within the fair value hierarchy the Company's financial assets that were accounted for at fair value on a recurring basis at September 30, 2023 and December 31, 2022 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	Fair Value at September 30, 2023	Fair Value at December 31, 2022
Assets		(in thousands)	
Cash and cash equivalents	Level 1	$ 16,371	$ 5,948
Restricted cash	Level 1	655	1,811

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

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

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

Fair value measurements also apply to certain non-financial assets and liabilities measured at fair value on a nonrecurring basis. Property, plant and equipment and right of use assets are measured at fair value when an impairment is recognized and the related assets are written down to fair value. During the three and nine months ended September 30, 2023 the Company recorded $0.0 million and $0.6 million, respectively, of impairment charges in selling, general and administrative expenses to write-down property, plant and equipment and right of use assets to their estimated fair values. The Company measured the fair value of these assets based on projected cash flows, an estimated risk-adjusted rate of return and market rental rates for comparable properties. Projected cash flows are considered Level 3 inputs. Market rental rates for comparable properties are considered Level 2 inputs. No impairment charges were recorded during the three or nine months ended September 30, 2022.

Note 11: Equity Incentive Plans

On July 20, 2021, the Company's stockholders approved the 2021 Omnibus Equity Compensation Plan (the "2021 Plan"). The 2021 Plan replaced the 2012 Omnibus Award Plan (the "Prior Plan"). Awards granted under the Prior Plan that were outstanding on the date of stockholder approval remained outstanding in accordance with their terms. The maximum number of shares that may be delivered with respect to awards under the 2021 Plan is 3,500,000 shares, subject to adjustment in certain circumstances. Shares tendered or withheld to pay the exercise price of a stock option or to cover tax withholding will not be added back to the number of shares available under the 2021 Plan. To the extent that any award under the 2021 Plan, or any award granted under the Prior Plan prior to stockholder approval of the 2021 Plan, is forfeited, canceled, surrendered or otherwise terminated without the issuance of shares or an award is settled only in cash, the shares subject to such awards granted but not delivered will be added to the number of shares available for awards under the 2021 Plan.

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, 2023 and 2022 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. The Company did not record any stock based compensation related to stock options during the three months ended September 30, 2023. Total stock based compensation expense related to stock options was less than $0.1 million for the three months ended September 30, 2022. Total stock based compensation expense related to stock options was less than $0.1 million and $0.1 million for the nine months ended September 30, 2023 and 2022, respectively. 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, 2023, the Company had fully vested outstanding stock options to purchase 368,217 shares of common stock at a weighted average exercise price of $9.49 per share.

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 $0.4 million and $0.5 million for the three months ended September 30, 2023 and 2022, respectively. Total stock based compensation expense related to restricted stock was $1.1 million and $1.5 million for the nine months ended September 30, 2023 and 2022, 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, 2023, the Company had 1,034,748 unvested outstanding restricted common shares.

Note 12: New Markets Tax Credit

2016 New Markets Tax Credit

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

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

In December 2016, U.S. Bank contributed $3.2 million to the Investment Fund and, by virtue of such contribution, is entitled to substantially all of the tax benefits derived from the NMTC, while the Company effectively received net loan proceeds equal to U.S. Bank’s contributions to the Investment Fund. This transaction includes a put/call provision whereby the Company may be obligated or entitled to repurchase U.S. Bank’s interest. The Company believes that U.S. Bank will exercise the put option in December 2023 at the end of the recapture period. The value attributed to the put/call is de minimis. The NMTC is subject to 100% recapture for a period of seven years as provided in the Internal Revenue Code. The Company is required to be in compliance with various regulations and contractual provisions that apply to the NMTC arrangement. Non-compliance with applicable requirements could result in projected tax benefits not being realized and, therefore, could require the Company to indemnify U.S. Bank for any loss or recapture of NMTCs related to the financing until such time as the obligation to deliver tax benefits is relieved. The Company does not anticipate any credit recaptures will be required in connection with this arrangement.

The Company has determined that the financing arrangement with the Investment Fund and CDEs constitutes 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 contributed $3.2 million, net of syndication fees, to the Investment Fund. The Company incurred $1.3 million of syndication fees in connection with this transaction. 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, 2023, the balance of the contribution liability for this arrangement was $0.1 million, which was classified as other accrued liabilities on the Consolidated Balance Sheet.

The Company is able to request reimbursement for certain expenditures made in connection with the expansion of the distribution center in Durant, Oklahoma from the Investment Fund. Expenditures that qualify for reimbursement include building costs, equipment purchases, and other expenditures tied to the expansion of the facility. As of September 30, 2023, the remaining balance in the Investment Fund available for reimbursement to the Company was $0.7 million.

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

The following discussion and analysis of Tile Shop Holdings, Inc.'s ("Holdings," and together with its wholly owned subsidiaries, the "Company," "we," "us," or "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, 2022 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," "predict," "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 are based on current expectations and assumptions that are subject to risks and uncertainties, many of which are difficult to predict and are outside of our control, 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, our anticipated new store openings, remodeling plans, and growth opportunities; our business strengths, marketing strategies, competitive advantages and role in our industry and markets; an overall decline in the health of the economy, the tile industry, consumer confidence and spending, and the housing market, including as a result of rising inflation or interest rates, instability in the global banking system, or the possibility of an economic recession; the impact of ongoing supply chain disruptions and inflationary cost pressures, including increased materials, labor, energy, and transportation costs and decreased discretionary consumer spending; our ability to successfully implement and realize the anticipated benefits of our strategic plan; our ability to successfully anticipate consumer trends; any statements with respect to dividends or stock repurchases and timing, methods, and payment of same; the effectiveness of our marketing strategy; potential fluctuations in our comparable store sales; our expectations regarding our and our customers' financing arrangements and our ability to obtain additional capital, geopolitical conditions, and other economic factors; supply costs and expectations, including the continued availability of sufficient products from our suppliers, risks related to relying on foreign suppliers, and the potential impact of the Russia-Ukraine, Israel/Hamas and other geopolitical conflicts on, among other things, product availability and pricing and timing and cost of deliveries; our expectations with respect to ongoing compliance with the terms of the Credit Agreement (as defined below), including increasing interest rates; our ability to provide timely delivery to our customers; the effect of regulations on us and our industry, and our suppliers' compliance with such regulations, including any environmental or climate change-related requirements; the impact of corporate citizenship and environmental, social and governance matters; labor shortages and our expectations regarding the effects of employee recruiting, training, mentoring, and retention on our ability to recruit and retain employees; tax-related risks; the potential impact of cybersecurity breaches or disruptions to our management information systems; our ability to successfully implement our information technology and other digital initiatives; our ability to effectively manage our online sales; costs and adequacy of insurance; the potential impact of natural disasters, which may worsen or increase due to the effects of climate change, and other catastrophic events; risks inherent in operating as a holding company; fluctuations in material and energy costs, including ongoing volatility of, oil and gas prices; our ability to remediate the material weakness in our internal control over financial reporting; the potential outcome of any legal proceedings; risks related to ownership of our common stock; and those factors set forth in the section captioned "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2022 and in this 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.*

We intend to use our website, investors.tileshop.com, as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD of the Securities and Exchange Commission ("SEC"). Such disclosures will be included on our website under the heading News and Events. Accordingly, investors should monitor such portions of our website, in addition to following our press releases, SEC filings and public conference calls and webcasts. Information contained on or accessible through our website is not a part of, and is not incorporated by reference into, this Quarterly Report on Form 10-Q or any other report or document we file with the SEC. Any reference to our website is intended to be an inactive textual reference only.

Overview and Recent Trends

We are a specialty retailer of natural stone, man-made tiles and luxury vinyl, 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, 2023, we operated 143 stores in 31 states and the District of Columbia, with an average size of approximately 20,000 square feet.

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

Our business continues to be impacted by a number of macro-economic factors, including rising interest rates, and slowing existing home turnover. We believe this is contributing to a slowdown in demand for home improvement products. Our comparable store sales decreased by 4.9% and 4.3% during the three and nine months ended September 30, 2023, respectively, due to lower levels of traffic in our stores, which was partially offset by an increase in average ticket value.

Our gross margin rate improved by 50 basis points from the second quarter of 2023 to 64.7% for the three months ended September 30, 2023. We were encouraged to see signs that inflationary cost pressures have continued to subside. International freight rates have come down over the last year and we continue to actively work to resource portions of our assortment to suppliers who can provide high quality products at lower price points. We believe that these factors will help improve our gross margins during the fourth quarter of 2023.

Selling, general and administrative expenses decreased by $2.4 million or 4.0% to $56.7 million in the third quarter of 2023 as compared to the third quarter of 2022. The decrease in selling, general and administrative expenses was due to a $1.7 million decrease in variable selling expenses, a $1.1 million decrease in depreciation expense and a $1.0 million decrease in transportation expenses. These decreases were partially offset by the one-time lease exit benefit of $0.8 million that was recognized in the third quarter of 2022 and not repeated in 2023 and a $0.7 million increase in marketing expenses.

During the nine months ended September 30, 2023, we generated $56.2 million of operating cash flow, which was used to fund $11.0 million of capital expenditures and reduce our debt by $35.4 million. As of September 30, 2023, our cash balance was $16.4 million and borrowings outstanding on our line of credit were $10.0 million.

Prior Interim Period Restatement

In connection with the preparation of the unaudited interim financial statements for the period ended September 30, 2023, an error was identified in the Company's unaudited interim Consolidated Balance Sheet for the quarter ended June 30, 2023. In accordance with Staff Accounting Bulletin No. 99, "Materiality," we determined that the unaudited interim consolidated financial statements were materially misstated and should be restated. The misstatements relate solely to the understatement of right of use assets and lease liabilities due to the failure to record certain lease extensions in a timely manner. The impact of the error identified was immaterial to the unaudited Consolidated Statements of Income, Consolidated Statements of Stockholders' Equity and Consolidated Statement of Cash Flows for the period ended June 30, 2023. The restated unaudited interim Consolidated Balance Sheet information is included in Note 2 to the consolidated financial statements.

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.

Comparable store sales growth is the percentage change in sales of comparable stores period-over-period. A store is considered comparable on the first day of the 13th full month of operation. When a store is relocated, it is excluded from the comparable store sales 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. Comparable store sales data reported by other companies may be prepared on a different basis and therefore may not be useful for purposes of comparing our results to those of other businesses. Company management believes the comparable store sales growth (decline) metric provides useful information to both management and investors to evaluate the Company's performance, the effectiveness of its strategy and its competitive position.

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

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

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

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

Results of Operations

Comparison of the three months ended September 30, 2023 to the three months ended September 30, 2022

	($ in thousands)			
	2023	% of sales	2022	% of sales[1]
Net sales	$ 92,112	100.0 %	$ 97,154	100.0 %
Cost of sales	32,549	35.3 %	32,542	33.5 %
Gross profit	59,563	64.7 %	64,612	66.5 %
Selling, general and administrative expenses	56,734	61.6 %	59,109	60.8 %
Income from operations	2,829	3.1 %	5,503	5.7 %
Interest expense	(453)	(0.5)%	(319)	(0.3)%
Income before income taxes	2,376	2.6 %	5,184	5.3 %
Provision for income taxes	(532)	(0.6)%	(1,361)	(1.4)%
Net income	$ 1,844	2.0 %	$ 3,823	3.9 %

(1) Amounts do not foot due to rounding.

Net Sales Net sales for the third quarter of 2023 decreased $5.0 million, or 5.2%, compared with the third quarter of 2022. Sales decreased at comparable stores by 4.9% during the third quarter of 2023 compared to the third quarter of 2022, primarily due to a decrease in traffic, which was partially offset by an increase in average ticket value.

Gross Profit Gross profit for the third quarter of 2023 decreased $5.0 million, or 7.8%, compared with the third quarter of 2022. The gross margin rate was 64.7% and 66.5% during the third quarter of 2023 and 2022, respectively. The decrease in the gross margin rate was primarily due to inflationary cost pressure which resulted in an increase in the cost of products we sold over the last year. These cost increases were partially offset by an increase in our selling prices.

Selling, General, and Administrative Expenses Selling, general, and administrative expenses for the third quarter of 2023 decreased $2.4 million, or 4.0%, to $56.7 million in the third quarter of 2023. The decrease in selling, general and administrative expenses was due to a $1.7 million decrease in variable selling expenses, a $1.1 million decrease in depreciation expense and a $1.0 million decrease in transportation expenses. These decreases were partially offset by the one-time lease exit benefit of $0.8 million that was recognized in the third quarter of 2022 and not repeated in 2023 and a $0.7 million increase in marketing expenses.

Interest Expense Interest expense was $0.5 million and $0.3 million for the third quarter of 2023 and 2022, respectively. The increase was due to an increase in average borrowings outstanding on our line of credit as well as an increase in interest rates between the third quarter of 2022 and the third quarter of 2023.

Provision for Income Taxes The provision for income taxes was $0.5 million and $1.4 million for the third quarter of 2023 and 2022, respectively. The decrease in income tax expense was primarily due to a decrease in pretax income during the third quarter of 2023 as compared to the third quarter of 2022. Our effective tax rate for the three months ended September 30, 2023 and 2022 was 22.4% and 26.3%, respectively. The decrease in the effective tax rate is largely due to tax benefits associated with employee equity award vestings.

Comparison of the nine months ended September 30, 2023 to the nine months ended September 30, 2022

	(in thousands)			
	2023	% of sales[1]	2022	% of sales[1]
Net sales	$ 292,688	100.0 %	$ 307,230	100.0 %
Cost of sales	104,285	35.6 %	104,754	34.1 %
Gross profit	188,403	64.4 %	202,476	65.9 %
Selling, general and administrative expenses	173,715	59.4 %	182,459	59.4 %
Income from operations	14,688	5.0 %	20,017	6.5 %
Interest expense	(1,920)	(0.7)%	(786)	(0.3)%
Income before income taxes	12,768	4.4 %	19,231	6.3 %
Provision for income taxes	(3,333)	(1.1)%	(4,981)	(1.6)%
Net income	$ 9,435	3.2 %	$ 14,250	4.6 %

[1] Amounts do not foot due to rounding.

Net Sales Net sales for the nine months ended September 30, 2023 decreased $14.5 million, or 4.7%, compared with the nine months ended September 30, 2022. Sales decreased at comparable stores by 4.3% during the nine months ended September 30, 2023 when compared to the nine months ended September 30, 2022, primarily due to a decrease in store traffic, which was partially offset by an increase in average ticket value.

Gross Profit Gross profit for the nine months ended September 30, 2023 decreased $14.1 million, or 7.0%, compared with the nine months ended September 30, 2022. The gross margin rate was 64.4% and 65.9% for the nine months ended September 30, 2023 and 2022, respectively. The decrease in the gross margin rate was primarily due to inflationary cost pressure which resulted in an increase in the cost of products we sold over the last year. These cost increases were partially offset by an increase in our selling prices.

Selling, General, and Administrative Expenses Selling, general, and administrative expenses for the nine months ended September 30, 2023 decreased $8.7 million, or 4.8%, compared with the nine months ended September 30, 2022. The decrease in selling, general, and administrative expenses was primarily due to a $6.0 million decrease in variable selling costs, a $3.0 million decrease in transportation expenses due to an improvement in inventory availability across our distribution centers, and a $2.6 million decrease in depreciation expense. These factors were partially offset by a $1.0 million increase in marketing expenses and a $0.8 million one-time lease exit benefit that was recognized during the nine months ended September 30, 2022, and not repeated in 2023. Additionally, the Company recorded $0.6 million of asset impairment charges during the nine months ended September 30, 2023. The Company did not record any asset impairment charges during the nine months ended September 30, 2022.

Interest Expense Interest expense was $1.9 million and $0.8 million for the nine months ended September 30, 2023 and 2022, respectively. The increase was due to an increase in average borrowings outstanding on our line of credit as well as an increase in interest rates between the nine months ended September 30, 2023 and the nine months ended September 30, 2022.

Provision for Income Taxes The provision for income taxes decreased $1.6 million for the nine months ended September 30, 2023 compared with the nine months ended September 30, 2022 due to a decrease in taxable income. Our effective tax rate for the nine months ended September 30, 2023 and 2022 was 26.1% and 25.9%, respectively.

Non-GAAP Measures

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

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

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

The reconciliation of Adjusted EBITDA to net income for the three and nine months ended September 30, 2023 and 2022 is as follows:

	($ in thousands) Three Months Ended September 30,			
	2023	% of sales	2022	% of sales[1]
Net income	$ 1,844	2.0 %	$ 3,823	3.9 %
Interest expense	453	0.5 %	319	0.3 %
Provision for income taxes	532	0.6 %	1,361	1.4 %
Depreciation and amortization	5,062	5.5 %	6,157	6.3 %
Stock based compensation	366	0.4 %	563	0.6 %
Adjusted EBITDA	$ 8,257	9.0 %	$ 12,223	12.6 %

	($ in thousands) Nine Months Ended September 30,			
	2023	% of sales	2022	% of sales
Net income	$ 9,435	3.2 %	$ 14,250	4.6 %
Interest expense	1,920	0.7 %	786	0.3 %
Provision for income taxes	3,333	1.1 %	4,981	1.6 %
Depreciation and amortization	16,394	5.6 %	19,011	6.2 %
Stock based compensation	1,072	0.4 %	1,617	0.5 %
Adjusted EBITDA	$ 32,154	11.0 %	$ 40,645	13.2 %

[1] Amounts do not foot due to rounding.

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

	($ in thousands) September 30,	
	2023[1]	2022[1]
Income from Operations (trailing twelve months)	$ 17,280	$ 22,947
Total Assets	332,168	347,454
Less: Accounts payable	(24,925)	(30,597)
Less: Income tax payable	(236)	(915)
Less: Other accrued liabilities	(33,957)	(41,534)
Less: Lease liability	(129,654)	(132,660)
Less: Other long-term liabilities	(4,451)	(4,756)
Capital Employed	$ 138,945	$ 136,992
Pretax Return on Capital Employed	12.4 %	16.8%

[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.

Liquidity and Capital Resources

Our principal liquidity requirements have been for working capital and capital expenditures. Our principal sources of liquidity are $16.4 million of cash and cash equivalents at September 30, 2023, our cash flow from operations, and borrowings available under our Credit Agreement. We expect to use this liquidity to purchase inventory, acquire assets to maintain our stores and distribution centers, build new stores and general corporate purposes.

On September 30, 2022, Holdings and its operating subsidiary, The Tile Shop, LLC, and certain subsidiaries of each entered into a Credit Agreement with JPMorgan Chase Bank, N.A. and the lenders party thereto, including Fifth Third Bank (the "Credit Agreement"). The Credit Agreement provides us with a senior credit facility consisting of a $75.0 million revolving line of credit through September 30, 2027. Borrowings pursuant to the Credit Agreement initially bear interest at a rate per annum equal to: (i) Adjusted Term SOFR Rate (as defined in the Credit Agreement), plus a margin ranging from 1.25% to 1.75%; (ii) Adjusted Daily Simple SOFR (as defined in the Credit Agreement), plus a margin ranging from 1.25% to 1.75%; or (iii) the Alternate Base Rate (as defined in the Credit Agreement), plus a margin ranging from 0.25% to 0.75%. The margin is determined based on the Rent Adjusted Leverage Ratio (as defined in the Credit Agreement). Borrowings outstanding as of September 30, 2023 were SOFR-based interest rate loans. The SOFR-based interest rate was 6.92% on September 30, 2023.

The Credit Agreement is secured by virtually all of our assets, including but not limited to, inventory, accounts receivable, equipment and general intangibles. The Credit Agreement contains customary events of default, conditions to borrowing and restrictive covenants, including restrictions on our ability to dispose of assets, engage in acquisitions or mergers, make distributions on or repurchases of capital stock, incur additional debt, incur liens or make investments. The Credit Agreement also includes financial and other covenants, including covenants to maintain a Fixed Charge Coverage Ratio (as defined in the Credit Agreement) of no less than 1.20 to 1.00 and a Rent Adjusted Leverage Ratio (as defined in the Credit Agreement) of no greater than 3.50 to 1.00. We were in compliance with the covenants as of September 30, 2023.

Borrowings outstanding consisted of $10.0 million on the revolving line of credit as of September 30, 2023. As of September 30, 2023, there was $63.3 million available for borrowing on the revolving line of credit, which may be used to purchase inventory, acquire assets to maintain our stores and distribution centers, build new stores and general corporate purposes.

We believe that our cash flow from operations, together with our existing cash and cash equivalents and borrowings available under our Credit Agreement, will be sufficient to fund our operations and anticipated capital expenditures over at least the next twelve months and our long-term liquidity requirements.

Capital Expenditures

Capital expenditures were $11.0 million and $10.3 million for the nine months ended September 30, 2023 and 2022, respectively. Capital expenditures in 2023 were primarily due to investments in new stores, store remodels, merchandising, distribution and information technology assets. We opened one new store and relocated one new store in 2023. We do not anticipate any additional store openings, and anticipate one store closing, during the remainder 2023.

Cash flows

The following table summarizes our cash flow data for the nine months ended September 30, 2023 and 2022.

	(in thousands) Nine Months Ended September 30, 2023	2022
Net cash provided by operating activities	$ 56,172	$ 7,185
Net cash used in investing activities	(10,988)	(10,340)
Net cash provided by (used in) financing activities	(35,887)	8,771

Operating activities

Net cash provided by operating activities during the nine months ended September 30, 2023 was $56.2 million compared with $7.2 million during the nine months ended September 30, 2022. The increase was primarily attributable to a decrease in inventory purchases in 2023, collection of an income tax refund in 2023 and other working capital changes.

Investing activities

Net cash used in investing activities totaled $11.0 million for the nine months ended September 30, 2023 compared with $10.3 million for the nine months ended September 30, 2022. Cash used in investing activities during the nine months ended September 30, 2023 was primarily due to investments in new stores, store remodels, merchandising, distribution and information technology assets.

Financing activities

Net cash used in financing activities was $35.9 million for the nine months ended September 30, 2023 compared with $8.8 million of net cash provided for the nine months ended September 30, 2022. The increase in cash outflows associated with financing activities was primarily attributable to payments made during the nine months ended September 30, 2023 to reduce the balance outstanding on our line of credit.

Cash and cash equivalents totaled $16.4 million at September 30, 2023 compared with $5.9 million at December 31, 2022. Working capital was $43.7 million at September 30, 2023 compared with $63.1 million at December 31, 2022.

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 fiscal year ended December 31, 2022.

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. In designing and evaluating our internal control over financial reporting, management recognizes that internal control over financial reporting, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of internal control over financial reporting must reflect the fact that there are resource constraints, and that management is required to apply its judgment in evaluating the benefits of possible internal control over financial reporting relative to their costs. Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2023 and have concluded that our disclosure controls and procedures were not effective due to the material weakness in our internal control over financial reporting as described below.

Material Weakness in Internal Control over Financial Reporting

A material weakness is a deficiency, or a 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. In connection with the preparation of the unaudited interim financial statements for the period ended September 30, 2023, we identified an error related to operating lease agreements that were extended prior to the end of the second quarter of 2023, but not reflected in the unaudited financial information as of the quarter ended June 30, 2023. We identified a material weakness in internal control over financial reporting attributable to the breakdown in the operating effectiveness of our controls designed to identify and ensure timely recognition of new and modified leases.

Management has actively engaged in implementing remediation plans to address the control deficiency outlined above. The remediation efforts include the following:

- We have reviewed new leases and lease amendments entered into during 2023 and confirmed that our accounting records have been updated to reflect the terms of the new leases and lease amendments.

- We have transitioned responsibility to certify the completeness of the population of new and amended leases each quarter to a new control operator who is responsible for oversight of lease negotiations. We have provided training to our new control operator and set clear expectations with respect to our controls involving the accounting for leases.

We have started implementing the remediation steps outlined above. The identified material weakness in internal control over financial reporting will not be considered remediated until the controls have been in operation for a sufficient period of time for our management to conclude that the material weakness has been remediated. We will continue to assess the effectiveness of our remediation efforts in connection with our evaluations of internal control over financial reporting. No assurance can be made that our remediation efforts will be completed in a timely manner or that the updated controls and procedures associated with such efforts will be deemed adequate after being subjected to testing.

Notwithstanding the identified material weakness, we believe the consolidated financial statements included in this Form 10-Q fairly present, in all material respects, our financial condition, results of operations, and cash flows for the periods presented in conformity with GAAP.

Changes in Internal Control over Financial Reporting

Other than the remediation efforts in progress, as described above, there were no changes in internal control over financial reporting (as defined by Rule 13a-15(f) under the Exchange Act) during the quarter ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are, from time to time, party to lawsuits, threatened lawsuits, disputes and other claims arising in the normal course of business. We assess our liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. Where it is probable that we will incur a loss and the amount of the loss can be reasonably estimated, we record a liability in our consolidated financial statements. These legal accruals may be increased or decreased to reflect any relevant developments on a quarterly basis. Where a loss is not probable or the amount of the loss is not estimable, we do not record an accrual, consistent with applicable accounting guidance. 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, and the amounts accrued for any individual matter are not material. However, legal proceedings are inherently uncertain. As a result, the outcome of a particular matter or a combination of matters may be material to our results of operations for a particular period, depending upon the size of the loss or our income for that particular period.

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, 2022, other than with respect to the risk factor discussed below.

Our failure to maintain effective internal control over financial reporting and disclosure controls and procedures could have a material adverse effect on our business.

We are required to maintain internal control over financial reporting and disclosure controls and procedures in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with GAAP. We identified a material weakness in internal control over financial reporting that pertains to our accounting for leases. 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. The material weakness 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 SEC. While we continue to take meaningful steps to enhance our disclosure controls and procedures and our internal control over financial reporting by strengthening our financial reporting and accounting functions, we cannot provide any assurance that we will be able to maintain adequate controls over our financial processes and reporting in the future or that we will not identify additional significant deficiencies and material weaknesses in our internal control over financial reporting in the future. Any failure of our internal controls could result in material misstatements in our consolidated financial statements, significant deficiencies, material weaknesses, costs, failure to timely meet our periodic reporting obligations and erosion of investor confidence. Such failure could also negatively affect the market price and trading liquidity of our common stock, subject us to civil and criminal investigations and penalties and could have a material adverse effect on our business, financial condition, results of operations or cash flow.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES, USE OF PROCEEDS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(in thousands) Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs
July 1, 2023 - July 31, 2023	7,291 (1)	$ 6.24	-	$ -
August 1, 2023 - August 31, 2023	-	0.00	-	-
September 1, 2023 - September 30, 2023	-	0.00	-	-
	7,291	$ 6.24	-	$ -

(1) We withheld a total of 7,291 shares to satisfy tax withholding obligations due upon the vesting of restricted stock grants as allowed by the 2012 Omnibus Award Plan. We did not pay cash to repurchase these shares, nor were these repurchases part of a publicly announced plan or program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

Rule 10b5-1 Trading Plans

During the quarter ended September 30, 2023, none of the Company’s directors or executive officers adopted, modified or terminated any contract, instruction or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any “non-Rule 10b5-1 trading arrangement” (as defined in Item 408(c) of Regulation S-K).

Beneficial Ownership

The following table sets forth, as of October 30, 2023, information regarding beneficial ownership of our common stock by each person, or group of affiliated persons, known by us to beneficially own more than 5% of our common stock.

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

We have based our calculation of the percentage of beneficial ownership on 44,530,888 shares of our common stock outstanding on October 30, 2023.

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

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percent
5% Stockholders:		
Peter J. Jacullo III, Director[1]	8,412,699	18.9 %
Peter H. Kamin, Chairman of the Board[2]	6,956,344	15.6 %
Fund 1 Investments, LLC[3]	4,455,547	10.0 %
Savitr Capital LLC[4]	2,770,535	6.2 %
Monomoy[5]	2,531,462	5.7 %
Cannell Capital LLC[6]	2,453,327	5.5 %

(1) Based on a Schedule 13D/A filed with the SEC on January 13, 2023 by JWTS, Inc. (“JWTS”), Peter J. Jacullo III, and the Katherine D. Jacullo Children’s 1993 Irrevocable Trust (the “Jacullo Trust”) and a Form 4 filed by Mr. Jacullo with the SEC on June 15, 2023. JWTS directly holds 3,191,180 shares of common stock and has sole voting and dispositive power with respect to such shares. Mr. Jacullo is the President and sole member of the board of directors of JWTS, holds sole voting and dispositive power over the securities held by JWTS, and may be deemed to beneficially own the securities held by JWTS. The Jacullo Trust directly holds 4,706,489 shares of common stock and has sole voting and dispositive power with respect to such shares. Mr. Jacullo is a co-trustee of the Jacullo Trust, holds shared voting and dispositive power over the securities held by the Jacullo Trust, and may be deemed to beneficially own the securities held by the Jacullo Trust. Mr. Jacullo disclaims beneficial ownership of the shares of common stock held by the Jacullo Trust, except to the extent of his pecuniary interest therein. Mr. Jacullo directly holds 515,030 shares of common stock over which he has sole voting and dispositive power, including 20,131 shares of unvested restricted common stock.

(2) Based on a Schedule 13D/A filed with the SEC on January 13, 2023 by Peter H. Kamin and a Form 4 filed by Mr. Kamin with the SEC on June 15, 2023. Includes (i) 1,695,320 shares of common stock held by the Peter H. Kamin Revocable Trust dated February 2003, of which Peter H. Kamin is the trustee; (ii) 1,033,733 shares of common stock held by the Peter H. Kamin Childrens Trust dated March 1997, of which Mr. Kamin is the trustee; (iii) 117,453 shares of common stock held by the Peter H. Kamin Family Foundation, of which Mr. Kamin is the trustee; (iv) 328,711 shares of common stock held by the Peter H. Kamin GST Trust, of which Mr. Kamin is the trustee; (v) 333,495 shares of common stock held by 3K Limited Partnership, of which Mr. Kamin is the general partner; and (vi) 3,447,632 shares of common stock directly held by Mr. Kamin, including 38,248 shares of unvested restricted common stock. Mr. Kamin has sole voting and dispositive power over all such shares.

(3) Based on a Schedule 13G/A filed with the SEC on September 7, 2023 and a Form 4 filed October 30, 2023 by Fund 1 Investments, LLC, as of October 30, 2023, Fund 1 Investments, LLC held shared voting and dispositive power over 4,455,547 shares of common stock. The shares are held for the benefit of private investment vehicles for which Pleasant Lake Partners LLC serves as investment adviser. Fund 1 Investments, LLC serves as managing member of Pleasant Lake Partners LLC. Jonathan Lennon serves as managing member of Fund 1 Investments, LLC. Each of Fund 1 Investments, LLC, Pleasant Lake Partners LLC and Mr. Lennon disclaims beneficial ownership of the shares except to the extent of its or his pecuniary interest therein. The business address of Fund 1 Investments, LLC is 100 Carr 115 Unit 1900, Rincon, Puerto Rico 00677.

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

(5) Based on a Schedule 13G filed with the SEC on February 14, 2023, by Monomoy Capital Partners IV, L.P. (“MCP IV”), Monomoy Capital Partners IV Parallel, L.P. (“MCP IV Parallel”), Monomoy General Partner IV, L.P. (“GP IV”), Monomoy Ultimate GP II, LLC (“Ultimate GP II”), Monomoy Ultimate GP Holdings, LLC (“Ultimate GP Holdings”), Daniel Collin, and Justin Hillenbrand (together with Mr. Collin, Ultimate GP Holdings, Ultimate GP II, GP IV, MCP IV Parallel and MCP IV, the “Monomoy Reporting Persons”), the Monomoy Reporting Persons hold shared voting and dipositive power over the shares reported as held. MCP IV directly holds 1,603,643.44 shares of common stock. MCP IV Parallel directly holds 927,819.56 shares of common stock. GP IV is the general partner of MCP IV and MCP IV Parallel. Ultimate GP II is the general partner of GP IV. Ultimate GP Holdings is the sole member of Ultimate GP II. Ultimate GP Holdings is managed by its members, Mr. Collin and Mr. Hillenbrand. As a result of the foregoing relationships, each of GP IV, Ultimate GP II, Ultimate GP Holdings, Mr. Collin and Mr. Hillenbrand may be deemed to beneficially own the shares of common stock directly held by MCP IV and MCP IV Parallel. Each of Mr. Collin and Mr. Hillenbrand disclaims beneficial ownership of the shares of common stock held by MCP IV and MCP IV Parallel. The business address of the Monomoy Reporting Persons is 1 Greenwich Office Park, Building 1S, 2nd Floor, Greenwich, Connecticut 06831.

(6) Based on a Schedule 13G/A filed with the SEC on February 13, 2023 by Cannell Capital LLC and J. Carlo Cannell, as of December 31, 2022, Cannell Capital LLC and Mr. Cannell held shared voting and dispositive power over 2,453,327 shares of common stock. Cannell Capital LLC acts as an investment adviser. Mr. Cannell is the managing member of Cannell Capital LLC. The business address of the reporting persons is 245 Meriwether Circle, Alta, Wyoming 83414.

ITEM 6. EXHIBITS

Exhibit No.	Description
3.1	Certificate of Incorporation of Tile Shop Holdings, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-4 (Reg. No. 333-182482) filed with the Securities and Exchange Commission on July 2, 2012).
3.2	Certificate of Amendment to the Certificate of Incorporation of Tile Shop Holdings, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 21, 2021).
3.3	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).
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*	The following financial statements from the Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 are formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements.
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* 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 3, 2023	By: /s/ CABELL H. LOLMAUGH Cabell H. Lolmaugh Chief Executive Officer
Dated: November 3, 2023	By: /s/ KARLA LUNAN Karla Lunan Chief Financial Officer

EXHIBIT 31.1

302 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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.

Date: November 3, 2023

/s/ CABELL H. LOLMAUGH

Cabell H. Lolmaugh
Chief Executive Officer

EXHIBIT 31.2

302 CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Karla Lunan, 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.

Date: November 3, 2023

/s/ Karla Lunan

Karla Lunan,
Chief Financial Officer

Exhibit 32.1

Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. §1350 (as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002), I, Cabell H. Lolmaugh, the Chief Executive Officer of Tile Shop Holdings, Inc. (the "Company"), hereby certify that the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2023 ("the Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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 SEC or its staff upon request.

Date: November 3, 2023

/s/ CABELL H. LOLMAUGH

Cabell H. Lolmaugh
Chief Executive Officer

Exhibit 32.2

Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. §1350 (as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002), I, Karla Lunan, the Chief Financial Officer of Tile Shop Holdings, Inc. (the "Company"), hereby certify that the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2023 ("the Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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 SEC or its staff upon request.

Date: November 3, 2023

/s/ Karla Lunan

Karla Lunan,
Chief Financial Officer