

TILE SHOP HOLDINGS, INC.
Form 10-Q/A
May 06, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

(Mark One)

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

For the quarterly period ended March 31, 2015

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) (I.R.S. Employer Identification No.)

**14000 Carlson Parkway
Plymouth, Minnesota 55441
(Address of principal executive offices) (Zip Code)**

(763) 852-2988

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of April 27, 2015, there were 51,315,047 shares of the registrant's common stock, par value \$0.0001 per share, outstanding.

Explanatory Note

This Amendment No. 1 to Form 10-Q for the quarter ended March 31, 2015 (the “Amendment”) is being filed to revise and update the disclosure on litigation in Note 10 of Part 1, Item 1 and in Part II, Item 1. The revision discloses (1) the issuance of an Order of the court on March 4, 2015 granting in part and denying in part the Company’s motion to dismiss the complaint in the *Beaver County Employees’ Retirement Fund* case, and (2) the voluntary dismissal of the *Kinkeung Mok* case in Minnesota, which will be refiled in Delaware.

In addition, pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, the certifications required by Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002, filed and furnished, respectively, as exhibits to the Form 10-Q, have been re-executed as of the date of this Amendment and are filed and furnished, respectively, as exhibits hereto, as set forth in Item 6 of this Amendment. No other changes have been made to the Form 10-Q other than as described above.

TILE SHOP HOLDINGS, INC.

Table of Contents

	Page
PART I. FINANCIAL INFORMATION	
Item 1.	Financial Statements 1
	Condensed Consolidated Balance Sheets as of March 31, 2015 (unaudited) and December 31, 2014 1
	Condensed Consolidated Statements of Operations for the three months ended March 31, 2015 and 2014 (unaudited) 2
	Condensed Consolidated Statements of Stockholders' Equity (Deficit) for the three months ended March 31, 2015 (unaudited) and year ended 3 December 31, 2014
	Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2015 and 2014 (unaudited) 4
	Notes to Condensed Consolidated Financial Statements (unaudited) 5
PART II. OTHER INFORMATION	
Item 1.	Legal Proceedings 9
Item 6.	Exhibits 10
Signatures	11
Exhibit Index	12

PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****Tile Shop Holdings, Inc. and Subsidiaries**

Condensed Consolidated Balance Sheets

(dollars in thousands, except share and per share data)

	March 31, 2015 (unaudited)	December 31, 2014 (audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,959	\$ 5,759
Trade receivables, net	2,264	1,712
Inventories	63,466	68,857
Income tax receivable	1,192	4,937
Deferred tax and other current assets	7,254	7,268
Total Current Assets	83,135	88,533
Property, plant and equipment, net	137,658	139,294
Deferred tax and other assets	25,122	24,363
Total Assets	\$ 245,915	\$ 252,190
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 12,233	\$ 13,759
Income tax payable	3,186	-
Other accrued liabilities	23,192	18,393
Total Current Liabilities	38,611	32,152
Long-term debt, net	70,150	88,525
Capital lease obligation, net	858	890
Deferred rent	34,029	33,163
Other long-term liabilities	3,598	3,765
Total Liabilities	147,246	158,495
Stockholders' Equity:		
Common stock, par value \$0.0001; authorized: 100,000,000 shares; issued and outstanding: 51,315,047 and 51,314,005 shares, respectively	5	5
Preferred stock, par value \$0.0001; authorized: 10,000,000 shares; issued and outstanding: 0 shares	-	-
Additional paid-in-capital	175,686	174,371
Accumulated deficit	(77,022)	(80,681)

Total Stockholders' Equity	98,669	93,695
Total Liabilities and Stockholders' Equity	\$ 245,915	\$ 252,190

See accompanying Notes to Condensed Consolidated Financial Statements.

Tile Shop Holdings, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(dollars in thousands, except per share data)

(unaudited)

	Three months ended March	
	31,	
	2015	2014
Net sales	\$72,963	\$64,379
Cost of sales	21,992	19,446
Gross profit	50,971	44,933
Selling, general and administrative expenses	43,776	37,972
Income from operations	7,195	6,961
Interest expense	803	711
Other income (expense)	29	(69)
Income before income taxes	6,421	6,181
Provision for income taxes	(2,762)	(2,472)
Net income	\$3,659	\$3,709
Income per common share:		
Basic	\$0.07	\$0.07
Diluted	\$0.07	\$0.07
Weighted average shares outstanding:		
Basic	51,125,221	51,000,100
Diluted	51,163,963	51,356,504

See accompanying Notes to Condensed Consolidated Financial Statements.

Tile Shop Holdings, Inc. and Subsidiaries

Condensed Consolidated Statements of Stockholders' Equity (Deficit)

(dollars in thousands, except share data)

(unaudited)

	Common stock		Additional	Retained	Total
	Shares	Amount	paid-in- capital	earnings (deficit)	
Balance at December 31, 2013	51,229,720	\$ 5	\$ 169,719	\$(91,228)	\$78,496
Issuance of restricted shares	76,066	-	-	-	-
Stock based compensation	-	-	4,617	-	4,617
Stock option exercises	8,219	-	35	-	35
Net income	-	-	-	10,547	10,547
Balance at December 31, 2014	51,314,005	5	174,371	(80,681)	93,695
Stock based compensation	-	-	1,305	-	1,305
Stock option exercises	1,042	-	10	-	10
Net income	-	-	-	3,659	3,659
Balance at March 31, 2015	51,315,047	\$ 5	\$ 175,686	\$(77,022)	\$98,669

See accompanying Notes to Condensed Consolidated Financial Statements.

Tile Shop Holdings, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(dollars in thousands)

(unaudited)

	Three Months Ended March 31, 2015	2014
Cash Flows From		
Operating Activities		
Net income	\$ 3,659	\$ 3,709
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of debt issuance costs	116	48
Depreciation	5,649	4,411
Loss on disposals of property, plant and equipment	12	91
Deferred rent	866	1,591
Stock based compensation	1,305	1,397
Deferred income taxes	(1,001)	-
Changes in operating assets and liabilities:		
Trade receivables	(552)	(308)
Inventories	5,957	5,785
Other assets	(424)	(8)
Accounts payable	(1,144)	(9,350)
Income tax receivable/ payable	6,931	5,515
Accrued expenses and other liabilities	4,752	2,326
Net cash provided by operating activities	26,126	15,207
Cash Flows From		
Investing Activities		
Proceeds from cash surrender value of life	-	462

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insurance policy				
Purchases of property, plant and equipment	(4,575)	(12,073)
Proceeds from the sale of property, plant and equipment	-		159	
Net cash used in investing activities	(4,575)	(11,452)
Cash Flows From Financing Activities				
Release of restricted cash	-		754	
Payments of long-term debt and capital lease obligations	(23,360)	(8,984)
Advances on line of credit	5,000		7,000	
Proceeds from exercise of stock options	10		5	
Security deposits	(1)	(4)
Net cash used in financing activities	(18,351)	(1,229)
Net change in cash	3,200		2,526	
Cash and cash equivalents beginning of period	5,759		1,761	
Cash and cash equivalents end of period	\$ 8,959		\$ 4,287	

Supplemental disclosure of cash flow information

	2015	2014
Purchases of property, plant and equipment included in accounts payable and accrued expenses	\$467	\$2,603
Cash paid for interest	776	810
Income tax refunds received	4,168	3,043

See accompanying Notes to Condensed Consolidated Financial Statements.

Tile Shop Holdings, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(unaudited)

Note 1: Background

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

The Company is engaged in the sale of tile, stone, glass, and other flooring products. The Company also manufactures setting and maintenance materials in Michigan, Virginia, Oklahoma and Wisconsin. The Company’s primary market is retail sales to consumers, contractors, designers and small home builders. As of March 31, 2015, the Company had 109 stores in 31 states and an on-line retail operation. The Company also has distribution centers located in Michigan, Virginia, Oklahoma and Wisconsin.

The accompanying Condensed 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 quarter ended March 31, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2015.

These statements should be read in conjunction with the Consolidated Financial Statements and footnotes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014. The accounting policies used in preparing these Condensed Consolidated Financial Statements are the same as those described in Note 1 to the Consolidated Financial Statements in such Form 10-K.

Note 2: Inventories

Inventories are stated at the lower of cost (determined on the weighted average cost method) or market. Inventories consist primarily of merchandise held for sale. Inventories were comprised of the following as of March 31, 2015 and December 31, 2014:

	(in thousands)	
	March 31, 2015	December 31, 2014
Finished goods	\$57,897	\$ 58,323
Raw materials	2,148	2,356
Finished goods in transit	3,421	8,178
Total	\$63,466	\$ 68,857

The Company records provisions for losses related to shrinkage and other amounts that are otherwise not expected to be fully recoverable.

Note 3: Income taxes

The Company's effective tax rate on net income before income taxes for the three month periods ended March 31, 2015 and 2014 was 43.0% and 40.0%, respectively. For the three month periods ended March 31, 2015 and 2014, the Company recorded a provision for income taxes of \$2.8 million and \$2.5 million, respectively. The effective tax rate during the first quarter of 2015 was abnormally high due to the impact of state tax rate changes on the Company's deferred tax balances, which resulted in unfavorable adjustment to tax expense.

In accordance with ASC 740-10, the Company records interest and penalties relating to uncertain tax positions in income tax expense. As of March 31, 2015 and 2014, the Company has not recognized any liabilities for uncertain tax positions nor have we accrued interest and penalties related to uncertain tax positions.

Tile Shop Holdings, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(unaudited)

Note 4: Earnings Per Share

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

Basic and diluted earnings per share were calculated as follows:

	(dollars in thousands)	
	For the three months	
	Ended March 31,	
	2015	2014
Net income	\$3,659	\$3,709
Weighted average basic shares outstanding	51,125,221	51,000,100
Effect of diluted securities attributable to stock based awards	38,742	356,404
Weighted average diluted shares outstanding	51,163,963	51,356,504
Income per common share:		
Basic	\$0.07	\$0.07
Dilutive	\$0.07	\$0.07
Anti-dilutive securities excluded from EPS calculation	1,750,735	818,268

Note 5: Other Accrued Liabilities

Other accrued liabilities consisted of the following at:

	(in thousands)	
	March	December
	31,	31, 2014

	2015	
Customer deposits	\$7,531	\$ 5,038
Accrued wages and salaries	4,201	3,209
Current portion of debt and capital lease obligation	3,803	3,850
Sales return reserve	3,709	3,292
Taxes/other	3,517	2,600
Interest payable	431	404
Total accrued liabilities	\$23,192	\$ 18,393

Note 6: Long-term Debt

On October 3, 2012, the Company and its operating subsidiary, The Tile Shop, LLC, entered into a credit agreement with Bank of America, N.A., which was amended on April 30, 2013, July 8, 2013, March 26, 2014 and September 29, 2014 (as amended, the "Credit Agreement"). The most recent amendment on September 29, 2014 modified the Consolidated Total Rent Adjusted Leverage Ratio schedule for future periods commencing September 30, 2014. The Credit Agreement provides the Company with a \$120 million senior secured credit facility, comprised of a five-year \$25 million term loan and a \$95 million revolving line of credit. The Credit Agreement is secured by virtually all of the assets of the Company, including but not limited to, inventory, receivables, equipment and real property. Borrowings pursuant to the Credit Agreement bear interest at either a base rate or a LIBOR-based rate, at the option of the Company. The LIBOR-based rate will range from LIBOR plus 1.75% to 2.25%, depending on The Tile Shop's leverage ratio. The base rate is equal to the greatest of: (a) the Federal funds rate plus 0.50%, (b) the Bank of America "prime rate," and (c) the Eurodollar rate plus 1.00%, in each case plus 0.75% to 1.25% depending on The Tile Shop's leverage ratio. At March 31, 2015 and December 31, 2014 the base interest rate was 4.50%. At March 31, 2015 and December 31, 2014 the LIBOR-based interest rate was 2.521% and 2.506%, respectively. As of March 31, 2015 and December 31, 2014, the Company had outstanding borrowings related to the revolving line of credit of \$56.5 million and \$74.0 million, respectively. The term loan requires quarterly principal payments of \$875,000. As of March 31, 2015 and December 31, 2014, the Company had outstanding borrowings related to the term loan of \$16.3 million and \$17.1 million, respectively. The Credit Agreement contains customary events of default, conditions to borrowings, and restrictive covenants, including restrictions on the Company's ability to dispose of assets, make acquisitions, incur additional debt, incur liens, make investments, or enter into transactions with affiliates on other than terms that could be obtained in an arm's length transaction. The Credit Agreement also includes financial and other covenants including covenants to maintain certain fixed charge coverage ratios and rent adjusted leverage ratios. In addition, except with respect to pro rata payments made by The Tile Shop or other subsidiaries to the Company or any other equity owner of such entity, the Credit Agreement prohibits the payments of cash dividends. The Company was in compliance with the covenants as of March 31, 2015.

Note 7: Fair Value of Financial Instruments

These condensed consolidated financial statements include the following financial instruments: cash and cash equivalents, trade receivables, accounts payable, accrued expenses, capital leases, notes payable, and debt. At March 31, 2015 and December 31, 2014, the carrying amount of the Company's cash and cash equivalents, trade receivables, accounts payable and accrued expenses approximated their fair values due to their short-term maturities. The carrying value of the Company's borrowings and capital lease obligation approximates fair value based upon the market interest rates available to the Company for debt and capital lease obligations with similar risk and maturities.

Tile Shop Holdings, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(unaudited)

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

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

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

Quoted prices for similar assets or liabilities in active markets;

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

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

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

Level 3 – Significant unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management’s estimates of market participant assumptions.

Note 8: Equity Incentive Plans

Stock options:

The Company measures and recognizes compensation expense for all stock-based awards at fair value. The financial statements for the three months ended March 31, 2015 and 2014 include compensation cost for the portion of outstanding awards that vested during those periods. The Company recognizes stock based compensation costs on a straight-line basis over the requisite service period of the award, which is generally the option vesting term. For the three months ended March 31, 2015 and 2014 total stock based compensation expense related to stock options was \$0.8 million and \$1.0 million, respectively. Stock based compensation is included in selling, general and administrative expenses in the accompanying condensed consolidated statements of income.

As of March 31, 2015, the Company had 2,642,958 outstanding stock options at a weighted average exercise price of \$12.88.

Restricted stock:

The Company awards restricted common shares to selected employees, and non-employee directors. Recipients are not required to provide any consideration other than continued service. Company share awards are subject to certain restrictions on transfer, and all or part of the shares awarded may be subject to forfeiture upon the occurrence of certain events, including employment termination. The restricted stock is valued at its grant date fair value and expensed over the requisite service period or the vesting term of the awards. For the three months ended March 31, 2015 and 2014 total stock based compensation expense related to restricted stock was \$0.5 million and \$0.4 million, respectively. Stock based compensation is included in selling, general and administrative expenses in the accompanying condensed consolidated statements of income.

As of March 31, 2015, the Company had 189,235 outstanding restricted common shares.

Note 9: New Market Tax Credit

In July 2013, the Company entered into a financing transaction with Chase Community Equity or “Chase”, and U.S. Bank Community, LLC or “U.S. Bank”, collectively the “investors” related to a \$19.1 million acquisition, rehabilitation and construction of our new distribution and manufacturing center in Durant, Oklahoma. The investors made a capital contribution to, and Tile Shop Lending made a loan to Chase New Market Tax Credit, The Tile Shop of Oklahoma Investment Fund, LLC, and The Tile Shop Investment Fund LLC, or the “Investment Funds,” under a qualified New Markets Tax Credit, or “NMTC,” program. The NMTC program was provided for in the Community Renewal Tax Relief Act of 2000, or 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, or “CDEs.” CDEs are privately managed investment institutions that are certified to make qualified low-income community investments, or “QLICs.”

In July 2013, Tile Shop Lending loaned \$13.5 million to the Investment Funds at an interest rate of 1.35% per year and with a maturity of September 30, 2043. The Investment Funds then contributed the loan to certain CDEs, which, in turn, loaned the funds on similar terms to Tile Shop of Oklahoma, LLC, an indirect, wholly-owned subsidiary. The proceeds of the loans from the CDEs (including loans representing the capital contribution made by the investors, net of syndication fees) were used to partially fund the new manufacturing and distribution center project.

In July 2013, the investors also contributed \$5.6 million to the Investment Funds and, by virtue of such contribution, are entitled to substantially all of the tax benefits derived from the NMTCs, while we effectively received net loan proceeds equal to investor's contributions to the Investment Fund. This transaction includes a put/call provision whereby the Company may be obligated or entitled to repurchase the investors' interest. The Company believes that the investors will exercise the put option in September 2020 at the end of the recapture period. The value attributed to the put/call is de minimis. The NMTC is subject to 100% recapture for a period of seven years as provided in the Internal Revenue Code. The Company is required to be in compliance with various regulations and contractual provisions that apply to the NMTC arrangement. Non-compliance with applicable requirements could result in projected tax benefits not being realized and, therefore, could require the Company to indemnify the investors for any loss or recapture of NMTCs related to the financing until such time as the obligation to deliver tax benefits is relieved. The Company does not anticipate any credit recaptures will be required in connection with this arrangement.

Tile Shop Holdings, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(unaudited)

The Company has determined that the financing arrangement with the Investment Funds and CDEs contains a variable interest entity, or “VIE.” The ongoing activities of the Investment Funds – 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 Funds. Management considered the contractual arrangements that obligate the Company to deliver tax benefits and provide various other guarantees to the structure; Chase’s and U.S. Bank Community LLC’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 they are the primary beneficiary of the VIE and consolidated the Investment Funds, as a VIE, in accordance with the accounting standards for consolidation. Chase’s and U.S. Bank Community LLC’s contributions of \$4.4 million, net of syndication fees, are included in cash, restricted cash, and other long-term liabilities in the accompanying consolidated balance sheet. The benefit of this net \$4.4 million contribution will be recognized as a decrease in depreciation expense as we amortize the contribution liability over the seven-year compliance period as it is being earned through the on-going compliance with the conditions of the NMTC program. Direct costs of \$1.0 million incurred in structuring the financing arrangement are deferred and will be recognized as expense over the term of the loans (40 years). Incremental costs to maintain the structure during the compliance period are recognized as incurred.

Note 10: Commitments and Contingencies

The Company is subject to various claims relating to workers compensation, disclosure inaccuracies and employee matters. The Company establishes accruals for potential exposure, as appropriate, for claims against the Company when losses become probable and reasonably estimable. Where the Company is able to reasonably estimate a range of potential losses, the Company records the amount within that range that constitutes the Company’s best estimate. The Company also discloses the nature and range of loss for claims against the Company when losses are reasonably possible and material. In the opinion of management, the outcome of litigation currently pending will not materially impact the Company’s results of operations, financial condition, or liquidity.

The Company, two of its former executive officers, five of its outside directors, and certain companies affiliated with the directors, are defendants in a consolidated class action brought under the federal securities laws and now pending in the United States District Court for the District of Minnesota under the caption *Beaver County Employees’ Retirement Fund, et al. v. Tile Shop Holdings, Inc., et al.* Several related actions were filed in 2013, and then consolidated. The plaintiffs are three investors who seek to represent a class or classes consisting of (1) all purchasers of Tile Shop common stock between August 22, 2012 and January 28, 2014 (the “alleged class period”), seeking to pursue remedies under the Securities Exchange Act of 1934; and (2) all purchasers of Tile Shop common stock pursuant and/or traceable to the Company’s December 2012 and June 2013 registration statements, seeking to pursue

remedies under the Securities Act of 1933. Eight firms who were underwriters in the December 2012 and June 2013 secondary public offerings are also named as defendants. In their consolidated amended complaint (the “complaint”) filed on May 23, 2014, the plaintiffs allege that certain defendants made false or misleading statements of material fact in press releases and SEC filings about the Company’s relationships with its vendors, its gross margins, and its supply chain and producer relationships, and that defendants failed to disclose certain related party transactions. The complaint asserts claims under Sections 11, 12(a)(2), and 15 of the Securities Act of 1933, and under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. In addition to attorney’s fees and costs, the plaintiffs seek to recover damages on behalf of the members of the purported classes. The defendants are vigorously defending the matter. The defendants moved to dismiss the complaint in July 2014, and that motion was granted in part and denied in part by an Order of the court on March 4, 2015. The matter is now in the early stages of discovery.

The Company is also a Nominal Defendant in two matters brought derivatively on behalf of the Company by two shareholders of the Company. The first such action was filed on March 17, 2015 in the United States District Court for the District of Minnesota and is captioned *Kinkeung Mok v. Rucker, et al.* That action also names the Company’s former CEO, five of the Company’s outside directors, and a former employee of the Company as defendants. The *Mok* complaint alleges breaches of fiduciary duty by the Company’s board pertaining to the alleged sale of tiles containing high concentrations of lead as well as the Company’s alleged failure to disclose certain related party transactions. The complaint also alleges that a former employee of the Company was unjustly enriched as a result of certain related party transactions. The *Mok* complaint was voluntarily dismissed in Minnesota on or about May 1, 2015 and will be refiled in Delaware. The second derivative action was filed on April 7, 2015 in the Court of Chancery of the State of Delaware and is captioned *City of Haverhill Retirement System v. Rucker, et al.* That action also names the Company’s former CEO, the Company’s current CEO, and five of the Company’s outside directors as defendants. The *Haverhill* complaint alleges breach of fiduciary duty by the Company’s board pertaining to the Company’s alleged failure to disclose certain related party transactions as well as waste of corporate assets. Both complaints seek to recover from defendants those damages sustained by the Company as a result of defendants’ alleged breaches of fiduciary duty, disbursement, and attorneys’ fees. The *Haverhill* action also seeks reforms to the Company’s corporate governance and internal procedures. The defendants have not yet responded to the complaints but intend to defend them.

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

Note 11: New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued a final standard on revenue from contracts with customers. The new standard sets forth a single comprehensive model for recognizing and reporting revenue. The new standard is effective for the Company in its fiscal year 2017, and permits the use of either a retrospective or a cumulative effect transition method. The Company is currently assessing the impact of implementing the new guidance on its consolidated financial statements.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company, two of its former executive officers, five of its outside directors, and certain companies affiliated with the directors, are defendants in a consolidated class action brought under the federal securities laws and now pending in the United States District Court for the District of Minnesota under the caption *Beaver County Employees' Retirement Fund, et al. v. Tile Shop Holdings, Inc., et al.* Several related actions were filed in 2013, and then consolidated. The plaintiffs are three investors who seek to represent a class or classes consisting of (1) all purchasers of Tile Shop common stock between August 22, 2012 and January 28, 2014 (the "alleged class period"), seeking to pursue remedies under the Securities Exchange Act of 1934; and (2) all purchasers of Tile Shop common stock pursuant and/or traceable to the Company's December 2012 and June 2013 registration statements, seeking to pursue remedies under the Securities Act of 1933. Eight firms who were underwriters in the December 2012 and June 2013 secondary public offerings are also named as defendants. In their consolidated amended complaint (the "complaint") filed on May 23, 2014, the plaintiffs allege that certain defendants made false or misleading statements of material fact in press releases and SEC filings about the Company's relationships with its vendors, its gross margins, and its supply chain and producer relationships, and that defendants failed to disclose certain related party transactions. The complaint asserts claims under Sections 11, 12(a)(2), and 15 of the Securities Act of 1933, and under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. In addition to attorney's fees and costs, the plaintiffs seek to recover damages on behalf of the members of the purported classes. The defendants are vigorously defending the matter. The defendants moved to dismiss the complaint in July 2014, and that motion was granted in part and denied in part by an Order of the court on March 4, 2015. The matter is now in the early stages of discovery.

The Company is also a Nominal Defendant in two matters brought derivatively on behalf of the Company by two shareholders of the Company. The first such action was filed on March 17, 2015 in the United States District Court for the District of Minnesota and is captioned *Kinkeung Mok v. Rucker, et al.* That action also names the Company's former CEO, five of the Company's outside directors, and a former employee of the Company as defendants. The *Mok* complaint alleges breaches of fiduciary duty by the Company's board pertaining to the alleged sale of tiles containing high concentrations of lead as well as the Company's alleged failure to disclose certain related party transactions. The complaint also alleges that a former employee of the Company was unjustly enriched as a result of certain related party transactions. The *Mok* complaint was voluntarily dismissed in Minnesota on or about May 1, 2015 and will be refiled in Delaware. The second derivative action was filed on April 7, 2015 in the Court of Chancery of the State of Delaware and is captioned *City of Haverhill Retirement System v. Rucker, et al.* That action also names the Company's former CEO, the Company's current CEO, and five of the Company's outside directors as defendants. The *Haverhill* complaint alleges breach of fiduciary duty by the Company's board pertaining to the Company's alleged failure to disclose certain related party transactions as well as waste of corporate assets. Both complaints seek to recover from defendants those damages sustained by the Company as a result of defendants' alleged breaches of fiduciary duty, disbursement, and attorneys' fees. The *Haverhill* action also seeks reforms to the Company's corporate governance and internal procedures. The defendants have not yet responded to the complaints but intend to defend them.

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

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

ITEM 6. EXHIBITS

Exhibits

31.1* Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002.

31.2* Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002.

32.1** Certifications of Chief Executive Officer Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

32.2** Certifications of Chief Financial Officer Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

101.INS XBRL Instance Document.

101.SCH XBRL Taxonomy Extension Schema Document.

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.

101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

101.LAB XBRL Taxonomy Extension Label Linkbase Document.

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

TILE SHOP HOLDINGS, INC.

Dated: May 6, 2015

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

Dated: May 6, 2015

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

TILE SHOP HOLDINGS, INC.

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