

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): February 19, 2018

TILE SHOP HOLDINGS, INC.

(Exact name of Registrant as Specified in its Charter)

Delaware
(State or other jurisdiction of incorporation)

001-35629
(Commission File Number)

45-5538095
(IRS Employer Identification No.)

14000 Carlson Parkway, Plymouth, Minnesota 55441
(Address of principal executive offices, including ZIP code)

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

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b—2 of the Securities Exchange Act of 1934 (§ 240.12b—2 of this chapter).

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. ☐

Item 2.02 Results of Operations and Financial Condition.

On February 21, 2018, Tile Shop Holdings, Inc. (the “Company”) issued a press release announcing its financial results for the three months and fiscal year ended December 31, 2017. A copy of the press release is furnished as Exhibit 99.1 to this Current Report on Form 8-K and is incorporated herein by reference.

Pursuant to the rules and regulations of the Securities and Exchange Commission, such exhibit and the information set forth therein and in this Item 2.02 have been furnished and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to liability under that section nor shall they be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing regardless of any general incorporation language.

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Agreements of Certain Officers.

On February 19, 2018, the Company appointed Cabell Lolmaugh, age 39, as the Company’s Senior Vice President and Chief Operating Officer, effective as of February 19, 2018.

After serving four year years in the U.S. Marine Corps., Mr. Lolmaugh joined the Company in 2001, working in the warehouse of the Company’s Roseville, Minnesota store. From that time through 2012, he served in various roles at several locations, including Store Manager in Roseville, one of the Company’s largest and most successful stores. In 2014, Mr. Lolmaugh was asked to lead the Company’s pro customer strategy. Under his leadership, the Company developed various programs focused on training, product assortment, merchandising and marketing to increase the level of service to the pro customer. In 2016, he became the Company’s first Director of Talent Development, and was responsible for creating and implementing a comprehensive new sales associate and store manager training program throughout the Company. This work included launching new training, development and compensation programs for new sales associates and senior assistant store managers, which became the foundation of the Company’s talent development strategy. In 2017, Mr. Lolmaugh was promoted to Vice President of Retail Stores West, where he was responsible for the leadership and management of approximately half of the Company’s stores.

Mr. Lolmaugh was not appointed pursuant to any arrangement or understanding with any person, and Mr. Lolmaugh does not have any family relationships with any directors or executive officers of the Company. Neither Mr. Lolmaugh nor any member of his immediate family has been a party to any transaction with the Company during the Company’s prior fiscal year or current fiscal year, nor is any such transaction currently proposed, that would be reportable under Item 404(a) of Regulation S-K.

Mr. Lolmaugh’s employment is at will and his employment agreement (“Employment Agreement”) provides for an annual base salary of \$250,000. Mr. Lolmaugh will be eligible to receive annual cash incentive compensation for calendar year 2018 and subsequent years based on the Company achieving budgeted Adjusted EBITDA for each year, as determined by the Compensation Committee of the Board of Directors. Mr. Lolmaugh’s target cash incentive compensation equals 50% of his base salary. Mr. Lolmaugh will be eligible to receive a partial incentive payment if the Company achieves at least 90% of its budgeted Adjusted EBITDA and an incentive payment of up to double the target incentive amount if the Company achieves 110% of its budgeted Adjusted EBITDA. Mr. Lolmaugh’s bonus arrangement for the remainder of 2018 will be calculated on a pro-rata basis reflecting his term of employment.

On February 22, 2018, Mr. Lolmaugh will be granted equity awards with an aggregate value of \$250,000, 50% of which will be restricted stock and 50% of which will be non-qualified stock options. These awards will be granted pursuant to the Company’s 2012 Omnibus Award Plan. The shares of restricted stock will be subject to restrictions on transfer and risks of forfeiture in the event that Mr. Lolmaugh is no longer an employee of the Company. These restrictions on transfer and risks of forfeiture will lapse as to 25% of the shares on a cumulative basis on each of the first four anniversaries of the date of grant. The non-qualified stock options will be exercisable at 100% of the fair market value of the Company’s common stock on the date of grant, will become exercisable as to 25% of the shares on a cumulative basis on each of the first four anniversaries of the date of grant, and expire ten years from the date of grant. If Mr. Lolmaugh is not offered employment by the successor entity, or if he is terminated without cause or is constructively terminated prior to the first anniversary of a Change of Control (as defined in the 2012 Omnibus Award Plan), any unvested portion of the foregoing option will become fully exercisable.

Under the Employment Agreement, Mr. Lolmaugh is subject to traditional confidentiality and assignment of inventions provisions, as well as non-competition and non-solicitation restrictions during the term of his employment with the Company and for one year following termination of his employment with the Company for any reason. In the event the Company terminates Mr. Lolmaugh’s employment for any reason not constituting Severance Cause or Mr. Lolmaugh terminates his employment for Good Reason (as such terms are defined in the Employment Agreement), the Company will provide the following benefits: (i) severance pay equal to six months of his ending base salary and (ii) an amount equal to six times the

monthly amount that the Company paid for his participation in the Company’s health insurance plan during the month immediately preceding his termination date.

The foregoing description of Mr. Lolmaugh’s Employment Agreement is not complete and is qualified in its entirety by reference to the Employment Agreement attached as Exhibit 10.1 hereto, which is incorporated herein by reference.

Item 7.01 Regulation FD Disclosure

On February 21, 2018, the Company issued a press release announcing its declaration of a cash dividend of \$0.05 per share to stockholders of record as of March 5, 2018. The dividend will be paid on March 16, 2018. A copy of the press release is attached as Exhibit 99.1 hereto and is incorporated herein by reference.

Pursuant to the rules and regulations of the Securities and Exchange Commission, such exhibit and the information set forth therein and in this Item 7.01 have been furnished and shall not be deemed “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to liability under that section nor shall they be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing regardless of any general incorporation language.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

<u>10.1</u>	<u>Employment Agreement between Tile Shop Holdings, Inc. and Cabell Lolmaugh, dated February 19, 2018.</u>
<u>99.1</u>	<u>Press Release of Tile Shop Holdings, Inc., dated February 21, 2018.</u>

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 hereunto duly authorized.

TILE SHOP HOLDINGS, INC.

By /s/ Kirk L. Geadelmann

Date: February 21, 2018

Name: Kirk L. Geadelmann

Title: Chief Financial Officer

February 19, 2018

Cabell Lolmaugh

Dear Cabby:

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

Position:	Senior Vice President and Chief Operating Officer
Start date:	February 19, 2018
Status:	Full-time, Regular
Reporting to:	You will report to the CEO, as the CEO will direct your day-to-day responsibilities, and you will work closely with other senior officers of the Company.
Compensation:	<p>Base salary (annualized) of \$250,000, paid in accordance with the Company's normal payroll procedures.</p> <p>You should note that the Company may modify salaries and benefits from time to time as its Board of Directors or the Compensation Committee thereof deems necessary or appropriate, and all forms of compensation which are referred to in this offer letter are subject to applicable withholding and payroll taxes.</p>
Cash Incentive Compensation:	The target cash incentive compensation opportunity will be between 0% and 100% of your base salary, with a target of 50%, and receipt of such cash incentive compensation will be based on achieving Company-wide goals and personal goals and objectives, pro-rated for any partial year during which you are employed by the Company.
Benefits:	You will be eligible to receive the Company's standard benefit package for employees of your level.
Equity Awards:	Subject to approval by the Company's Board of Directors, you will be granted equity awards with an aggregate value of \$250,000, 50% of which will be non-qualified stock options and 50% of which will be restricted stock. The non-qualified stock options and restricted stock will vest evenly over a four-year period and will otherwise be subject to the terms of the Company's 2012 Omnibus Award Plan (the "Plan") and the applicable award agreements entered in connection with the awards. The non-qualified stock options will have a ten year life upon issuance. The value of the non-qualified stock options and restricted stock and the exercise price of the non-qualified stock options will be determined at the close of business on February 22, 2018, the date of grant of the awards.
Vacation:	The most favorable of (i) 3 weeks or (ii) the then current Company vacation policy applicable to you.
Change in Control:	<p>(A) In the event of Change of Control (as defined in the Plan) of the Company, if you are (1) not offered employment or continued employment by the Successor Entity (as defined in the Plan) upon consummation of such Change of Control, or (2) if prior to the first anniversary of such Change of Control, (a) you are discharged by the Successor Entity other than for Cause (as defined in the Plan) or (b) you resign from employment with the Successor Entity as a result of a Constructive Termination (as defined below), all of your unvested stock options will vest and become exercisable immediately prior to such Change of Control or cessation of employment, as applicable.</p> <p>(B) "Constructive Termination" will occur if you resign from your employment with the Successor Entity within thirty (30) days following (1) a material reduction in your annual base salary or job responsibility or (2) the relocation of your principal office location to a facility or location located more than fifty (50) miles from your principal office location on the date of the Change of Control.</p>

- Severance: (A) If you are terminated without Severance Cause (as defined below) or resign for Good Reason (as defined below), you will be entitled to receive an amount equal to (1) your then-current base salary for a six-month period commencing with the effective date of your termination of employment with the Company (the "Severance Period") and (2) an amount equal to six (6) times the monthly amount that the Company paid for your participation in the Company's health insurance plan during the month immediately preceding your termination date. The foregoing amounts will be payable pro rata over the Severance Period in accordance with the Company's normal payroll practices; provided, however, that the Company will not make any severance payments unless and until (a) you execute and deliver to the Company a general release in the form of Exhibit B hereto (the "Release"), (b) such Release is executed and delivered to the Company within twenty-one (21) days after your termination date and (c) all time periods for revoking the Release have lapsed. If you are terminated during the month of December of any calendar year and are owed severance hereunder, no severance payments will be made prior to January 1st of the next calendar year and any amount that would have otherwise been payable to you in December of the preceding calendar year will be paid to you on the first date in January on which you would otherwise be entitled to any payment. Following your termination date, all benefits offered by the Company, including health insurance benefits, will cease. From and after such date, you may elect to continue your participation in the Company's health insurance benefits at your expense pursuant to COBRA by notifying the Company in the time specified in the COBRA notice you will be provided and paying the monthly premium yourself. Notwithstanding the above, if you are a "specified employee" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), then any amounts payable to him during the first six (6) months and one day following the date of termination that constitute nonqualified deferred compensation within the meaning of Section 409A of the Code (as determined by the Company in its sole discretion) will not be paid to you until the date that is six (6) months and one day following such termination to the extent necessary to avoid adverse tax consequences under Section 409A of the Code.
- (B) "Severance Cause" will mean (1) willful misconduct in connection with your employment or willful failure to perform your responsibilities in the best interests of the Company, as determined by the Company's Board of Directors; (2) conviction of, or plea of nolo contendere or guilty to, a felony other than an act involving a traffic related infraction; (3) any act of fraud, theft, embezzlement or other material dishonesty by you which harmed the Company; (4) intentional violation of a federal or state law or regulation applicable to the Company's business which violation was or is reasonably likely to be injurious to the Company; or (5) repeated failure to perform your duties and obligations of your position with the Company, which failure is not cured within thirty (30) days after notice of such failure from the Company's Board of Directors to you.
- (C) "Good Reason" for your resignation will exist if you resign from your employment with the Company as a result of (1) a material reduction in your annual base salary or job responsibility or (2) the relocation of your principal office location to a facility or location located more than fifty (50) miles from your current principal office location.

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

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

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

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

Cabby, we are looking forward to your service in this new role and expect your direct contributions to have a significant positive impact on the organization.

Sincerely,

TILE SHOP HOLDINGS, INC.

/s/ Robert A. Rucker

Robert A. Rucker, Chief Executive Officer

ACCEPTANCE AND ACKNOWLEDGMENT

I accept the offer of employment from the Company as Senior Vice President and Chief Operating Officer as set forth in the letter employment agreement dated February 19, 2018. I understand and acknowledge that my employment with the Company is for no particular duration and is at-will, meaning that I, or the Company, may terminate the employment relationship at any time, with or without cause and with or without prior notice.

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

Signature: /s/ Cabell Lolmaugh

Printed Name: Cabell Lolmaugh

Date: February 19, 2018

TILE SHOP HOLDINGS, INC.
NONDISCLOSURE, CONFIDENTIALITY, ASSIGNMENT AND NONCOMPETITION AGREEMENT

THIS NONDISCLOSURE, CONFIDENTIALITY, ASSIGNMENT AND NONCOMPETITION AGREEMENT (this "Agreement") is made this 19th day of February 2018, by and between Tile Shop Holdings, Inc., a Delaware corporation and its subsidiaries (collectively with any predecessors, successors, and assignees, the "Company"), and Cabell Lolmaugh ("I" or "me"), to be effective on February 19, 2018.

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

1. DEFINITIONS.

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

1.2. "Confidential Information" means any and all confidential and/or proprietary knowledge, data or information concerning the business, business relationships and financial affairs of the Company or its Affiliates whether or not in writing and whether or not labeled or identified as confidential or proprietary. By way of illustration, but not limitation, Confidential Information includes: (a) Inventions and (b) research and development activities of the Company or its Affiliates, services and marketing plans, business plans, budgets and unpublished financial statements, licenses, prices and costs, customer and supplier information and information disclosed to the Company or its Affiliates or to me by third parties of a proprietary or confidential nature or under an obligation of confidence. Confidential Information is contained in various media, including without limitation, patent applications, computer programs in object and/or source code, flow charts and other program documentation, manuals, plans, drawings, designs, technical specifications, laboratory notebooks, supplier and customer lists, internal financial data and other documents and records of the Company or its Affiliates.

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

1.4. "Prior Inventions" means any inventions made, conceived, devised, invented, developed or first reduced to practice by me, under my direction or jointly with others prior to the date of this Agreement and which do not constitute Inventions within the meaning of Section 1.3 above.

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

2. CONFIDENTIALITY.

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

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

2.3. Third Party Information. In addition, I understand that the Company has received and in the future will receive Third Party Information subject to a duty on the Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes. During the term of my engagement as an Associate of the Company and thereafter, I will hold Third Party Information in the strictest confidence and will not disclose to anyone (other than personnel of the Company or its Affiliates who need to know such information in connection with the performance of their duties for the Company) or use any Third Party Information, except as such disclosure or use may be required in connection with the performance of my duties for the Company, or as expressly authorized in writing by an executive officer of the Company.

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

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

3. ASSIGNMENT OF INVENTIONS.

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

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

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

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

3.5. Obligation to Keep Company Informed. During the period of my engagement as an Associate of the Company, and for six (6) months after termination of my engagement as an Associate of the Company, I agree to promptly disclose to the Company fully and in writing all Inventions authored, conceived or reduced to practice by me, either alone or jointly with others. In addition, I will promptly disclose to the Company all patent applications filed by me or on my behalf within a year after termination of my engagement as an Associate of the Company.

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

4. OTHER AGREEMENTS.

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

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

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

6. GENERAL NON-SOLICITATION. I agree that while I am engaged as an Associate of the Company and for a period of one (1) year after termination or cessation of such engagement for any reason, I shall not solicit, divert or take away, or attempt to divert or take away, the business or patronage of any of the clients, customers or accounts, or prospective clients, customers or accounts, of the Company or its Affiliates which were contacted, solicited or served by me while I was engaged as an Associate of the Company or any Affiliate.

7. NON-SOLICITATION OF EMPLOYEES AND CONSULTANTS. I agree that while I am engaged as an Associate of the Company and for a period of one (1) year after termination or cessation of such engagement for any reason, I shall not directly or indirectly hire, recruit, or solicit any employee, independent contractor or consultant of the Company or its Affiliates, or induce or attempt to induce any employee independent contractor or consultant of the Company or its Affiliates to discontinue his or her relationship with the Company or its Affiliates.

8. NOTICE OF SUBSEQUENT EMPLOYMENT OR ENGAGEMENT. I shall, for a period of one (1) year after the termination or cessation of my engagement as an Associate of the Company, notify the Company of any change of address, and of any subsequent employment or engagement (stating the name and address of the employer and the nature of the position) or any other business activity.

9. GENERAL.

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

9.2. Entire Agreement. The obligations pursuant to Sections 2 and 3 of this Agreement shall apply to any time during which I was previously engaged as an Associate of the Company, or am in the future engaged as an Associate of the Company or any Affiliate if no other agreement governs nondisclosure and assignment of inventions during such period. This Agreement supersedes all prior agreements, written or oral, with respect to the subject matter of this Agreement.

9.3. Severability. In the event that any one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provisions of this Agreement, and all other provisions shall remain in full force and effect. If any of the provisions of this Agreement is held to be excessively broad, it shall be reformed and construed by limiting and reducing it so as to be enforceable to the maximum extent permitted by law. I agree that should I violate any obligation imposed on me in this Agreement, I shall continue to be bound by the obligation until a period equal to the term of such obligation without violation of such obligation.

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

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

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

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

[Next Page is Signature Page]

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

ASSOCIATE

/s/ Cabell Lolmaugh

Cabell Lolmaugh

TILE SHOP HOLDINGS, INC.

By: /s/ Robert A. Rucker

Name: Robert A. Rucker
Title: Chief Executive Officer

Schedule A

List all Prior Inventions

None

Schedule B

List any and all Conflicted Obligations

None

WAIVER OF CLAIMS AND GENERAL RELEASE

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

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

Consistent with the provisions of that certain Employment Agreement by and between you and the Company dated as of February 19, 2018 (the “Employment Agreement”), the Company will provide you with severance pay pursuant to the terms of the Employment Agreement. In consideration for the severance payments and other good and valuable consideration set forth in the Employment Agreement, you hereby agree as follows:

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

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

By signing this Release you are not releasing or waiving (a) any vested interest you may have in any employee retirement plan (as defined in ERISA Section 3(2)) by virtue of your employment with the Company; (b) any rights or claims that may arise after the Effective Date; (c) the post-employment payment and benefits described in the third paragraph of this Release; (d) the right to institute legal action for the purpose of enforcing the provisions of this Release; (e) the right to apply for state unemployment compensation benefits; (f) any right you may have to workers’ compensation benefits; (g) any rights you may have under COBRA; (h) the right to file a charge or complaint with a governmental agency such as the Equal Employment Opportunity Commission (“EEOC”), the National Labor Relations Board (“NLRB”), the Occupational Safety and Health Administration (“OSHA”), the Securities and Exchange Commission (“SEC”) or any other federal, state or local governmental agency, subject to the preceding paragraph of this Section 1; (i) the right to communicate with, testify, assist, or participate in an investigation, hearing, or proceeding conducted by, the EEOC, NLRB, OSHA, SEC, or other governmental agency; (j) the right to receive and retain a monetary award from a government-administered whistleblower award program for providing information directly to a governmental agency; and (k) any rights of indemnification or contribution afforded you by the Indemnification Agreement, dated February __, 2018 between you and the Company, by statute or by common law, including any insurance coverage maintained by or on behalf of the Company.

2. **Opportunity to Consider.** You have been advised that you have twenty-one (21) days from the date on which you received this Release to consider whether you wish to sign it. The date on which you received this Release is accurately reflected in Section 10 below

3. **Opportunity to Rescind.** You may cancel this Release as to the release of claims arising under the Minnesota Human Rights Act within fifteen (15) days after signing it and as to the release of claims arising under the Age Discrimination in Employment Act within seven (7) days of signing it. The Release will not become effective or enforceable until both rescission periods have passed. If you decide to rescind the Release you must mail or hand deliver the notice of rescission to: Robert A. Rucker, Chief Executive Officer, Tile Shop Holdings, Inc., 14000 Carlson Parkway, Plymouth MN 55441. If you mail the notice of rescission, the notice must be postmarked within the fifteen (15) or seven (7) day period, as applicable, and must be sent via certified mail, return receipt requested,

as addressed above. If you exercise the right to rescind under this Section 3, all other provisions of the Release shall immediately be null and void and you will not receive severance pay as described in the Employment Agreement or otherwise.

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

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

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

7. Miscellaneous. This Release and the Employment Agreement constitutes the entire agreement between the parties about or relating to your termination of employment with the Company, or the Company's obligations to you with respect to your termination and fully supersedes any and all prior agreements or understandings between the parties.

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

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

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

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

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

EMPLOYEE

TILE SHOP HOLDINGS

Name: Cabell Lolmaugh

Name: Robert A. Rucker

Title: Chief Executive
Officer

Date Signed:

Date Signed:



THE TILE SHOP REPORTS FOURTH QUARTER AND FULL YEAR 2017 RESULTS DECLARES CASH DIVIDEND

MINNEAPOLIS – February 21, 2018 – Tile Shop Holdings, Inc. (Nasdaq: TTS) (the “Company”), a specialty retailer of manufactured and natural stone tiles, setting and maintenance materials, and related accessories, today announced results for its fourth quarter and full year ended December 31, 2017.

Fourth Quarter and Full Year Summary

2.6% Net Sales Growth in Q4; 6.3% Full Year
Comparable Store Sales Declined 4.9% in Q4, Up 0.5% Full Year
66.8% Gross Margin in Q4; 68.5% Full Year
Diluted Earnings per Share of \$0.21 Full Year; Non-GAAP Diluted Earnings per Share of \$0.32 Full Year
Opened 4 stores in Q4; 15 stores for Full Year – 138 stores open at year-end

Management Commentary

“During the fourth quarter, we focused on improving our product assortment, identifying opportunities to better serve our professional customers, and de-emphasizing price promotions. We have acted swiftly and decisively and we are confident in our long-term strategy,” said Robert Rucker, interim CEO. “Company performance in the second half of the year was not reflective of our position within the flooring industry as the preeminent place to romance your home with unique and premium tile. We are committed to providing the best product assortment, best service, and best presentation in the tile industry. We believe we are taking the right steps to deliver better financial results and best position the Company for long-term success.”

(unaudited, amounts in thousands, except share and per share data)	Three Months Ended December 31,		Full Year Ended December 31,	
	2017	2016	2017	2016
Net sales	\$ 78,580	\$ 76,614	\$ 344,600	\$ 324,157
Net sales growth ⁽¹⁾	2.6 %	6.5 %	6.3 %	10.6 %
Comparable store sales growth ⁽²⁾	(4.9)%	3.1 %	0.5 %	7.6 %
Gross margin rate	66.8 %	69.6 %	68.5 %	70.0 %
(Loss) income from operations as a % of net sales	(4.7)%	2.2 %	7.5 %	10.2 %
Net (loss) income	\$ (7,351)	\$ 273	\$ 10,819	\$ 18,463
Non-GAAP net (loss) income ⁽³⁾	\$ (2,376)	\$ 3,797	\$ 16,493	\$ 23,095
Net (loss) income per share	\$ (0.14)	\$ 0.01	\$ 0.21	\$ 0.36
Non-GAAP net (loss) income per share ⁽³⁾	\$ (0.05)	\$ 0.07	\$ 0.32	\$ 0.45
Adjusted EBITDA ⁽³⁾	\$ 4,293	\$ 14,507	\$ 57,173	\$ 68,047
Adjusted EBITDA as a % of net sales	5.5 %	18.9 %	16.6 %	21.0 %
Number of stores open at the end of period	138	123	138	123

(1) As compared to the prior year period.

(2) Same 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 same stores sales growth calculation. Same store sales growth amounts include total charges to customers less any actual returns. Same 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.

(3) Amounts are adjusted to exclude tax reform and shareholder and other litigation costs. See the “Non-GAAP Information” section below for a reconciliation of non-GAAP measures to GAAP measures.

HIGHLIGHTS FOR THE FOURTH QUARTER AND FULL YEAR 2017

Changes in Management

As announced on October 27, 2017, the Company's founder and former CEO, Robert Rucker, is serving as the interim CEO until the Company's Board of Directors identifies a permanent replacement. Effective February 19, 2018, the Company appointed Cabell Lolmaugh as the Company's Senior Vice President and Chief Operating Officer.

Net Sales

Net sales grew 2.6% in the fourth quarter of 2017 as compared to the fourth quarter of 2016. The increase was due to net sales of \$5.7 million from stores not included in the comparable store base, offset by a comparable store sales decrease of 4.9%, or \$3.7 million. Full year 2017 net sales grew 6.3% compared to 2016. This was driven by 15 stores opened in 2017 and an increase of 0.5% in comparable store sales in 2017. Traffic weakened during the fourth quarter due in part to the Company's shift in promotional strategy.

Gross Margin Rate

Gross margin for the fourth quarter of 2017 was 66.8% compared with 69.6% for the fourth quarter of 2016. Full year gross margin for 2017 was 68.5% compared with 70.0% in 2016. The gross margin rate decline for the fourth quarter was driven primarily by promotions and competitive pricing activity tied to orders initiated during third quarter that were closed in the fourth quarter and orders generated over the Black Friday weekend. Inventory control costs and product mix changes also contributed to the decrease in gross margin for the quarter. The gross margin rate decline for the year was primarily due to promotions and competitive pricing activity and product mix changes.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the fourth quarter of 2017 were \$56.1 million compared with \$51.7 million for the fourth quarter of 2016. The \$4.4 million increase was driven by approximately \$6.0 million of costs associated with opening and operating fifteen new stores. In addition, the fourth quarter of 2017 included \$1.1 million of non-cash impairment charges and \$0.9 million of incremental expenses related to work to identify and prioritize growth and expansion opportunities. The increase in expenses was partially offset by a \$5.2 million decrease in special charges related to litigation. Full year 2017 selling, general and administrative expenses were \$210.4 million in 2017 and \$194.0 million in 2016. The \$16.4 million increase was primarily due to costs associated with opening and operating fifteen new stores during the year.

Tax and Tax Reform

Income tax expense for the fourth quarter of 2017 was \$3.3 million compared with \$1.1 million for the fourth quarter of 2016. For the year, the Company's effective tax rate was 55.2% in 2017 and 41.1% in 2016. The increase in tax expense and the Company's overall tax rate was primarily due to a \$4.6 million charge taken during the fourth quarter to reduce the value of the Company's deferred tax assets in accordance with the Tax Cuts and Jobs Act of 2017. The Company anticipates an annual effective tax rate of approximately 26% to 28% in 2018.

Store Expansion

The Company opened four new retail stores in the fourth quarter of 2017, consisting of three Houston, TX area locations (The Woodlands, Houston, and Willowbrook) and its second location in the Orlando, FL market. As of December 31, 2017, the Company operated 138 stores in 31 states and the District of Columbia.

DIVIDEND

The Board of Directors has declared a quarterly dividend of \$0.05 per common share. The dividend is payable March 16, 2018 to shareholders of record at the close of business March 5, 2018. The Company initiated its quarterly dividend in the first quarter of 2017.

OUTLOOK

The Company's return to its historical focus on product, service, and presentation, rather than price, will likely result in continued volatility of comparable store traffic and sales in the near term. As a result, the Company is limiting its outlook to the following:

- Three new store openings in 2018 including one store in Hartford, CT that opened on January 19, 2018 and one store in Austin, TX that opened on January 31, 2018.
- Capital investment of approximately \$27 to \$32 million, including remodeling approximately 30 stores to support our product presentation strategy.
- Inventory investment of approximately 25% to 35% year over year, over the next several quarters, to support our product assortment strategy.
- SG&A expense increase of approximately \$5 to \$7 million to support our service strategy, including increased expenses for (1) the addition of regional sales leader positions, (2) sales and warehouse staff compensation, and (3) customer relationship management and content management capabilities. The \$5 to \$7 million increase in SG&A expense is incremental to the expected SG&A expense increases associated with a full year of operations for the fifteen stores opened in 2017 and the three new stores opening in 2018.

Longer term, the Company remains committed to achieving both Adjusted EBITDA margin and pretax return on capital employed of greater than 20%.

Non-GAAP Information

The Company presents non-GAAP (loss) income and Adjusted EBITDA to provide useful information to investors regarding the Company's normalized operating performance.

On a non-GAAP basis, net loss for the fourth quarter of 2017 was \$2.4 million compared with net income of \$3.8 million for the fourth quarter of 2016. Full year non-GAAP net income for 2017 was \$16.5 million compared with \$23.1 million in 2016. Non-GAAP diluted loss per share for the fourth quarter of 2017 was \$0.05 compared with \$0.07 per share for the fourth quarter of 2016. Full year non-GAAP diluted earnings per share for 2017 was \$0.32 compared with \$0.45 per share in 2016. See the "Non-GAAP (Loss) Income Reconciliation" table and the "Non-GAAP Financial Measures" section below for a reconciliation of GAAP to non-GAAP income.

Non-GAAP (Loss) Income Reconciliation

	Three Months Ended					
	December 31, 2017			December 31, 2016		
	Pretax	Net of Tax	Per Share Amounts	Pretax	Net of Tax	Per Share Amounts
(in thousands, except share and per share data)						
GAAP income	\$ (4,045)	\$ (7,351)	\$ (0.14)	\$ 1,356	\$ 273	\$ 0.01
Special charges:						
Shareholder and other litigation costs	678	413	0.01	5,791	3,524	0.07
Tax reform ⁽¹⁾	-	4,562	0.09	-	-	-
Non-GAAP (loss) income ⁽²⁾	<u>\$ (3,367)</u>	<u>\$ (2,376)</u>	<u>\$ (0.05)</u>	<u>\$ 7,147</u>	<u>\$ 3,797</u>	<u>\$ 0.07</u>

(1) Represents an adjustment for impacts of a change in the income tax provision due to the re-measurement of deferred income tax positions to reflect the new corporate tax rates pursuant to the Tax Cuts and Job Act of 2017. This provisional amount is subject to adjustment during the measurement period of up to one year following the December 2017 enactment of the Tax Cuts and Jobs Act, as provided by recent SEC guidance.

(2) Amounts may not foot due to rounding.

	Twelve Months Ended					
	December 31, 2017			December 31, 2016		
	Pretax	Net of Tax	Per Share Amounts	Pretax	Net of Tax	Per Share Amounts
(in thousands, except share and per share data)						
GAAP income	\$ 24,159	\$ 10,819	\$ 0.21	\$ 31,339	\$ 18,463	\$ 0.36
Special charges:						
Shareholder and other litigation costs	1,762	1,112	0.02	7,618	4,632	0.09
Tax reform ⁽¹⁾	-	4,562	0.09	-	-	-
Non-GAAP income ⁽²⁾	<u>\$ 25,921</u>	<u>\$ 16,493</u>	<u>\$ 0.32</u>	<u>\$ 38,957</u>	<u>\$ 23,095</u>	<u>\$ 0.45</u>

(1) Represents an adjustment for impacts of a change in the income tax provision due to the re-measurement of deferred income tax positions to reflect the new corporate tax rates pursuant to the Tax Cuts and Job Act of 2017. This provisional amount is subject to adjustment during the measurement period of up to one year following the December 2017 enactment of the Tax Cuts and Jobs Act, as provided by recent SEC guidance.

(2) Amounts may not foot due to rounding.

Adjusted EBITDA for the fourth quarter of 2017 was \$4.3 million compared with \$14.5 million for the fourth quarter of 2016. Full year Adjusted EBITDA for 2017 was \$57.2 million compared with \$68.0 in 2016. See the "Adjusted EBITDA Reconciliation" table and the "Non-GAAP Financial Measures" section below for a reconciliation of GAAP net (loss) income to Adjusted EBITDA.

Adjusted EBITDA Reconciliation

(\$ in thousands)	Three Months Ended		Twelve Months Ended	
	December 31,		December 31,	
	2017	2016	2017	2016
GAAP net (loss) income	\$ (7,351)	\$ 273	\$ 10,819	\$ 18,463
Interest expense	419	333	1,857	1,715
Income taxes	3,306	1,083	13,340	12,876
Depreciation and amortization	6,844	6,088	26,239	23,042
Special charges: shareholder and other litigation costs	678	5,791	1,762	7,618
Stock-based compensation	397	939	3,156	4,333
Adjusted EBITDA	<u>\$ 4,293</u>	<u>\$ 14,507</u>	<u>\$ 57,173</u>	<u>\$ 68,047</u>

Webcast and Conference Call

As announced on February 1, 2018, the Company will host a conference call via live webcast for investors and other interested parties beginning at 9:00 a.m. Eastern Time on Wednesday, February 21, 2018. The call will be hosted by Bob Rucker, interim CEO, Kirk Geadelmann, CFO, Cabell Lolmaugh, Senior Vice President and COO, and Ken Cooper, Investor Relations.

Participants may access the live webcast by visiting the Company's Investor Relations page at www.tileshop.com. The call can also be accessed by dialing (844) 421-0597, or (716) 247-5787 for international participants. A webcast replay of the call will be available on the Company's Investor Relations page at www.tileshop.com.

Additional details can be located at www.tileshop.com under the Financial Information – SEC Filings section of the Company's Investor Relations page.

Contacts:

Investors and Media:

Ken Cooper

763-852-2950

ken.cooper@tileshop.com

About The Tile Shop

The Tile Shop (Nasdaq: TTS) is a leading specialty retailer of manufactured and natural stone tiles, setting and maintenance materials, and related accessories in the United States. The Company offers a wide selection of high quality products, exclusive designs, knowledgeable staff and exceptional customer service in an extensive showroom environment. Each store is outfitted with up to 50 full-room tiled displays which are enhanced by the complimentary Design Studio, a collaborative platform to create customized 3-D design renderings to scale, allowing customers to bring their design ideas to life. The Tile Shop currently operates 140 stores in 31 states and the District of Columbia, with an average size of 20,300 square feet and sells products online at www.tileshop.com.

The Tile Shop is a proud member of the American Society of Interior Designers (ASID), National Association of Homebuilders (NAHB), National Kitchen and Bath Association (NKBA), and the National Tile Contractors Association (NTCA). Visit www.tileshop.com. Join The Tile Shop (#thetileshop) on Facebook, Instagram, Pinterest and Twitter.

Non-GAAP Financial Measures

The Company calculates Adjusted EBITDA by taking net income calculated in accordance with GAAP, and adjusting for interest expense, income taxes, depreciation and amortization, stock based compensation and special charges, including shareholder and other litigation costs. Adjusted EBITDA margin is equal to Adjusted EBITDA divided by net sales. Non-GAAP net income excludes special charges related to tax reform and shareholder and other litigation costs, and is net of tax. The Company calculates pretax return on capital employed by taking income from operations divided by total assets net of non-interest bearing debt. Non-interest bearing debt includes accounts payable, income taxes payable, other accrued liabilities, deferred rent and other long-term liabilities.

The Company believes that these non-GAAP measures of financial results provide useful information to management and investors regarding certain financial and business trends relating to the Company's financial condition and results of operations. Company management uses these non-GAAP measures to compare Company performance to that of prior periods for trend analyses, for purposes of determining management incentive compensation, and for budgeting and planning purposes. These measures are used in monthly financial reports prepared for management and the Board of Directors. The Company believes 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 the Company's financial measures with other specialty retailers, many of which present similar non-GAAP financial measures to investors.

Company 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 the Company's 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. The Company urges investors to review the reconciliation of these non-GAAP financial measures to the comparable GAAP financial measures and not to rely on any single financial measure to evaluate the business.

FORWARD LOOKING STATEMENTS

This press release includes "forward looking statements" within the meaning of the "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995. Forward looking statements may be identified by the use of words such as "anticipate", "believe", "expect", "estimate", "plan", "outlook", and "project" and other similar expressions that predict or indicate future events or trends or that are not statements of historical matters. These forward looking statements include any statements regarding the Company's strategic and operational plan and expected financial performance (including the financial performance of new stores). Forward looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward looking statements are based on information available at the time those statements are made and/or management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward looking statements, including but not limited to unforeseen events that may affect the retail market or the performance of the Company's stores. The Company does not intend, and undertakes no duty, to update this information to reflect future events or circumstances. Investors are referred to the most recent reports filed with the SEC by the Company.

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

	December 31, 2017 (unaudited)	December 31, 2016 (audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,621	\$ 6,067
Restricted cash	855	3,000
Trade receivables, net	2,381	2,414
Inventories	85,259	74,295
Income tax receivable	5,726	1,670
Other current assets, net	4,717	8,755
Total Current Assets	105,559	96,201
Property, plant and equipment, net	151,405	141,037
Deferred tax assets	11,654	21,391
Long-term restricted cash	-	3,881
Other assets	2,107	2,763
Total Assets	\$ 270,725	\$ 265,273
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 30,771	\$ 20,321
Current portion of long-term debt	8,833	6,286
Income tax payable	17	120
Other accrued liabilities	22,413	33,461
Total Current Liabilities	62,034	60,188
Long-term debt, net	18,182	22,126
Capital lease obligation, net	576	697
Deferred rent	41,290	37,595
Other long-term liabilities	4,769	5,768
Total Liabilities	126,851	126,374
Stockholders' Equity:		
Common stock, par value \$0.0001; authorized: 100,000,000 shares; issued and outstanding: 52,156,850 and 51,607,143 shares, respectively	5	5
Preferred stock, par value \$0.0001; authorized: 10,000,000 shares; issued and outstanding: 0 shares	-	-
Additional paid-in-capital	180,109	185,998
Accumulated deficit	(36,239)	(47,058)
Accumulated other comprehensive loss	(1)	(46)
Total Stockholders' Equity	143,874	138,899
Total Liabilities and Stockholders' Equity	\$ 270,725	\$ 265,273

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

	Three Months Ended December 31,		Twelve Months Ended, December 31,	
	2017	2016	2017	2016
Net sales	\$ 78,580	\$ 76,614	\$ 344,600	\$ 324,157
Cost of sales	26,113	23,281	108,378	97,261
Gross profit	52,467	53,333	236,222	226,896
Selling, general and administrative expenses	56,131	51,683	210,376	193,983
(Loss) Income from operations	(3,664)	1,650	25,846	32,913
Interest expense	(419)	(333)	(1,857)	(1,715)
Other income	38	39	170	141
(Loss) Income before income taxes	(4,045)	1,356	24,159	31,339
Provision for income taxes	(3,306)	(1,083)	(13,340)	(12,876)
Net (loss) income	\$ (7,351)	\$ 273	\$ 10,819	\$ 18,463
(Loss) Earnings per common share:				
Basic	\$ (0.14)	\$ 0.01	\$ 0.21	\$ 0.36
Diluted	\$ (0.14)	\$ 0.01	\$ 0.21	\$ 0.36
Weighted average shares outstanding:				
Basic	51,881,591	51,497,198	51,700,045	51,418,600
Diluted	51,881,591	52,112,609	51,927,877	51,880,113

Tile Shop Holdings, Inc. and Subsidiaries
Rate Analysis
(Unaudited)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2017	2016	2017	2016
Gross margin rate	66.8 %	69.6 %	68.5 %	70.0 %
SG&A expense rate	71.4 %	67.5 %	61.0 %	59.8 %
(Loss) Income from operations margin rate	(4.7)%	2.2 %	7.5 %	10.2 %
Adjusted EBITDA margin rate	5.5 %	18.9 %	16.6 %	21.0 %

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

	For the years ended,	
	2017	2016
Cash Flows From Operating Activities		
Net income	\$ 10,819	\$ 18,463
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation & amortization	26,239	23,042
Amortization of debt issuance costs	691	487
Loss on disposals of property, plant and equipment	210	447
Impairment charges of property, plant and equipment	1,072	-
Deferred rent	3,884	2,382
Stock based compensation	3,156	4,333
Deferred income taxes	9,737	(395)
Changes in operating assets and liabilities:		
Trade receivables	33	(448)
Inventories	(10,964)	(4,417)
Prepaid expenses and other current assets	4,159	(5,849)
Accounts payable	12,048	4,195
Income tax receivable/ payable	(4,159)	(1,917)
Accrued expenses and other liabilities	(11,234)	13,229
Net cash provided by operating activities	45,691	53,552
Cash Flows From Investing Activities		
Purchases of property, plant and equipment	(40,556)	(27,256)
Proceeds from the sale of property, plant and equipment	7	4
Net cash used in investing activities	(40,549)	(27,252)
Cash Flows From Financing Activities		
Release of restricted cash	6,026	1,926
Payments of long-term debt and capital lease obligations	(36,575)	(37,822)
Advances on line of credit	35,000	10,000
Dividends paid	(10,366)	-
Contributions to NMTC fund	-	(6,683)
Payment of NMTC closing costs	-	1,269
Proceeds from exercise of stock options	1,639	842
Employee taxes paid for shares withheld	(318)	(56)
Security deposits	-	(4)
Net cash used in financing activities	(4,594)	(30,528)
Effect of exchange rate changes on cash	6	(35)
Net change in cash	554	(4,263)
Cash and cash equivalents beginning of period	6,067	10,330
Cash and cash equivalents end of period	<u>\$ 6,621</u>	<u>\$ 6,067</u>
Supplemental disclosure of cash flow information		
Purchases of property, plant and equipment included in accounts payable and accrued expenses	\$ 636	\$ 2,271
Cash paid for interest	1,822	1,811
Cash paid for income taxes, net of refunds	7,603	15,162