TILE SHOP HOLDINGS, INC.
Form S-1/A
June 03, 2013

As filed with the Securities and Exchange Commission on June 3, 2013

File No. 333-188861

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

Amendment No. 1
to
FORM S-1
REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

TILE SHOP HOLDINGS, INC.

(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	5713 (Primary Standard Industrial Classification Code Number)	45-5538095 (I.R.S. Employer Identification Number)

14000 Carlson Parkway
Plymouth, Minnesota 55441
(763) 852-2901

(Address, including zip code, and telephone number,
including area code, of registrant s principal executive offices)

Robert A. Rucker
Chief Executive Officer
14000 Carlson Parkway
Plymouth, Minnesota 55441
(763) 852-2901

(Names, address, including zip code, and telephone number,
including area code, of agent for service)

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APPROXIMATE DATE OF COMMENCEMENT OF THE PROPOSED SALE TO THE PUBLIC: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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. (Check one):

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

TABLE OF CONTENTS

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the SEC, acting pursuant to said Section 8(a), may determine.

TABLE OF CONTENTS

The information in this preliminary prospectus is not complete and may be changed. The selling stockholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and the selling stockholders are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JUNE 3, 2013

PRELIMINARY PROSPECTUS

4,250,000 Shares

TILE SHOP HOLDINGS, INC.

Common Stock

$ per share

The selling stockholders named in this prospectus, which include certain members of our board of directors and management, are selling 4,250,000 shares. We will not receive any proceeds from the sale of the shares by the selling stockholders.

Our common stock is listed on The NASDAQ Global Market under the symbol TTS . The last reported sale price of our common stock on The NASDAQ Global Market on May 31, 2013 was $25.96 per share.

On May 24, 2013, we entered into a Stock Purchase Agreement with Nabron International, Inc., whereby we agreed to repurchase a number of shares of our common stock having an aggregate value of $46.0 million, which we refer to as the Post-offering Nabron Stock Purchase, at a price per share equal to the public offering price less the underwriters discount. The closing of the Post-offering Nabron Stock Purchase is conditioned upon the completion of this offering. The closing of this offering is not conditioned upon the completion of the Post-offering Nabron Stock Purchase. We expect to fund the purchase price for the Post-offering Nabron Stock Purchase with the proceeds from the warrant exercises as described in this prospectus. We cannot assure you that the conditions to the Post-offering Nabron Stock Purchase will be satisfied or that the share repurchase will take place on the terms described above or at all.

Investing in our common stock involves risks. See Risk Factors beginning on page 10.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued under this prospectus or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	$	$
Underwriters discount[1]	$	$

Proceeds to the selling stockholders (before expenses)	$	$

(1) We refer you to Underwriting beginning on page 78 for additional information regarding underwriting compensation.

To the extent that the underwriters sell more than 4,250,000 shares of common stock to the public, the underwriters have the option to purchase up to 637,500 additional shares from certain selling stockholders at the public offering price less the underwriters discount. We will not receive any proceeds from the sale of the additional shares by the selling stockholders.

The underwriters expect to deliver the shares to purchasers on or about , 2013 through the book-entry facilities of The Depository Trust Company.

Citigroup	**Baird**	**Piper Jaffray**
Wedbush Securities	**Telsey Advisory Group**	**CJS Securities, Inc.**

, 2013

TABLE OF CONTENTS

We are responsible for the information contained in this prospectus and in any free-writing prospectus we prepare or authorize. We have not authorized anyone to provide you with different information, and we take no responsibility for any other information others may give you. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than its date.

TABLE OF CONTENTS

	Page
Information Concerning Forward-looking Statements	1
Prospectus Summary	2
The Offering	5
Summary Consolidated Financial and Other Data	6
Risk Factors	10
Use of Proceeds	21
Price Range of Securities	21
Dividends	21
Capitalization	22
Summary Consolidated Financial and Other Data	23
Management s Discussion and Analysis of Financial Condition and Results of Operations	26
Business	40
Management	46
Executive Compensation	51
Director Compensation	60
Certain Relationships and Related Transactions	62
Principal and Selling Stockholders	67
Description of Capital Stock	70
Material U.S. Federal Income Tax Consequences to Non-U.S. Holders of Our Common Stock	74
Underwriting	78
Legal Matters	83
Experts	83
Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	83
Where You Can Find More Information	84
Index to Consolidated Financial Statements	F-1

TABLE OF CONTENTS

INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. In some cases you can identify these statements by forward-looking words such as may, might, will, will likely result, should, anticipates, expects, intends, plans, seeks, continue, believes and similar expressions, although some forward-looking statements are expressed differently.

These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties that may cause our actual results, performance, or achievements to differ materially from any expected future results, performance, or achievements expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. These risks and uncertainties include, but are not limited to:

- the level of demand for our products;
- our ability to grow and remain profitable in the highly competitive retail tile industry;
- our ability to access additional capital;
- our ability to attract and retain qualified personnel;
- changes in general economic, business and industry conditions;
- our ability to introduce new products that satisfy market demand; and
- legal, regulatory, and tax developments, including additional requirements imposed by changes in domestic and foreign laws and regulations.

There is no assurance that our expectations will be realized. If one or more of these risks or uncertainties materialize, or if our underlying assumptions prove incorrect, actual results may vary materially from those expected, estimated, or projected. Such risks and uncertainties also include those set forth under Risk Factors herein. Our forward-looking statements speak only as of the time that they are made and do not necessarily reflect our outlook at any other point in time. Except as required by law or regulation, we undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or for any other reason.

TABLE OF CONTENTS

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus and does not contain all of the information that you should consider in making your investment decision. Before investing in our securities, you should carefully read this entire prospectus, including our consolidated financial statements and the related notes included in this prospectus and the information set forth under the headings Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations. Unless the context requires otherwise, the words Tile Shop Holdings, we, company, us, and our refer to Tile Shop Holdings, Inc. and our consolidate subsidiaries.

Overview

Our Company

We are a specialty retailer of manufactured and natural stone tiles, setting and maintenance materials, and related accessories in the United States. We offer a wide selection of products, attractive prices, and exceptional customer service in an extensive showroom setting. We sell over 4,500 products from around the world, including ceramic, porcelain, glass, and stainless steel manufactured tiles and marble, granite, quartz, sandstone, travertine, slate, and onyx natural tiles, primarily under our proprietary Rush River and Fired Earth brand names. We purchase our tile products and accessories directly from producers. We manufacture our own setting and maintenance materials, such as thinset, grout, and sealers under our Superior brand name. We operate 73 stores in 24 states, with an average size of 23,000 square feet. We also sell our products on our website.

We believe that our long-term producer relationships, together with our design, manufacturing and distribution capabilities, enable us to offer a broad assortment of high-quality products to our customers, who are primarily homeowners, at competitive prices. We have invested significant resources to develop our proprietary brands and product sources and believe that we are a leading retailer of stone tiles, accessories, and related materials in the United States.

In 2012, we reported net sales and income from operations of $182.7 million and $34.4 million, respectively. In the first quarter of fiscal 2013 we reported net sales and income from operations of $56.8 million and $12.0 million, respectively. We opened 15 new stores in 2012 and intend to open no fewer than 17 stores in 2013, five of which have already been opened. As of the end of the first quarter of fiscal 2013 and the end of fiscal years 2012, 2011 and 2010, we had total assets of $202.4 million, $176.1 million, $119.0 million, and $108.9 million, respectively.

Recent Developments

On April 12, 2013, the Company instructed its transfer agent to notify holders of all remaining outstanding warrants to purchase shares of the Company s common stock that the Company had satisfied the conditions necessary to exercise its right to call all warrants for redemption and that the Company was requiring any holders who exercise warrants before their redemption to exercise them on a cashless basis. Prior to the issuance of the notice to redeem the warrants, the Company had received instructions to exercise 7,514,320 warrants in exchange for payment of the warrant exercise price, which in the aggregate totaled $86.4 million. The Company also processed the exercise of 6,731,938 warrants on a cashless basis and repurchased 3,587,075 warrants. As a result, the Company issued an aggregate of 10,304,380 shares of common stock in exchange for the 17.8 million warrants that were originally outstanding. The Company utilized $30.1 million of the $86.4 million received from the warrant exercises to effect warrant repurchases and plans on retaining $10.3 million for general corporate purposes. The Company plans to utilize $46.0 million of the balance of the $86.4 million of cash received from warrant exercises to complete the repurchase of shares from Nabron International, Inc. following this offering as described below.

On May 24, 2013, we entered into a Stock Purchase Agreement with Nabron International, Inc., which we refer to as Nabron, whereby we agreed to repurchase a number of shares of our common stock having an aggregate value of $46.0 million, which we refer to as the Post-offering Nabron Stock Purchase, at a price per share equal to the public offering price less the underwriters discount. The closing of the Post-offering Nabron Stock Purchase is conditioned upon the completion of this offering. The closing of this offering is not conditioned upon the completion of the Post-offering Nabron Stock Purchase. We expect to

2

TABLE OF CONTENTS

fund the purchase price for the Post-offering Nabron Stock Purchase with the proceeds from the warrant exercise as described above. We cannot assure you that the conditions to the Post-offering Nabron Stock Purchase will be satisfied or that the share repurchase will take place on the terms described above or at all.

Competitive Strengths

We believe that the following factors differentiate us from our competitors and position us to continue to grow our specialty tile business.

Inspiring Customer Experience

Our showrooms bring our products to life. Each showroom features up to 60 different mockups, or vignettes, of bathrooms, kitchens, fireplaces, foyers, and other settings that showcase our broad array of products. Each store also features over 1,400 hand-crafted display boards showing tile that we offer for sale. Our stores are spacious, well-lit, and organized by product type to make our customers shopping experience easy.

Broad Product Assortment at Attractive Prices

We offer over 4,500 manufactured and natural tile products, setting and maintenance materials, and accessories. We are able to maintain every-day low prices by purchasing tile and accessories directly from producers and manufacturing our own setting and maintenance materials.

Customer Service and Satisfaction

Our sales personnel are highly-trained and knowledgeable about the technical and design aspects of our products. We offer weekly do-it-yourself classes in all of our showrooms. In addition, we provide one-on-one installation training as required to meet customer needs. We offer a liberal return policy, with no restocking fees.

Worldwide Sourcing Capabilities

We have long-standing relationships with producers of our tiles throughout the world and work with them to design products exclusively for us. We believe that these direct relationships differentiate us from our competitors, who generally purchase commodity products through distributors. We are often the largest or exclusive customer for many of our producers.

Proprietary Branding

We sell the majority of our products under our proprietary brand names, which helps us to differentiate our products from those of our competitors. We offer products across a range of price points and quality levels that allow us to target discrete market segments and to appeal to diverse groups of customers.

Centralized Distribution System

We service our retail locations from three distribution centers and expect to open a fourth distribution center in the second quarter of 2013. Our distribution centers can cost-effectively service stores within a 700-mile radius, providing us with the ability to open new locations in markets where we believe that we have a competitive advantage or see attractive demographics.

Experienced Team

Our management team has substantial experience in the specialty tile industry and retail sales operations. Robert Rucker, our founder and Chief Executive Officer, has over 25 years of experience in the tile industry. Both Carl Randazzo, senior vice president retail, and Joseph Kinder, senior vice president operations, have been with us for over 20 years. Tim Clayton, our Chief Financial Officer, has more than 30 years of public company financial management leadership experience. William Watts, who serves as the chairman of our board of directors, is the former Chief Executive Officer of General Nutrition Corporation and the chairman of Mattress Firm, Inc., Brookstone, Inc., and JA Apparel Corp. (Joseph Abboud).

Historically Attractive Returns on New Store Investment

Our new stores have historically begun generating operating profit within the first year of operations and we generally recoup our initial net capital investment from a new store s four-wall profitability within the first 36 months of operations. We measure four-wall profitability as store level operating profit before pre-opening costs and depreciation and amortization.

3

TABLE OF CONTENTS

Growth Strategy

We intend to increase our net sales and profitability through a combination of new store openings and same store sales growth. In the five years ended December 31, 2012, we grew through a combination of opening 29 new retail locations and increases in same store sales. We expect to continue to gain market share. Specific elements of our strategy for continued growth include the following:

Open New Stores

We believe that the highly-fragmented U.S. retail tile market provides us with a significant opportunity to expand our store base. During 2012, we opened 15 new stores. We intend to open no fewer than 17 new stores in 2013, primarily in our existing markets, Northeast, Southeast, mid-Atlantic, and Southwest regions of the United States. We believe that there will continue to be additional expansion opportunities in the United States. We expect our store base growth to increase operational efficiencies.

Increase Sales and Profitability of Existing Stores

We believe that our ongoing investment in new products and our enhanced training program for our sales associates, together with our associate incentive compensation structure, will result in continued same store sales growth.

Risk Factors

Our business is subject to numerous risks and uncertainties, including those highlighted in the section entitled Risk Factors immediately following this prospectus summary, that represent challenges that we face in connection with the successful implementation of our strategy and the growth of our business.

Corporate Information

We were incorporated in the State of Delaware in June 2012 in order to become the parent company of The Tile Shop, LLC, or The Tile Shop, following the consummation of a business combination, or the Business Combination, with JWC Acquisition Corp., or JWCAC, a blank check company incorporated in the State of Delaware in July 2010. On August 21, 2012, we consummated the Business Combination and, in connection therewith, became a successor issuer to JWCAC by operation of Rule 12g-3(a) promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act.

Our principal executive offices are located at 14000 Carlson Parkway, Plymouth, Minnesota, 55441, and our telephone number is (763) 852-2901. Our website address is *www.tileshop.com.* We had approximately 914 employees as of May 15, 2013. Information contained on our website is not a part of this prospectus and the inclusion of our website address in this prospectus is an inactive textual reference only.

TABLE OF CONTENTS

THE OFFERING

Common stock offered by the selling stockholders	4,250,000 shares
Common stock privately purchased in the Post-offering Nabron Stock Purchase(1)	1,840,000 shares
Shares outstanding after the offering and the Post-offering Nabron Stock Purchase(2)	51,294,239 shares
Underwriters option to purchase additional shares	The underwriters may purchase an additional 637,500 shares from certain selling stockholders if the underwriters sell more than the total number of shares set forth above.
Use of proceeds	The selling stockholders, including certain members of our board of directors and management, will receive all of the proceeds from this offering and we will not receive any proceeds from the sale of shares in this offering. See Use of Proceeds. For more information on the selling stockholders, see Principal and Selling Stockholders.
Risk factors	See Risk Factors beginning on page 10 of this prospectus and the other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our common stock.
NASDAQ Global Market symbol	TTS

(1) Assumes a public offering price less the underwriters discount of $25.00 per share.

(2) The number of shares of our common stock outstanding immediately after this offering and the Post-offering Nabron Stock Purchase is based on 53,134,239 shares outstanding as of May 15, 2013, and excludes:

2,950,000 shares of common stock reserved for issuance under our 2012 Omnibus Award Plan; and

2,070,000 shares of common stock issuable upon exercise of outstanding options to purchase shares of common stock granted pursuant to our 2012 Omnibus Award Plan at a weighted average exercise price of $11.50 per share.

Except as otherwise indicated, information in this prospectus reflects or assumes no exercise of the underwriters option to purchase up to 637,500 additional shares of our common stock from certain selling stockholders.

TABLE OF CONTENTS

SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The following table sets forth selected historical financial information derived from (i) our unaudited financial statements included elsewhere in this prospectus as of and for the three months ended March 31, 2013 and 2012, (ii) our audited financial statements included elsewhere in this prospectus as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011, and 2010 and (iii) our audited financial statements not included in this prospectus as of December 31, 2010, 2009 and 2008 and for the years ended December 31, 2009 and 2008. You should read the following selected financial data in conjunction with the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and the related notes appearing elsewhere in this prospectus.

	As of March 31, or for the three months ended March 31,		As of December 31, or for the year ended December 31,				
	2013	2012	2012	2011	2010	2009	2008
	(In thousands, except share data)						
Statement of Income Data							
Net sales	$56,835	$45,861	$182,650	$152,717	$135,340	$116,247	$118,960
Cost of sales	16,462	12,173	49,626	40,321	36,124	31,706	34,001
Gross profit	40,373	33,688	133,024	112,396	99,216	84,541	84,959
Selling, general and administrative expenses	28,354	22,064	94,716	78,368	68,105	60,051	61,322
Deferred compensation expense		1,160	3,897	1,415	450	120	260
Income from operations	12,019	10,464	34,411	32,613	30,661	24,370	23,377
Interest expense	594	90	1,252	443	467	545	592
Change in fair value of warrants	51,845		82,063				
Other income (expense)	(33)	7	15	(77)	124	73	675
(Loss) income before income taxes	(40,453)	10,381	(48,889)	32,093	30,318	23,898	23,460
Benefit (provision) for income taxes[1]	(4,264)	(248)	2,002	(733)	(609)	(675)	(724)
Net (loss) income	$(44,717)	$10,133	$(46,887)	$31,360	$29,709	$23,223	$22,736
(Loss) earnings per share	$(1.00)	$0.32	$(1.31)	$0.97	$0.92	$0.72	$0.70
Weighted average share outstanding	44,855	32,000	35,838	32,261	32,330	32,330	32,330
Balance Sheet Data							
Cash and cash equivalents	$15,763	$15,359	$2,987	$6,283	$14,117	$17,850	$3,631
Inventories	49,080	41,928	46,890	43,744	35,358	26,342	28,046
Total assets	202,441	131,169	176,074	119,005	108,890	95,632	80,225
Warrant liability	37,489		95,645				
Total debt and capital lease obligations, including current maturities	68,767	4,753	74,824	4,852	5,582	4,574	5,035
Total stockholders' equity (deficit)	36,659	79,061	(44,763)	75,147	69,437	62,000	49,586
Working capital	45,177	35,339	36,389	34,852	34,895	31,851	18,949
Cash Flow Data							

Net cash provided by operating activities	$18,260	$19,836	$47,222	$34,722	$32,461	$34,729	$25,156
Net cash used in investing activities	(11,143)	(6,468)	(29,064)	(18,561)	(14,376)	(8,267)	(9,435)
Net cash provided by (used in) financing activities	5,659	(4,293)	(21,454)	(23,995)	(21,818)	(12,243)	(12,728)
Other Selected Financial Data (unaudited)							
Adjusted EBITDA(2)	$16,362	$13,873	$50,634	$42,602	$38,472	$31,576	$30,818
Adjusted EBITDA margin(2)	28.8%	30.3%	27.7%	27.9%	28.4%	27.2%	25.9%
Gross margin(3)	71.0%	73.5%	72.8%	73.6%	73.3%	72.7%	71.4%

6

TABLE OF CONTENTS

	As of March 31, or for the three months ended March 31,		As of December 31, or for the year ended December 31,				
	2013	2012	2012	2011	2010	2009	2008
	(In thousands, except share data)						
Operating income margin[4]	21.1 %	22.8 %	18.8 %	21.4 %	22.7 %	21.0 %	19.7 %
Adjusted net income[5]	$6,835	$6,229	$19,904	$19,256	$18,191	$14,339	$14,076
Adjusted net earnings per share[5]	$0.13	$0.12	$0.39	$0.38	$0.36	$0.28	$0.28
Same stores sales growth[6]	10.4 %	9.9 %	7.1 %	6.4 %	11.4 %	(4.6)%	(3.4)%
Stores open at end of period	71	59	68	53	48	43	42

(1) Historical amounts do not include pro forma adjustments for income taxes as a result of our change in tax status, which was effective on August 21, 2012 upon consummation of the Business Combination.

(2) We calculate Adjusted EBITDA by taking net income calculated in accordance with accounting principles generally accepted in the United States, or GAAP, and adding interest expense, income taxes, depreciation and amortization, deferred compensation, and stock-based compensation. Adjusted EBITDA margin is equal to Adjusted EBITDA divided by net sales. We believe that these non-GAAP measures of financial results provide useful information to management and investors regarding certain financial and business trends relating to our financial condition and results of operations. Our management uses these non-GAAP measures to compare our performance to that of prior periods for trend analyses, for purposes of determining management incentive compensation, and for budgeting and planning purposes. These measures are used in financial reports prepared for management and our board of directors. We believe that the use of these non-GAAP financial measures provides an additional tool for investors to use in evaluating ongoing operating results and trends and in comparing our financial measures with other specialty retailers, many of which present similar non-GAAP financial measures to investors.

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

	(unaudited) As of March 31, or for the three months ended March 31,		Years Ended December 31,				
	2013	2012	2012	2011	2010	2009	2008
Net (loss) income	$(44,717)	$10,133	$(46,887)	$31,360	$29,709	$23,223	$22,736
Interest expense	594	90	1,252	443	467	545	592
Income taxes	4,264	248	(2,002)	733	609	675	724
Change in fair value of warrants[a]	51,845		82,063				
	3,044	2,242	10,530	8,651	7,237	7,013	6,506

Depreciation and amortization							
Deferred compensation expense		1,160	3,897	1,415	450	120	260
Warrant related fees	240						
Secondary offering fees			400				
Stock-based compensation	1,092		1,381				
Adjusted EBITDA	$16,362	$13,873	$50,634	$42,602	$38,472	$31,576	$30,818

7

TABLE OF CONTENTS

(a) As further described in Note 9 to the financial statements for the year ended December 31, 2012, the Company was required to account for the warrants as a liability. The warrant liability is determined by multiplying the number of outstanding warrants at any point in time by the fair value of the warrants as determined by the price of the warrants on the OTC market. The change in the fair value of the liability between periods was recorded as an expense in the financial statements. This non-cash, non-operating expense will not recur since all warrants have now been exercised.

(3) Gross margin is gross profit divided by net sales.

(4) Operating income margin is income from operations divided by net sales.

(5) The Company believes that the presentation of adjusted net income and adjusted net earnings per share as supplemental information provides the investor with useful information regarding the Company s short-term and long-term operating trends. Adjusted net income and adjusted earnings per common share are derived from GAAP results by excluding the non-operating, non-cash, non-recurring expense related to the change in the fair value of the liability associated with the outstanding warrants. The Company has excluded this expense on an as-adjusted basis for all years presented as the Company does not believe it is indicative of their core operating results or future performance. Subsequent to March 31, 2013, all outstanding warrants have been exercised. No further expense related to the change in the fair value of the warrants will be recorded after the quarter ended June 30, 2013, and in that quarter, the Company will reclassify the $37.5 million warrant liability existing as of March 31, 2013 into stockholders equity.

In thousands, except per share amounts	(unaudited) As of March 31, or for the three months ended March 31,		As of December 31, or for the year ended December 31,				
	2013	2012	2012	2011	2010	2009	2008
Reconciliation of net (loss) income to adjusted net income:							
Net (loss) income before income taxes	$(40,453)	$10,381	$(48,889)	$32,093	$30,318	$23,898	$23,460
Change in fair value of warrants	51,845		82,063				
Warrant related fees	240						
Adjusted net income before income taxes	11,632	$10,381	$33,174	$32,093	$30,318	$23,898	$23,460
Pro-forma income tax expense[(a)]	(4,653)	(4,152)	(13,270)	(12,837)	(12,127)	(9,559)	(9,384)
Adjusted net income	$6,979	$6,229	$19,904	$19,256	$18,191	$14,339	$14,076
Adjusted earnings per share	$0.14	$0.12	$0.39	$0.38	$0.36	$0.28	$0.28
Adjusted basic shares outstanding[(b)]	51,000	51,000	51,000	51,000	51,000	51,000	51,000

(a) Computation related to conversion to a C Corporation for income tax purposes.

(b) The Company has considered the following transactions in the determination of the number of adjusted common shares outstanding for purposes of computing adjusted net earnings per common share for all periods (i) the exercise or redemption of all outstanding warrants and the subsequent issuance of 10,304,380 shares of common stock in exchange for those warrants (ii) the Post-offering Nabron Stock Purchase. A reconciliation of the shares used in the calculation of adjusted net income per common share for all periods presented is as follows:

Shares issued in Business Combination	42,534,884
Shares issued in exchange for warrants	10,304,355
Post-offering Nabron Stock Purchase	(1,840,000)
Adjusted basic shares outstanding	**50,999,239**

8

TABLE OF CONTENTS

(6) 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 month of operation. Same store sales growth amounts include total charges to customers less any actual returns. We do not include estimated return provisions or sale allowances in the same store sales calculation, as return reserves are calculated on a consolidated level, and the analysis does not include website sales. 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.

TABLE OF CONTENTS

RISK FACTORS

An investment in our securities involves a high degree of risk. You should carefully consider the risks described below before making an investment decision. Our business, prospects, financial condition, or operating results could be harmed by any of these risks, as well as other risks not currently known to us or that we currently consider immaterial. The trading price of our securities could decline due to any of these risks, and, as a result, you may lose all or part of your investment.

Our business is dependent on general economic conditions in our markets.

Our revenues depend, in part, on discretionary spending by our customers. Pressure on discretionary income brought on by economic downturns and slow recoveries, including housing market declines, rising energy prices, and weak labor markets, may cause consumers to reduce the amount that they spend on discretionary items. If recovery from the current economic downturn continues to be slow or prolonged, our growth, prospects, results of operations, cash flows, and financial condition could be adversely impacted. General economic conditions and discretionary spending are beyond our control and are affected by, among other things:

- consumer confidence in the economy;
- unemployment trends;
- consumer debt levels;
- consumer credit availability;
- the housing market;
- gasoline and fuel prices;
- interest rates and inflation;
- price deflation, including due to low-cost imports;
- slower rates of growth in real disposable personal income;
- natural disasters;
- national security concerns;
- tax rates and tax policy; and
- other matters that influence consumer confidence and spending.

Increasing volatility in financial markets may cause some of the above factors to change with an even greater degree of frequency and magnitude than in the past.

Our ability to grow and remain profitable may be limited by direct or indirect competition in the retail tile industry, which is highly competitive.

The retail tile industry in the United States is highly competitive. Participants in the tile industry compete primarily based on product variety, customer service, store location, and price. There can be no assurance that we will be able to continue to compete favorably with our competitors in these areas. Our store competitors include large national home centers (such as Home Depot and Lowe s), regional and local specialty retailers of tile (such as Tile America, World of Tile, Century Tile, and Floor and Décor), factory direct stores (such as Dal-Tile and Florida Tile) and privately-owned, single-site stores. We also compete indirectly with companies that sell other types of floor coverings, including wood floors, carpet, and vinyl sheet. In the past, we have faced periods of heightened competition that materially affected our results of operations. Certain of our competitors have greater name recognition, longer operating histories, more varied product offerings, and substantially greater financial and other resources than us. Accordingly, we may face periods of intense competition in the future that could have a material adverse effect on our planned growth and future results of operations. In addition, the barriers to entry into the retail tile industry are relatively low. New or existing retailers could enter our markets and increase the competition that we face. In addition, manufacturers and vendors of tile and related products, including those whose products we currently sell, could enter the

TABLE OF CONTENTS

U.S. retail tile market and start directly competing with us. Competition in existing and new markets may also prevent or delay our ability to gain relative market share. Any of the developments described above could have a material adverse effect on our planned growth and future results of operations.

If we fail to successfully manage the challenges that our planned growth poses or encounter unexpected difficulties during our expansion, our revenues and profitability could be materially adversely affected.

One of our long term objectives is to increase revenues and profitability through market share leadership. Our ability to achieve market share leadership, however, is contingent upon our ability to open new stores and achieve operating results in new stores at the same level as our similarly situated current stores. There can be no assurance that we will be able to open stores in new markets at the rate required to achieve market leadership in such markets, identify and obtain favorable store sites, arrange favorable leases for stores, or obtain governmental and other third-party consents, permits, and licenses needed to open or operate stores in a timely manner, train and hire a sufficient number of qualified managers for new stores, attract a strong customer base and brand familiarity in new markets, or successfully compete with established retail tile stores in the new markets that we enter. Failure to open new stores in an effective and cost-efficient manner could place us at a competitive disadvantage as compared to retailers who are more adept than us at managing these challenges, which, in turn, could negatively affect our overall operating results.

Our same store sales fluctuate due to a variety of economic, operating, industry and environmental factors and may not be a fair indicator of our overall performance.

Our same store sales have experienced fluctuations, which can be expected to continue. Numerous factors affect our same store sales results, including among others, the timing of new and relocated store openings, the relative proportion of new and relocated stores to mature stores, cannibalization resulting from the opening of new stores in existing markets, changes in advertising and other operating costs, the timing and level of markdowns, changes in our product mix, weather conditions, retail trends, the retail sales environment, economic conditions, inflation, the impact of competition, and our ability to execute our business strategy efficiently. As a result, same store sales or operating results may fluctuate, and may cause the price of our securities to fluctuate significantly. Therefore, we believe that period-to-period comparisons of our same store sales may not be a fair indicator of our overall operating performance.

We intend to open additional stores in our existing markets, which may diminish sales by existing stores in those markets and strain our ability to find qualified personnel or divert our resources from our existing stores, negatively affecting our overall operating results.

Our expansion strategy includes plans to open additional stores in our existing markets as part of our plan to open no fewer than 17 new stores in 2013, five of which have already been opened. Because our stores typically draw customers from their local areas, additional stores may draw customers away from nearby existing stores and may cause same store sales performance at those existing stores to decline, which may adversely affect our overall operating results. In addition, our ability to open additional stores will be dependent on our ability to promote and/or recruit enough qualified field managers, store managers, assistant store managers, and sales associates. The time and effort required to train and supervise a large number of new managers and associates and integrate them into our culture may divert resources from our existing stores. If we are unable to profitably open additional stores in existing markets and limit the adverse impact of those new stores on existing stores, it may reduce our same store sales and overall operating results during the implementation of our expansion strategy.

Our expansion strategy will be dependent upon, and limited by, the availability of adequate capital.

Our expansion strategy will require additional capital for, among other purposes, opening new stores and entering new markets. Such capital expenditures will include researching real estate and consumer markets, lease, inventory, property and equipment costs, integration of new stores and markets into company wide systems and programs, and other costs associated with new stores and market entry expenses and growth. If cash generated internally is insufficient to fund capital requirements, we will require additional debt or equity financing. Adequate financing may not be available or, if available, may not be available on terms satisfactory to us. In addition, our credit facility may limit the amount of capital expenditures that we may make annually,

TABLE OF CONTENTS

depending on our leverage ratio. If we fail to obtain sufficient additional capital in the future or we are unable to make capital expenditures under our credit facility, we could be forced to curtail our expansion strategies by reducing or delaying capital expenditures relating to new stores and new market entry. As a result, there can be no assurance that we will be able to fund our current plans for the opening of new stores or entry into new markets.

We depend on a number of suppliers, and any failure by any of them to supply us with products may impair our inventory and adversely affect our ability to meet customer demands, which could result in a decrease in revenues and/or gross margin.

Our current suppliers may not continue to sell products to us on acceptable terms or at all, and we may not be able to establish relationships with new suppliers to ensure delivery of products in a timely manner or on terms acceptable to us. We do not have long-term contractual supply agreements with our suppliers which obligate them to supply us with products at specified quantities or prices. We may not be able to acquire desired merchandise in sufficient quantities on terms acceptable to us in the future. We are also dependent on suppliers for assuring the quality of merchandise supplied to us. Our inability to acquire suitable merchandise in the future or the loss of one or more of our suppliers and our failure to replace them may harm our relationship with our customers and our ability to attract new customers, resulting in a decrease in net sales.

We source the approximately 4,500 products that we stock and sell from over 115 domestic and international vendors. We source a large number of those products from foreign manufacturers, including approximately 52% of our products from a group of 10 suppliers located primarily in Asia. We generally take title to these products overseas and are responsible for arranging shipment to our distribution centers. Financial instability among key vendors, political instability, trade restrictions, tariffs, currency exchange rates, and transport capacity and costs are beyond our control and could negatively impact our business if they seriously disrupt the movement of products through our supply chain or increased the costs of our products.

If our suppliers do not use ethical business practices or comply with applicable laws and regulations, our reputation could be harmed due to negative publicity and we could be subject to legal risk.

We do not control the operations of our suppliers. Accordingly, we cannot guarantee that our suppliers will comply with applicable environmental and labor laws and regulations or operate in a legal, ethical, and responsible manner. Violation of environmental, labor or other laws by our suppliers or their failure to operate in a legal, ethical, or responsible manner, could reduce demand for our products if, as a result of such violation or failure, we attract negative publicity. Further, such conduct could expose us to legal risks as a result of the purchase of products from non-compliant suppliers.

If customers are unable to obtain third-party financing at satisfactory rates, sales of our products could be materially adversely affected.

Our business, financial condition, and results of operations have been, and may continue to be affected, by various economic factors. Deterioration in the current economic environment could lead to reduced consumer and business spending, including by our customers. It may also cause customers to shift their spending to products that we either do not sell or that generate lower profitably for us. Further, reduced access to credit may adversely affect the ability of consumers to purchase our products. This potential reduction in access to credit may adversely impact our ability to offer customers credit card financing through third party credit providers on terms similar to those offered currently, or at all. In addition, economic conditions, including decreases in access to credit, may result in financial difficulties leading to restructuring, bankruptcies, liquidations and other unfavorable events for our customers, which may adversely impact our industry, business, and results of operations.

Any failure by us to successfully anticipate consumer trends may lead to loss of consumer acceptance of our products, resulting in reduced revenues.

Our success depends on our ability to anticipate and respond to changing trends and consumer demands in a timely manner. If we fail to identify and respond to emerging trends, consumer acceptance of our merchandise and our image with current or potential customers may be harmed, which could reduce our

TABLE OF CONTENTS

revenues. Additionally, if we misjudge market trends, we may significantly overstock unpopular products and be forced to reduce the sales price of such products, which would have a negative impact on our gross profit and cash flow. Conversely, shortages of products that prove popular could also reduce our revenues.

We depend on a few key employees, and if we lose the services of certain of our executive officers, we may not be able to run our business effectively.

Our future success depends in part on our ability to attract and retain key executive, merchandising, marketing, and sales personnel. Our executive officers include Robert Rucker, president and Chief Executive Officer; Timothy Clayton, Chief Financial Officer; Carl Randazzo, senior vice president retail; and Joseph Kinder, senior vice president operations. We have employment and non-compete arrangements with each of Messrs. Rucker, Clayton, Randazzo, and Kinder. If any of these executive officers ceases to be employed by us, we would have to hire additional qualified personnel. Our ability to successfully hire other experienced and qualified executive officers cannot be assured, and may be difficult because we face competition for these professionals from our competitors, our suppliers and other companies operating in our industry. As a result, the loss or unavailability of any of our executive officers could have a material adverse effect on us.

We have entered into a $100 million credit facility. The burden of this additional debt could adversely affect us, make us more vulnerable to adverse economic or industry conditions, and prevent us from fulfilling our debt obligations or from funding our expansion strategy.

In connection with the Business Combination, we issued promissory notes in an aggregate principal amount of approximately $70 million. We have entered into a credit facility with Bank of America, N.A., as administrative agent and The Huntington National Bank, as syndication agent, for $100 million, including a term loan of $25 million and a revolving credit facility of $75 million, which we have used, in part, to repay the promissory notes issued in connection with the Business Combination. The terms of our credit facility and the burden of the indebtedness incurred thereunder could have serious consequences for us, such as:

- limiting our ability to obtain additional financing to fund our working capital, capital expenditures, debt service requirements, expansion strategy, or other needs;
- placing us at a competitive disadvantage compared to competitors with less debt;
- increasing our vulnerability to, and reducing our flexibility in planning for, adverse changes in economic, industry, and competitive conditions; and
- increasing our vulnerability to increases in interest rates if borrowings under the credit facility are subject to variable interest rates.

Our credit facility also contains negative covenants that limit our ability to engage in specified types of transactions. These covenants limit our ability to, among other things:

- incur indebtedness;
- create liens;
- engage in mergers or consolidations;
- sell assets (including pursuant to sale and leaseback transactions);
- pay dividends and distributions or repurchase our capital stock;
- make investments, acquisitions, loans, or advances;
- make capital expenditures;

repay, prepay, or redeem certain indebtedness;
engage in certain transactions with affiliates;
enter into agreements limiting subsidiary distributions;
enter into agreements limiting the ability to create liens;

13

We have entered into a $100 million credit facility. The burden of thisadditional debt could adversely affect us, make

TABLE OF CONTENTS

amend our organizational document in a way that has a material effect on the lenders or administrative agent under our credit facility; and

change our lines of business.

A breach of any of these covenants could result in an event of default under our credit facility. Upon the occurrence of an event of default, the lender could elect to declare all amounts outstanding under such facility to be immediately due and payable and terminate all commitments to extend further credit, or seek amendments to our debt agreements that would provide for terms more favorable to such lender and that we may have to accept under the circumstances. If we were unable to repay those amounts, the lender under our credit facility could proceed against the collateral granted to them to secure that indebtedness.

If we fail to hire, train, and retain qualified store managers, sales associates, and other employees, our enhanced customer service could be compromised and we could lose sales to our competitors.

A key element of our competitive strategy is to provide product expertise to our customers through our extensively trained, commissioned sales associates. If we are unable to attract and retain qualified personnel and managers as needed in the future, including qualified sales personnel, our level of customer service may decline, which may decrease our revenues and profitability.

If we are unable to renew or replace current store leases or if we are unable to enter into leases for additional stores on favorable terms, or if one or more of our current leases is terminated prior to expiration of its stated term and we cannot find suitable alternate locations, our growth and profitability could be negatively impacted.

We currently lease all of our store locations. Many of our current leases provide us with the unilateral option to renew for several additional rental periods at specific rental rates. Our ability to re-negotiate favorable terms on an expiring lease or to negotiate favorable terms for a suitable alternate location, and our ability to negotiate favorable lease terms for additional store locations, could depend on conditions in the real estate market, competition for desirable properties, our relationships with current and prospective landlords, or on other factors that are not within our control. Any or all of these factors and conditions could negatively impact our growth and profitability.

Compliance with laws or changes in existing or new laws and regulations or regulatory enforcement priorities could adversely affect our business.

We must comply with various laws and regulations at the local, regional, state, federal, and international levels. These laws and regulations change frequently and such changes can impose significant costs and other burdens of compliance on our business and vendors. Any changes in regulations, the imposition of additional regulations, or the enactment of any new legislation that affect employment/labor, trade, product safety, transportation/logistics, energy costs, health care, tax, or environmental issues, or compliance with the Foreign Corrupt Practices Act, could have an adverse impact on our financial condition and results of operations. Changes in enforcement priorities by governmental agencies charged with enforcing existing laws and regulations can increase our cost of doing business.

We may also be subject to audits by various taxing authorities. Changes in tax laws in any of the multiple jurisdictions in which we operate, or adverse outcomes from tax audits that we may be subject to in any of the jurisdictions in which we operate, could result in an unfavorable change in our effective tax rate, which could have an adverse effect on our business and results of operations.

As our stores are generally concentrated in the mid-Western, mid-Atlantic, and Northeast regions of the United States, we are subject to regional risks.

We have a high concentration of stores in the mid-Western, mid-Atlantic regions, and Northeast. If these markets individually or collectively suffer an economic downturn or other significant adverse event, there could be an adverse impact on same store sales, revenues, and profitability, and the ability to implement our planned expansion program. Any natural disaster or other serious disruption in these markets due to fire, tornado, hurricane, or any other calamity could damage inventory and could result in decreased revenues.

Our results may be adversely affected by fluctuations in material and energy costs.

Our results may be affected by the prices of the materials used in the manufacture of tile, setting and maintenance materials, and related accessories that we sell. These prices may fluctuate based on a number of factors beyond our control, including: oil prices, changes in supply and demand, general economic conditions, labor costs, competition, import duties, tariffs, currency exchange rates, and government regulation. In addition, energy costs have fluctuated dramatically in the past and may fluctuate in the future. These fluctuations may result in an increase in our transportation costs for distribution from the manufacturer to our distribution center and from our regional distribution centers to our retail stores, utility costs for our distribution and manufacturing centers and retail stores, and overall costs to purchase products from our vendors.

We may not be able to adjust the prices of our products, especially in the short-term, to recover these cost increases in materials and energy. A continual rise in material and energy costs could adversely affect consumer spending and demand for our products and increase our operating costs, both of which could have a material adverse effect on our financial condition and results of operations.

Our success is highly dependent on our ability to provide timely delivery to our customers, and any disruption in our delivery capabilities or our related planning and control processes may adversely affect our operating results.

Our success is due in part to our ability to deliver products quickly to our customers, which relies on successful planning and distribution infrastructure, including ordering, transportation and receipt processing, and the ability of suppliers to meet distribution requirements. Our ability to maintain this success depends on the continued identification and implementation of improvements to our planning processes, distribution infrastructure, and supply chain. We also need to ensure that our distribution infrastructure and supply chain keep pace with our anticipated growth and increased number of stores. The cost of these enhanced processes could be significant and any failure to maintain, grow, or improve them could adversely affect our operating results. Our business could also be adversely affected if there are delays in product shipments due to freight difficulties, strikes, or other difficulties at our suppliers principal transport providers, or otherwise.

Damage, destruction, or disruption of our distribution and manufacturing centers could significantly impact our operations and impede our ability to produce and distribute our products.

We rely on three regional distribution centers to supply products to all of our retail stores. In addition, we rely on our manufacturing centers, located at our distribution centers, to manufacture our setting and maintenance materials. If any of these facilities, or the inventory stored in these facilities, were damaged or destroyed by fire or other causes, our distribution or manufacturing processes would be disrupted, which could cause significant delays in delivery. This could negatively impact our ability to stock our stores and deliver products to our customers, and cause our revenues and operating results to deteriorate.

Our ability to control labor costs is limited, which may negatively affect our business.

As our stores are generally concentrated in the mid-Western, mid-Atlantic,and Northeast regions of the United State

Our ability to control labor costs is subject to numerous external factors, including prevailing wage rates, the impact of legislation or regulations governing healthcare benefits or labor relations, such as the Employee Free Choice Act, and health and other insurance costs. If our labor and/or benefit costs increase, we may not be able to hire or maintain qualified personnel to the extent necessary to execute our competitive strategy, which could adversely affect our results of operations.

Our business exposes us to personal injury and product liability claims, which could result in adverse publicity and harm to our brands and our results of operations.

We are from time to time subject to claims due to the injury of an individual in our stores or on our property. In addition, we may be subject to product liability claims for the products that we sell. Our purchase orders generally do not require the manufacturer to indemnify us against any product liability claims arising from products purchased by us. Any personal injury or product liability claim made against us, whether or not it has merit, could be time-consuming and costly to defend, resulting in adverse publicity or damage to our

15

TABLE OF CONTENTS

reputation, and have an adverse effect on our results of operations. In addition, any negative publicity involving our vendors, employees, and other parties who are not within our control could negatively impact us.

Our business operations could be disrupted if our information technology systems fail to perform adequately or we are unable to protect the integrity and security of our customers information.

We depend upon our information technology systems in the conduct of all aspects of our operations. If our information technology systems fail to perform as anticipated, we could experience difficulties in virtually any area of our operations, including but not limited to replenishing inventories or delivering products to store locations in response to consumer demands. It is also possible that our competitors could develop better online platforms than us, which could negatively impact our internet sales. Any of these or other systems-related problems could, in turn, adversely affect our revenues and profitability.

In addition, in the ordinary course of our business, we collect and store certain personal information from individuals, such as our customers and suppliers, and we process customer payment card and check information. We also store credit card information and other personal information about our customers and we are currently assessing our compliance laws associated with the collection, security, and handling of personal information and intend to make any required changes in our systems and policies in response to this assessment. Our failure to comply with such laws, a breach of our network security and systems, or other events that cause the loss or public disclosure of, or access by third parties to, our customers personal information could have serious negative consequences for our business, including possible fines, penalties and damages, an unwillingness of customers to provide us with their credit card or payment information, harm to our reputation and brand, loss of our ability to accept and process customer credit card orders, and time-consuming and expensive litigation.

Computer hackers may attempt to penetrate our computer systems and, if successful, misappropriate personal information, payment card or check information, or confidential business information. In addition, an employee, contractor, or other third party with whom we do business may attempt to circumvent our security measures in order to obtain such information. The techniques used to obtain unauthorized access or sabotage systems change frequently and may originate from less regulated or remote areas around the world. As a result, we may be unable to proactively address these techniques or to implement adequate preventative measures.

Many states have enacted laws requiring companies to notify individuals of data security breaches involving their personal data. These mandatory disclosures regarding a security breach often lead to widespread negative publicity, which may cause our customers to lose confidence in the effectiveness of our data security measures. Any security breach, whether successful or not, would harm our reputation and could cause the loss of customers.

We may not be able to timely and effectively implement controls and procedures required by Section 404 of the Sarbanes-Oxley Act of 2002 that are applicable to us.

We are subject to Section 404 of the Sarbanes-Oxley Act of 2002. The standards required for us as a public company under Section 404 of the Sarbanes-Oxley Act of 2002 are significantly more stringent than those required of us as a privately-held company. Management may not be able to effectively and timely implement controls and procedures that adequately respond to the increased regulatory compliance and reporting requirements that are applicable to us. If management is not able to implement the additional requirements of Section 404 in a timely manner or with adequate compliance, management may not be able to assess whether our internal controls over financial reporting are effective, which may subject us to adverse regulatory consequences and could harm investor confidence and the market price of our securities.

Our management has identified a material weakness in our internal controls over financial reporting that, if not properly remediated, could result in material misstatements in our financial statements.

Prior to the Business Combination, we were not required to comply with Section 404 of the Sarbanes-Oxley Act of 2002. As such, we did not make an assessment of the effectiveness of our internal controls over financial reporting nor did we engage our auditors to express, nor have our auditors expressed

TABLE OF CONTENTS

an opinion on the effectiveness of our internal controls over financial reporting. In connection with the audit of our consolidated financial statements for the year ended December 31, 2011, our auditors informed us that they had identified a material weakness in our internal controls over financial reporting related to deficiencies in the financial statement close process. Under the standards established by the Public Company Accounting Oversight Board, a material weakness is a deficiency, or combination of deficiencies, in internal controls over financial reporting, such that there is a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected and corrected on a timely basis. We were able to remediate our historical material weakness during 2012. The primary factors contributing to the material weakness in our financial statement close process were:

We lacked sufficient personnel with requisite competencies within our finance function for a company of our size and complexity.
We did not maintain financial close processes, procedures, and reporting systems that were adequately designed to support the accurate and timely reporting of our financial results.

During 2012, we hired a Chief Financial Officer who initiated an analysis of our internal accounting controls and procedures. This process has resulted in a number of changes to our processes and procedures that have served to strengthen our controls over financial reporting. We also remediated the historical material weakness identified by our auditors in connection with their audit of our consolidated financial statements for the year ended December 31, 2011 by designing and implementing a formalized financial reporting process that includes: conducting properly prepared, supported, and reviewed balance sheet reconciliations; conducting properly prepared, supported, and reviewed journal entries; following a properly completed and approved financial close checklist; and abiding by a financial reporting calendar. We have effectively remediated the material weakness as of December 31, 2012.

As disclosed in Item 9A of our Form 10-K for the fiscal year ended December 31, 2012, in connection with the preparation of our consolidated financial statements for the year ended December 31, 2012, management identified that previously-issued financial statements for the three and nine months ended September 30, 2012 contained a misstatement relating to our accounting for our outstanding common stock purchase warrants. As a result of the restatement, a material weakness was identified in our internal controls relating to our identification and analysis of the complex accounting, and financial reporting attributes associated with certain non-routine transactions such as our common stock purchase warrant agreements, including not utilizing qualified external experts to supplement internal resources. We plan to implement additional procedures to remediate this material weakness. These additional procedures will include developing common processes for identifying non-routine events and transactions that may require the involvement of subject matter experts; developing a common methodology for assessing the accounting, disclosure and reporting implications surrounding non-routine transactions; increasing our critical analysis of the guidance and recommendations provided by subject matter experts; and developing an appropriate concluding framework that enables management to consider all relevant input in arriving at a conclusion. As we continue to evaluate and work to improve our internal control processes, we may determine that additional measures are necessary to address the control deficiency or may modify the remediation plan described above. If not remediated, this material weakness could result in future material misstatements to our financial statements.

If another material weakness were to occur in the future, we may be unable to produce accurate and timely financial statements. Any failure to timely provide required financial information could materially and adversely impact our financial condition and the market value of our securities.

Concentration of ownership may have the effect of delaying or preventing a change in control.

Our directors, executive officers, and holders of more than 5% of our common stock, together with their affiliates, beneficially hold a majority of our outstanding shares of common stock. As a result, these stockholders, if acting together, have the ability to determine the outcome of corporate actions requiring stockholder approval. This concentration of ownership may have the effect of delaying or preventing a change in control and might adversely affect the market price of our securities.

TABLE OF CONTENTS

Future sales of our common stock may cause the market price of our securities to drop significantly, even if our business is doing well.

In connection with the Business Combination and the underwritten public offering of our common stock by certain of our stockholders in December 2012, our officers, directors and certain stockholders, who, immediately following the Business Combination, collectively held an aggregate of 34,305,233 shares of our common stock, agreed to refrain from selling such shares for periods of time that have now passed. As a result, our directors, officers and the selling stockholders in the December 2012 underwritten public offering may sell their shares at any time, subject to compliance with applicable securities laws. The presence of these additional securities trading in the public market may have an adverse effect on the market price of our common stock.

In addition, the former direct and indirect holders of equity interests in The Tile Shop and the JWCAC founders hold registration rights, subject to certain limitations, with respect to our common stock that they received in the Business Combination pursuant to a registration rights agreement. The holders of a majority in interest of our common stock held by the former direct and indirect holders of equity interests in The Tile Shop will be entitled to require us, on up to four occasions, to register under the Securities Act of 1933, as amended, or the Securities Act, the shares of common stock that they received in the Business Combination. The holders of a majority in interest of our common stock held by the JWCAC founders will be entitled to require us, on up to two occasions, to register under the Securities Act the shares of common stock that they received in the Business Combination, and any shares that were issued pursuant to the exercise of certain warrants. The presence of these additional securities trading in the public market may have an adverse effect on the market price of our common stock.

Although our common stock is currently listed on The NASDAQ Global Market, there can be no assurance that we will be able to comply with the continued listing standards.

The NASDAQ Global Market may delist our common stock from trading on its exchange for failure to meet the continued listing standards. If our common stock were delisted from The NASDAQ Global Market, we and our stockholders could face significant material adverse consequences including:

- a limited availability of market quotations for our common stock;
- a determination that our common stock is a penny stock would require brokers trading in our common stock to adhere to more stringent rules, possibly resulting in a reduced level of trading activity in the secondary trading market for our common stock;
- a limited amount of analyst coverage; and
- a decreased ability to issue additional securities or obtain additional financing in the future.

The market price of our securities may decline and/or be volatile.

Fluctuations in the price of our securities could contribute to the loss of all or part of your investment. Prior to the Business Combination, there had not been a public market for our securities or The Tile Shop s securities, and trading in JWCAC s securities had not been active. An active, liquid, and orderly market for our securities may not be sustained and the trading price of our securities could be volatile and subject to wide fluctuations in response to various factors, some of which are beyond our control. Any of the factors listed below could have a material adverse effect on your investment in our securities and our securities may trade at prices significantly below the price that you paid for them. In such circumstances, the trading price of our securities may not recover and may experience a further decline.

Factors affecting the trading price of our securities may include:

- actual or anticipated fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;
- changes in the market s expectations about our operating results;
- the effects of seasonality on our business cycle;
- success of competitive retailers;

18

- our operating results failing to meet the expectation of securities analysts or investors in a particular period;
- changes in financial estimates and recommendations by securities analysts concerning us, the housing market, the retail specialty tile market, or the retail market in general;
- operating and stock price performance of other companies that investors deem comparable to us;
- our ability to market new and enhanced products on a timely basis;
- changes in laws and regulations affecting our business;
- commencement of, or involvement in, litigation involving us;
- changes in our capital structure, such as future issuances of securities or the incurrence of additional debt;
- the volume of shares of our common stock available for public sale;
- any major change in our board of directors or management;
- sales of substantial amounts of common stock by our directors, executive officers, or significant stockholders or the perception that such sales could occur; and
- general economic and political conditions such as recessions, interest rates, fuel prices, international currency fluctuations, and acts of war or terrorism.

Broad market and industry factors may materially harm the market price of our securities irrespective of our operating performance. The NASDAQ Global Market and the stock market in general have experienced price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of the particular companies affected. The trading prices and valuations of these securities, and of our securities, may not be predictable. A loss of investor confidence in the market for retail securities or the securities of other companies that investors perceive to be similar to us could depress the price of our securities regardless of our business, prospects, financial conditions, or results of operations. A decline in the market price of our securities also could adversely affect our ability to issue additional securities and our ability to obtain additional financing in the future.

If securities or industry analysts do not publish or cease publishing research or reports about us, our business, or our market, or if they change their recommendations regarding our common stock adversely, the price and trading volume of our common stock could decline.

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts may publish about us, our business, our market, or our competitors. If any of the analysts who cover us change their recommendation regarding our common stock adversely, or provide more favorable relative recommendations about our competitors, the price of our common stock would likely decline. If any analyst who covers us were to cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our common stock price or trading volume to decline.

We are a holding company with no business operations of our own and depend on cash flow from The Tile Shop to meet our obligations.

We are a holding company with no business operations of our own or material assets other than the equity of our subsidiaries. All of our operations are conducted by our subsidiary, The Tile Shop. As a holding company, we will require dividends and other payments from our subsidiaries to meet cash requirements. The terms of any credit facility may restrict our subsidiaries from paying dividends and otherwise transferring cash or other assets to us. If there is an insolvency, liquidation, or other reorganization of any of our subsidiaries, our stockholders likely will have no right to proceed against their assets. Creditors of those subsidiaries will be entitled to payment in full from the sale or other disposal of the assets of those subsidiaries before us, as an equity holder, would be entitled to receive any distribution from that sale or disposal. If The Tile Shop is unable to pay dividends or make other payments to us when needed, we will be unable to satisfy our obligations.

We are a holding company with no business operations of our own anddepend on cash flow from The Tile Shop to

TABLE OF CONTENTS

Anti-takeover provisions contained in our certificate of incorporation and bylaws, as well as provisions of Delaware law, could impair a takeover attempt.

Our certificate of incorporation and bylaws contain provisions that could have the effect of delaying or preventing changes in control or changes in our management without the consent of our board of directors. These provisions include:

a classified board of directors with three-year staggered terms, which may delay the ability of stockholders to change the membership of a majority of our board of directors;
no cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of the board of directors or the resignation, death, or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
the ability of our board of directors to determine to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;
a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
the requirement that a special meeting of stockholders may be called only by the chairman of the board of directors, the Chief Executive Officer, or the board of directors, which may delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors;
limiting the liability of, and providing indemnification to, our directors and officers;
controlling the procedures for the conduct and scheduling of stockholder meetings;
providing the board of directors with the express power to postpone previously scheduled annual meetings of stockholders and to cancel previously scheduled special meetings of stockholders;
providing that directors may be removed prior to the expiration of their terms by stockholders only for cause; and
advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders meeting, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror s own slate of directors or otherwise attempting to obtain control of us.

These provisions, alone or together, could delay hostile takeovers and changes in control of us or changes in our management.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which prevents some stockholders holding more than 15% of our outstanding common stock from engaging in certain business combinations without approval of the holders of substantially all of our outstanding common stock. Any provision of our certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

TABLE OF CONTENTS

USE OF PROCEEDS

The selling stockholders, including certain members of our board of directors and management, will receive all of the proceeds from this offering, and we will not receive any proceeds from the sale of shares in this offering. See Principal and Selling Stockholders.

PRICE RANGE OF SECURITIES

Our common stock has been traded on The NASDAQ Global Market under the symbol TTS since the consummation of the Business Combination on August 21, 2012. Prior to that time, there was no public market for our common stock. The following table shows the high and low sale prices per share of our common stock as reported on The NASDAQ Global Market for the periods indicated:

	Common Stock	
	High	Low
Third Quarter 2012 (beginning August 21, 2012)	$ 16.99	$ 11.75
Fourth Quarter 2012	$ 17.56	$ 12.00
First Quarter 2013	$ 22.39	$ 16.41
Second Quarter 2013 (through May 31, 2013)	$ 27.21	$ 19.69

On May 31, 2013, the closing price of our common stock as reported on The NASDAQ Global Market was $25.96 per share. As of May 31, 2013 we had 33 holders of record of our common stock. This figure does not include the number of persons whose securities are held in nominee or street name accounts through brokers.

DIVIDENDS

We have never declared or paid, and do not anticipate declaring or paying, any cash dividends on our common stock in the foreseeable future. While our board of directors may consider whether or not to institute a dividend policy, it is our present intention to retain any earnings for use in our business operations.

TABLE OF CONTENTS

CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of March 31, 2013. This table should be read in conjunction with the information provided in Selected Consolidated Financial and Other Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes.

	(unaudited) As of March 31, 2013 (in thousands)
Cash and cash equivalents	$ 15,763
Long-term liabilities:	
Long-term debt, net of current portion	63,310
Deferred rent	20,414
Capital lease obligations, net of current portion	1,352
Warrant liability(1)	37,489
Total long-term liabilities	122,565
Stockholders equity:	
Common stock, par value $0.0001 per share; authorized: 100,000,000 shares; issued: 48,036,241 shares	5
Preferred stock, par value $0.0001 per share; authorized: 10,000,000 shares; issued 0 shares	
Additional paid-in-capital	135,572
Retained deficit	(98,918)
Total stockholders equity	36,659
Total capitalization	$ 159,224

(1) On April 12, 2013, the Company instructed its transfer agent to notify holders of all remaining outstanding warrants to purchase shares of the Company s common stock that the Company had satisfied the conditions necessary to exercise its right to call all warrants for redemption and that the Company was requiring any holders who exercise warrants before their redemption to exercise them on a cashless basis. Prior to the issuance of the notice to redeem the warrants, the Company had received instructions to exercise 7,514,320 warrants in exchange for payment of the warrant exercise price, which in the aggregate totaled $86.4 million. The Company also processed the exercise of 6,739,009 warrants on a cashless basis and repurchased 3,580,004 warrants. As a result, the Company issued an aggregate of 10,304,355 shares of common stock in exchange for the 17.8 million warrants that were originally outstanding. The Company utilized $30.1 million of the $86.4 million received from the warrant exercises to effect warrant repurchases and plans on retaining $10.3 million for general corporate purposes. The Company plans to utilize $46.0 million of the balance of the $86.4 million of cash received from warrant exercises to complete the repurchase of shares from Nabron International, Inc. following this offering. As of the date of this prospectus, no warrants remain outstanding and the entire warrant liability as of March 31, 2013 has been reclassified as additional paid in capital.

TABLE OF CONTENTS

SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The following table sets forth selected historical financial information derived from (i) our unaudited financial statements included elsewhere in this prospectus as of and for the three months ended March 31, 2013 and 2012, (ii) our audited financial statements included elsewhere in this prospectus as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011, and 2010 and (iii) our audited financial statements not included in this prospectus as of December 31, 2010, 2009 and 2008 and for the years ended December 31, 2009 and 2008. You should read the following selected financial data in conjunction with the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and the related notes appearing elsewhere in this prospectus.

	As of March 31, or for the three months ended March 31,		As of December 31, or for the year ended December 31,				
	2013	2012	2012	2011	2010	2009	2008
	(In thousands, except share data)						
Statement of Income Data							
Net sales	$56,835	$45,861	$182,650	$152,717	$135,340	$116,247	$118,960
Cost of sales	16,462	12,173	49,626	40,321	36,124	31,706	34,001
Gross profit	40,373	33,688	133,024	112,396	99,216	84,541	84,959
Selling, general and administrative expenses	28,354	22,064	94,716	78,368	68,105	60,051	61,322
Deferred compensation expense		1,160	3,897	1,415	450	120	260
Income from operations	12,019	10,464	34,411	32,613	30,661	24,370	23,377
Interest expense	594	90	1,252	443	467	545	592
Change in fair value of warrants	51,845		82,063				
Other income (expense)	(33)	7	15	(77)	124	73	675
(Loss) income before income taxes	(40,453)	10,381	(48,889)	32,093	30,318	23,898	23,460
Benefit (provision) for income taxes[1]	(4,264)	(248)	2,002	(733)	(609)	(675)	(724)
Net (loss) income	$(44,717)	$10,133	$(46,887)	$31,360	$29,709	$23,223	$22,736
(Loss) earnings per share	$(1.00)	$0.32	$(1.31)	$0.97	$0.92	$0.72	$0.70
Weighted average share outstanding	44,855	32,000	35,838	32,261	32,330	32,330	32,330
Balance Sheet Data							
Cash and cash equivalents	$15,763	$15,359	$2,987	$6,283	$14,117	$17,850	$3,631
Inventories	49,080	41,928	46,890	43,744	35,358	26,342	28,046
Total assets	202,441	131,169	176,074	119,005	108,890	95,632	80,225
Warrant liability	37,489		95,645				
Total debt and capital lease obligations, including current maturities	68,767	4,753	74,824	4,852	5,582	4,574	5,035
	36,659	79,061	(44,763)	75,147	69,437	62,000	49,586

Total stockholders' equity (deficit)							
Working capital	45,177	35,339	36,389	34,852	34,895	31,851	18,949
Cash Flow Data							
Net cash provided by operating activities	$18,260	$19,836	$47,222	$34,722	$32,461	$34,729	$25,156
Net cash used in investing activities	(11,143)	(6,468)	(29,064)	(18,561)	(14,376)	(8,267)	(9,435)
Net cash provided by (used in) financing activities	5,659	(4,293)	(21,454)	(23,995)	(21,818)	(12,243)	(12,728)
Other Selected Financial Data (unaudited)							
Adjusted EBITDA(2)	$16,362	$13,873	$50,634	$42,602	$38,472	$31,576	$30,818
Adjusted EBITDA margin(2)	28.8 %	30.3 %	27.7 %	27.9 %	28.4 %	27.2 %	25.9 %
Gross margin(3)	71.0 %	73.5 %	72.8 %	73.6 %	73.3 %	72.7 %	71.4 %
Operating income margin(4)	21.1 %	22.8 %	18.8 %	21.4 %	22.7 %	21.0 %	19.7%

23

TABLE OF CONTENTS

	As of March 31, or for the three months ended March 31,		As of December 31, or for the year ended December 31,				
	2013	2012	2012	2011	2010	2009	2008
	(In thousands, except share data)						
Adjusted net income(5)	$6,835	$6,229	$19,904	$19,256	$18,191	$14,339	$14,076
Adjusted net earnings per share(5)	$0.13	$0.12	$0.39	$0.38	$0.36	$0.28	$0.28
Same stores sales growth(6)	10.4 %	9.9 %	7.1 %	6.4 %	11.4 %	(4.6)%	(3.4)%
Stores open at end of period	71	59	68	53	48	43	42

(1) Historical amounts do not include pro forma adjustments for income taxes as a result of our change in tax status, which was effective on August 21, 2012 upon consummation of the Business Combination.

(2) We calculate Adjusted EBITDA by taking net income calculated in accordance with accounting principles generally accepted in the United States, or GAAP, and adding interest expense, income taxes, depreciation and amortization, deferred compensation, and stock-based compensation. Adjusted EBITDA margin is equal to Adjusted EBITDA divided by net sales. We believe that these non-GAAP measures of financial results provide useful information to management and investors regarding certain financial and business trends relating to our financial condition and results of operations. Our management uses these non-GAAP measures to compare our performance to that of prior periods for trend analyses, for purposes of determining management incentive compensation, and for budgeting and planning purposes. These measures are used in financial reports prepared for management and our board of directors. We believe that the use of these non-GAAP financial measures provides an additional tool for investors to use in evaluating ongoing operating results and trends and in comparing our financial measures with other specialty retailers, many of which present similar non-GAAP financial measures to investors.

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

	(unaudited) **As of March 31, or for the three months ended March 31,**		Years Ended December 31,				
	2013	2012	2012	2011	2010	2009	2008
Net (loss) income	$(44,717)	$10,133	$(46,887)	$31,360	$29,709	$23,223	$22,736
Interest expense	594	90	1,252	443	467	545	592
Income taxes	4,264	248	(2,002)	733	609	675	724
Change in warrant liability(a)	51,845		82,063				
Depreciation and amortization	3,044	2,242	10,530	8,651	7,237	7,013	6,506
Deferred compensation expense		1,160	3,897	1,415	450	120	260
Warrant related fees	240						

Secondary offering fees			400				
Stock-based compensation	1,092		1,381				
Adjusted EBITDA	$16,362	$13,873	$50,634	$42,602	$38,472	$31,576	$30,818

(a) As further described in Note 9 to the financial statements for the year ended December 31, 2012, the Company is required to account for the warrants as a liability. The warrant liability is determined by multiplying the number of outstanding warrants at any point in time by the fair value of the warrants as determined by the price of the warrants on the OTC market. The change in the fair value of the liability between periods is recorded as an expense in the financial statements. This non-cash, non-operating expense will not recur since all warrants have now been exercised.

24

TABLE OF CONTENTS

(3) Gross margin is gross profit divided by net sales.

(4) Operating income margin is income from operations divided by net sales.

(5) The Company believes that the presentation of adjusted net income and adjusted net earnings per share as supplemental information provides the investor with useful information regarding the Company s short-term and long-term operating trends. Adjusted net income and adjusted earnings per common share are derived from GAAP results by excluding the non-operating, non-cash, non-recurring expense related to the change in the fair value of the liability associated with the outstanding warrants. The Company has excluded this expense on an as-adjusted basis for all years presented as the Company does not believe it is indicative of their core operating results or future performance. Subsequent to March 31, 2013, all outstanding warrants have been exercised. No further expense related to the change in the fair value of the warrants will be recorded after the quarter ended June 30, 2013, and in that quarter, the Company will reclassify the existing $37.5 million warrant liability into stockholders equity.

In thousands, except per share amounts	(unaudited) As of March 31, or for the three months ended March 31,		As of December 31, or for the year ended December 31,				
	2013	2012	2012	2011	2010	2009	2008
Reconciliation of net (loss) income to adjusted net income:							
Net (loss) income before income taxes	$(40,453)	$10,381	$(48,889)	$32,093	$30,318	$23,898	$23,460
Change in fair value of warrants	51,845		82,063				
Warrant related fees	240						
Adjusted net income before income taxes	11,392	$10,381	$33,174	$32,093	$30,318	$23,898	$23,460
Pro-forma income tax expense[(a)]	(4,653)	(4,152)	(13,270)	(12,837)	(12,127)	(9,559)	(9,384)
Adjusted net income	$6,979	$6,229	$19,904	$19,256	$18,191	$14,339	$14,076
Adjusted earnings per share	$0.14	$0.12	$0.39	$0.38	$0.36	$0.28	$0.28
Adjusted basic shares outstanding[(b)]	51,000	51,000	51,000	51,000	51,000	51,000	51,000

(a) Computation related to conversion to a C Corporation for income tax purposes.

(b) The Company has considered the following transactions in the determination of the number of adjusted common shares outstanding for purposes of computing adjusted net earnings per common share for all periods (i) the exercise or redemption of all outstanding warrants and the subsequent issuance of 10,304,380 shares of common stock in exchange for those warrants (ii) the Post-offering Nabron Stock Purchase. A reconciliation of the shares used in the calculation of adjusted net income per common share for all periods presented is as follows:

Shares issued in Business Combination	42,534,884
Shares issued in exchange for warrants	10,304,355
Post-offering Nabron Stock Purchase	(1,840,000)
Adjusted basic shares outstanding	**50,999,239**

(6) 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 month of operation. Same store sales growth amounts include total charges to customers less any actual returns. We do not include estimated return provisions or sale allowances in the same store sales calculation, as return reserves are calculated on a consolidated level, and the analysis does

not include website sales. 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.

TABLE OF CONTENTS

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis together with Summary Consolidated Financial and Other Data and our consolidated financial statements and related notes included elsewhere in this prospectus. Among other things, those financial statements include more detailed information regarding the basis of presentation for the financial data than are included in the following discussion. This discussion contains forward-looking statements about our business, operations, and industry that involve risks and uncertainties, such as statements regarding our plans, objectives, expectations, and intentions. Our future results and financial condition may differ materially from those that we currently anticipate as a result of the factors described in the sections entitled Risk Factors and Information Concerning Forward-Looking Statements.

Business Combination Transaction

We were incorporated in the State of Delaware in June 2012 in order to become the parent company of The Tile Shop, LLC (The Tile Shop) following the consummation of a business combination (the Business Combination) with JWC Acquisition Corp. (JWCAC). On August 21, 2012, we consummated the Business Combination and, in connection therewith, became a successor issuer to JWCAC by operation of Rule 12g-3(a) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act).

Overview and Recent Developments

We are a specialty retailer of manufactured and natural stone tiles, setting and maintenance materials, and related accessories in the United States. We offer a wide selection of products, attractive prices, and exceptional customer service in an extensive showroom setting. We operate 73 stores in 24 states, with an average size of 23,000 square feet. We also sell our products on our website.

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

We believe that the highly-fragmented U.S. retail tile market provides us with a significant opportunity to expand our store base. We have opened five new stores in the U.S. in 2013 and plan to open an additional 12 stores during the remainder of 2013. The five new stores were in East Coast states which has expanded our geographic footprint. We believe that there will continue to be additional expansion opportunities in the United States and Canada.

For the three months ended March 31, 2013 and 2012, we reported net sales of $56.8 million and $45.9 million, respectively. In 2012, we reported net sales and income from operations of $182.7 million and $34.4 million, respectively. From December 31, 2008 to December 31, 2012, our net sales and income from operations increased at compounded annual growth rates of 11.3% and 10.1%, respectively. During that period, we opened 26 new retail locations and focused on cost control and implementing selected price increases in order to maintain our gross profit and income from operations. We plan to continue to focus on store growth and will add costs to support our growth and which are related to being a public company.

Net cash flows provided by operating activities were $18.3 million and $19.8 million for the three months ended March 31, 2013 and 2012, respectively, which were used to fund capital expenditures for opening new stores and daily operations. We expect to continue to fund our capital expenditures and daily operations from our operating cash flows and with borrowings pursuant to our credit facility. As of December 31, 2012, we had cash of $3.0 million and working capital of $36.4 million.

We plan to continue to invest in strong customer service by leveraging our highly-trained staff from our existing store base to train new store staff. In 2011, we began to deploy iPOS, a hand-held mobile device that provides our sales associates with real-time access to warehouse inventory, the ability to create a new customer order, process payments, edit orders, and look up a customer s contact information and order history while on the store floor. We completed the deployment of iPOS to all of our stores in 2012. We continue to

26

TABLE OF CONTENTS

invest in our marketing and brand management, website improvements, and growing use of social media. We also plan to maintain our marketing and brand management by periodically remodeling our in-store displays and developing content about our store and products for smart phones and tablets. In 2012, approximately 50% of our net sales were from repeat customers.

As a result of the Business Combination, we anticipate incurring general and administrative expenses of approximately $2.0 to $3.0 million annually that are attributable to operating as a publicly traded company, and to support our more rapid growth strategy. These public company expenses will include annual and quarterly reporting; Sarbanes-Oxley compliance expenses; expenses associated with listing on The NASDAQ Global Market; additional staff compensation; legal fees; independent auditor fees; investor relations expenses; registrar and transfer agent fees; director and officer liability insurance costs; and director compensation. In addition, we expect to incur approximately $4.0 million annually of non-cash, stock based compensation expense in 2013. The effect of these incremental general and administrative expenses is not reflected in The Tile Shop s historical consolidated financial statements.

We also expect to incur a non-cash charge related to the change in the fair value of the warrant liability for the first two quarters of 2013, based on the fluctuation in the value of the warrants. Subsequent to March 31, 2013, we issued an aggregate of 5,098,023 shares of our common stock, $0.0001 per share, upon the exercise of 7,351,947 warrants, and redeemed 7,071 warrants for $0.01 per warrant. As of the date of this prospectus, no warrants remain outstanding.

Key Components of our Consolidated Statements of Income

Net Sales

Net sales represent total charges to customers, net of estimated returns, and include freight charged to customers. The increase in net sales in recent years has been a result of store base growth, increases in same store sales, expansion of product lines, and a gradually improving national economy.

The table below sets forth information about our same store sales growth from March 31, 2012 to March 31, 2013 and from fiscal 2010 to fiscal 2012. Our increase in same store sales growth is primarily attributable to increases in volume. Same store sale amounts include total charges to customers less any actual returns. We do not include estimated return provisions or sales allowances in the same store sales calculation, as return reserves are calculated at the consolidated level. In general, we consider a store comparable on the first day of the 13th month of operation.

	Three Months Ended March 31,		Years Ended December 31,		
	2013	2012	2012	2011	2010
Same store sales growth	10.4 %	9.9 %	7.1 %	6.4 %	11.4 %

We opened 15, five and five new stores in 2012, 2011 and 2010, respectively, as well as three new stores in the three months ended March 31, 2013. Net sales at new stores are generally lowest in the first few months after a location is opened and generally increase over time. We expect a store s net sales will increase faster during its first three years of operation than in its later years. Store locations opened in existing markets tend to have higher net sales in the first year of operation than store locations opened in new markets, as a portion of such net sales come from more mature stores in those markets.

Cost of Sales

Cost of sales consists primarily of material costs, freight, duties, and storage and delivery of our products to the customer, as well as costs associated with manufacturing of maintenance and setting materials.

Gross Profit

Gross profit is net sales less cost of sales. Gross margin is the percentage determined by dividing gross profit by net sales. For the three months ended March 31, 2013 and 2012 our gross margin was 71.0% and 73.5%, respectively.

In 2012, 2011, and 2010 our gross margin was 72.8%, 73.6%, and 73.3%, respectively. We have been able to maintain relatively stable gross margins as a result of product cost control and retail price adjustments, in the past. However, increases in product costs, freight, and distribution costs, along with increased promotional activity may adversely impact our gross margins by 100 to 200 basis points over the next several years.

Selling, General, and Administrative Expenses

Payroll costs and occupancy expenses have historically been our most significant selling, general, and administrative expenses. Payroll costs exclude costs associated with manufacturing labor costs, as those costs are included in cost of sales. For the three months ended March 31, 2013 and 2012, our selling, general, and administrative expenses as a percentage of net sales was 49.9% and 48.1%, respectively. In 2012, 2011, and 2010, our selling, general, and administrative expenses as a percentage of net sales was 51.9%, 51.3%, and 50.3%, respectively. Our payroll costs have increased as a percentage of net sales over the last three years primarily due to increased store base growth and investments in support infrastructure. Our occupancy costs and advertising costs have increased as a percentage of net sales due to opening 15 new stores in the last year and three stores in the first quarter of 2013.

Since new store sales are lower in the first months after opening, we anticipate that our selling, general and administrative expenses as a percentage of net sales will increase as we add administrative and sales personnel and we continue making investments in our corporate infrastructure to support our growth. In addition, we expect to continue to incur incremental general and administrative expenses attributable to operating as a publicly traded company. These costs include those associated with SEC reporting, Sarbanes-Oxley compliance, and listing on The NASDAQ Global Market, as well as increased financial personnel, professional fees, insurance costs, and director compensation.

Income Taxes

We are subject to income tax in the United States as well as other tax jurisdictions in which we conduct business. Our effective tax rates for the three months ended March 31, 2013 and the fiscal year ended December 31, 2012 are not necessarily indicative of the effective tax rate that may be expected for fiscal year 2013 or future periods.

Adjusted EBITDA

We calculate Adjusted EBITDA by taking net income calculated in accordance with accounting principles generally accepted in the United States, or GAAP, and adding interest expense, non-cash warrant related expense, warrant related professional fees, income taxes, depreciation and amortization, deferred compensation, and stock-based compensation. Adjusted EBITDA margin is equal to Adjusted EBITDA divided by net sales. We believe that these non-GAAP measures of financial results provide useful information to management and investors regarding certain financial and business trends relating to our financial condition and results of operations. Our management uses these non-GAAP measures to compare our performance to that of prior periods for trend analyses, for purposes of determining management incentive compensation, and for budgeting and planning purposes. These measures are used in financial reports prepared for management and our board of directors. We believe that the use of these non-GAAP financial measures provides an additional tool for investors to use in evaluating ongoing operating results and trends and in comparing our financial measures with other specialty retailers, many of which present similar non-GAAP financial measures to investors.

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

TABLE OF CONTENTS

	(unaudited) Three Months Ended March 31,		Years Ended December 31,				
	2013	2012	2012	2011	2010	2009	2008
Net (loss) income	$(44,717)	$10,133	$(46,887)	$31,360	$29,709	$23,223	$22,736
Interest expense	594	90	1,252	443	467	545	592
Income taxes	4,264	248	(2,002)	733	609	675	724
Change in fair value of warrants	51,845		82,063				
Depreciation and amortization	3,044	2,242	10,530	8,651	7,237	7,013	6,506
Deferred compensation expense		1,160	3,897	1,415	450	120	260
Warrant related fees	240						
Secondary offering fees			400				
Stock-based compensation	1,092		1,381				
Adjusted EBITDA	$16,362	$13,873	$50,634	$42,602	$38,472	$31,576	$30,818

Comparison of the Three Months Ended March 31, 2013 to the Three Months Ended March 31, 2012

	(in thousands) (unaudited)			
	2013	% of sales	2012	% of sales
Net sales	$ 56,835		$ 45,861	
Cost of sales	16,462	29.0 %	12,173	26.5 %
Gross profit	40,373	71.0 %	33,688	73.5 %
Selling, general and administrative expenses	28,354	49.9 %	22,064	48.1 %
Deferred compensation expense		0.0 %	1,160	2.5 %
Income from operations	12,019	21.1 %	10,464	22.8 %
Interest expense	594	1.0 %	90	0.2 %
Change in fair value of warrants	51,845	91.2 %		0.0 %
Other (expense) income	(33)	(0.1)%	7	0.0 %
(Loss) income before income taxes	(40,453)	(71.2)%	10,381	22.6 %
Benefit (provision) for income taxes	(4,264)	(7.5)%	(248)	(0.5)%
Net (loss) income	$ (44,717)	(78.7)%	$ 10,133	22.1 %

Net Sales

Net sales increased by $11.0 million, or 23.9%, for the three months ended March 31, 2013 compared to the three months ended March 31, 2012. This increase is primarily due to net sales of $6.2 million from 12 new stores, and strong same store sales growth.

Gross Profit

Gross profit increased $6.7 million, or 19.8%, for the three months ended March 31, 2013 compared to the three months ended March 31, 2012, primarily due to the increase in net sales. Gross margin decreased from 73.5% for the three months ended March 31, 2012 to 71.0% for the three months ended March 31, 2013. The change was primarily driven by slightly higher product related costs, transportation expenses and increased promotional discounts.

Selling, General, and Administrative Expenses

Selling, general, and administrative expenses increased $6.3 million, or 28.5%, for the three months ended March 31, 2013 compared to the three months ended March 31, 2012. Selling, general, and administrative expenses as a percentage of net sales increased to 49.9% for the three months ended March 31, 2013 from 48.1% for the three months ended March 31, 2012. The increase in selling, general, and administrative expenses was primarily due to increased rent and occupancy costs of $1.7 million, and increased depreciation and amortization of $0.8 million, as a result of opening new stores. Selling, general and administrative expense also included an increase in stock compensation expense of $1.1 million and $0.5 million in professional fees relating to public company activities.

TABLE OF CONTENTS

Deferred Compensation Expense

Deferred compensation expenses decreased $1.2 million, or 100%, for the three months ended March 31, 2013 compared to the three months ended March 31, 2012. The decrease in deferred compensation expense was due to the termination of The Tile Shop s historical deferred compensation plan, or the 2006 Plan, and the related agreement to make a lump-sum cash payment to each former participant in the 2006 Plan, as well as accelerated vesting of certain membership interests in The Tile Shop in connection with the consummation of the Business Combination. We will not recognize any additional expense related to the foregoing.

Income from Operations and Operating Margin

As a result of the above, income from operations increased by $1.6 million, or 14.9%, for the three months ended March 31, 2013 compared to the three months ended March 31, 2012. Operating income margin decreased from 22.8% to 21.1% for the three months ended March 31, 2013 compared to the three months ended March 31, 2012. The decrease is due to the changes noted above in gross profit and selling, general and administrative expenses.

Interest Expense

Interest expense increased $0.5 million, or 557.5%, for the three months ended March 31, 2013 compared to the three months ended March 31, 2012. The increase is due to borrowings under our new credit facility.

Change in Fair Value of Warrant Liability

The increase in change in fair value of warrant liability of $51.8 million, relates to a non-cash charge for the change in the fair value of the outstanding warrants for the three months ended March 31, 2013. The warrants were assumed by us in connection with the Business Combination on August 21, 2012 and were quoted on the OTC market. During the three months ended March 31, 2013, the liability related to 13,559,865 warrants was reclassified from long term liabilities to equity.

Net (Loss) Income Before Income Taxes

Primarily as a result of the change in the fair value of the warrant liability described above, we recorded a net loss before income taxes of $44.7 million for the three months ended March 31, 2013 compared to $10.1 million of net income for the same period in the previous year. Excluding the change in fair value of warrants, which was $51.8 million for the three months ended March 31, 2013, net income before income taxes was $11.4 million, which represented an increase of $1.0 million, or 10% as compared to the same period in the previous year. We believe this non-GAAP measure is useful because it excludes a significant item that is considered to be non-operational and of a non-cash nature, and which will change from period to period due to the impact of market fluctuations. The non-GAAP measure thereby facilitates our evaluation of current operating performance and comparisons to past operating performance.

Income Tax Provision

Income tax provision increased $4.0 million for the three months ended March 31, 2013 compared to the three months ended March 31, 2012 as a result of our becoming a taxable entity rather than a pass-through entity, since the date of the Business Combination.

TABLE OF CONTENTS

Comparison of the Year Ended December 31, 2012 to the Year Ended December 31, 2011

	(in thousands) 2012	% of sales	2011	% of sales
Net sales	$ 182,650		$ 152,717	
Cost of sales	49,626	27.2 %	40,321	26.4 %
Gross profit	133,024	72.8 %	112,396	73.6 %
Selling, general and administrative expenses	94,716	51.9 %	78,368	51.3 %
Deferred compensation expense	3,897	2.1 %	1,415	0.9 %
Income from operations	34,411	18.8 %	32,613	21.4 %
Interest expense	1,252	0.7 %	443	0.3 %
Change in fair value of warrants	82,063	44.9 %		0.0 %
Other income (expense)	15	0.0 %	(77)	(0.1)%
Income (loss) before income taxes	(48,889)	(26.8)%	32,093	21.0 %
Benefit (provision) for income taxes	2,002	1.1 %	(733)	(0.5)%
Net (loss) income	$ (46,887)	(25.7)%	$ 31,360	20.5 %

Net Sales. From fiscal year 2011 to fiscal year 2012, our net sales increased by $29.9 million, or 19.6%, to $182.7 million. This increase is primarily due to net sales of $11.5 million from 15 new stores and strong same store sales growth.

Gross Profit. Gross profit increased $20.6 million, or 18.4% from fiscal year 2011 to fiscal year 2012 primarily due to the increase in net sales. Gross margin decreased from 73.6% in 2011 to 72.8% in 2012, or 0.1%. The change was primarily driven by slightly higher product related costs and transportation expenses.

Selling, General and Administrative Expenses. Selling, general, and administrative expenses increased by $16.3 million, or 20.9%, in fiscal year 2012 compared to fiscal year 2011. As a percentage of net sales, selling, general, and administrative expenses increased from 51.3% in 2011 to 51.9%, or by 0.6%. The increase in selling, general, and administrative expenses was primarily due to increased payroll, rent and occupancy costs, as well as depreciation and amortization. Payroll costs increased by $9.2 million, driven by growing store base and new employee additions on store and corporate levels, as well as increased employee compensation costs, including stock-based compensation expense of $1.4 million. Rent and occupancy expense increased by $3.5 million, or 22.9%, primarily as a result of new stores openings. Depreciation and amortization increased by $1.9 million from fiscal year 2011 to fiscal year 2012. Higher compliance, regulatory, and personnel costs associated with being a public company also had an impact on selling, general, and administrative expense.

Deferred Compensation Expense. Deferred compensation expense increased $2.5 million, or 175.4% in fiscal year 2012 compared to fiscal year 2011. The increase in deferred compensation expense was primarily due to the termination of The Tile Shop s historical equity incentive deferred compensation plan, or the Deferred Compensation Plan, and the related agreement to make a lump-sum cash payment to each former participant in our Deferred Compensation Plan, as well as accelerated vesting of certain membership interests in The Tile Shop in connection with the consummation of the Business Combination. We will not recognize any additional expense related to the foregoing.

Income From Operations and Operating Margin. As a result of the above, income from operations increased by $1.8 million, or 5.5%, from fiscal year 2011 to fiscal year 2012. Operating income margin decreased from 21.4% to

18.8%, or by 2.6%. Excluding the non-recurring deferred compensation costs in each period, income from operations would have been $38.3 million for the year ended December 31, 2012 and $34.0 million for the year ended December 31, 2011.

Interest Expense. Interest expense increased $0.8 million, or 183%, for the year ended December 31, 2012 compared to the year ended December 31, 2011. The increase is primarily due to interest incurred on the promissory notes issued in connection with the Business Combination, which have been repaid in full, and our new credit facility. In future periods, we expect interest expense to increase by approximately 50% of the expense for the year ended December 31, 2012, mostly from borrowings under our credit facility.

31

TABLE OF CONTENTS

Change in Fair Value of Warrant Liability. The increase in change in fair value of warrant liability of $82.1 million, relates to a non-cash charge for the change in the fair value of the outstanding warrants for the year ended December 31, 2012. The warrants were assumed by the Company in connection with the Business Combination on August 21, 2012 and were quoted on the OTC market. This non-cash expense is expected to increase with the trading price of the warrants until the warrants are exercised. Once the warrants are exercised, the liability will be reclassified to equity.

Income Tax (Provision) Benefit. Income tax benefit increased $2.7 million for the year ended December 31, 2012 compared to a provision of $0.7 million for the year ended December 31, 2011 as a result of becoming a taxable entity due to the Business Combination, and because of these developments, we recognized $5.9 million of net deferred tax assets, which was offset by a tax expense of $3.9 million for the period from August 21, 2012 through December 31, 2012.

Net Income (Loss). Primarily as a result of the change in the fair value of the warrant liability described above, we recorded a net loss of $46.9 million for the year ended December 31, 2012 compared to $31.4 million of net income in the previous year. Excluding the change in fair value of warrants, which was $82.1 million for the year ended December 31, 2012, net income was $35.2 million, which represented an increase of $3.8 million, or 12.2% as compared to the previous year. We believe this non-GAAP measure is useful because it excludes a significant item that is considered to be non-operational and of a non-cash nature, and which will change from period to period due to the impact of market fluctuations. The non-GAAP measure thereby facilitates our evaluation of current operating performance and comparisons to past operating performance.

Comparison of the Year Ended December 31, 2011 and the Year Ended December 31, 2010

	(in thousands)			
	2011	% of sales	2010	% of sales
Net sales	$ 152,717		$ 135,340	
Cost of sales	40,321	26.4 %	36,124	26.7 %
Gross profit	112,396	73.6 %	99,216	73.3 %
Selling, general and administrative expenses	78,368	51.3 %	68,105	50.3 %
Deferred compensation expense	1,415	0.9 %	450	0.3 %
Income from operations	32,613	21.4 %	30,661	22.7 %
Interest expense	443	0.3 %	467	0.3 %
Other income (expense)	(77)	(0.1)%	124	0.1 %
Income before income taxes	32,093	21.0 %	30,318	22.5 %
Benefit (provision) for income taxes	(733)	(0.5)%	(609)	(0.5)%
Net income	$ 31,360	20.5 %	$ 29,709	22.0 %

Net Sales. Net sales increased by $17.4 million, or 12.8%, from 2010 to 2011. This increase is primarily due to a net sales increase of $2.6 million from five new stores, an increase of $14.4 million from same store sales growth, and an increase of $0.4 million from online store sales. In 2011, we also expanded the number of products that we sell.

Gross Profit. Gross profit increased $13.2 million, or 13.3%, from 2010 to 2011, primarily due to the increase in net sales. Gross margin increased from 73.3% to 73.6% from 2010 to 2011.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses increased $11.2 million, or 16.4%, from 2010 to 2011. Selling, general, and administrative expenses as a percentage of net sales increased 1.5% from 2010 to 2011. The increase in selling, general, and administrative expenses was primarily due to increased payroll costs of $5.5 million and additional occupancy costs of $3.4 million, primarily as a result of opening new stores. Occupancy costs are higher for new stores compared to existing stores due to the gradually improving economy and opening new stores in more expensive real estate markets. In 2011, selling, general, and administrative expenses also includes a charge of $1.4 million related to our Deferred Compensation Plan.

TABLE OF CONTENTS

Income From Operations and Operating Margin. As a result of the above, income from operations increased by $2.0 million, or 6.4%, from 2010 to 2011. Operating income margin decreased from 22.7% to 21.4% from 2010 to 2011.

Net Income. As a result of the changes noted above, net income increased by $1.7 million, or 5.6%, from 2010 to 2011.

Liquidity and Capital Resources

Our principal liquidity requirements have been for working capital and capital expenditures. Our principal sources of liquidity are $15.8 million of cash and cash equivalents at March 31, 2013, our cash flow from operations, and borrowings available under our credit facility. We expect to use this liquidity for general corporate purposes, including opening new stores, purchasing additional merchandise inventory and maintaining our existing stores.

On October 3, 2012, we and our subsidiaries entered into a credit agreement with Bank of America, N.A. (the Credit Agreement). The credit agreement, as amended, provides us with a $100 million senior secured credit facility, comprised of a five-year $25 million term loan and a $75 million revolving line of credit. Borrowings pursuant to the credit agreement bear interest at either a base rate or a LIBOR-based rate, at our option. The LIBOR-based rate ranges from LIBOR plus 1.75% to 2.25%, depending on The Tile Shop s leverage ratio. The base rate will be 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, 2013 and December 31, 2012, the interest rate was 2.615%. At March 31, 2013, the outstanding balance on the term loan was $23.1 million and the outstanding balance on the revolving line of credit was $42.6 million. Borrowings under the term loan require quarterly principal payments of $0.875 million. The credit agreement contains customary events of default, conditions to borrowings, and restrictive covenants, including restrictions on our ability to dispose of assets, make acquisitions, incur additional debt, incur liens, make investments, or enter into certain types of related party transactions. The credit agreement also includes financial and other covenants including covenants to maintain certain fixed charge coverage ratios and rent adjusted leverage ratios. On April 30, 2013, we amended the credit agreement to exclude the impact of redemptions of warrants and capital stock, up to the amount of cash proceeds received from warrant exercises, from the calculation of certain financial covenants. We were in compliance with the covenants during the three months ended March 31, 2013, based on the amendment.

We believe that our cash flow from operations, together with our existing cash and cash equivalents, and borrowings available under our credit facility will be sufficient to fund our operations and anticipated capital expenditures over at least the next 12 months.

Capital expenditures in the quarter ended March 31, 2013 were $11.1 million. Approximately $7.4 million of this was for new store build-out and remodels of existing stores, $3.2 million was for expansion of our distribution and manufacturing facilities, and the remainder was for general corporate purposes.

Our future capital requirements will vary based on the number of additional stores, distribution centers, and manufacturing facilities that we open, the number of stores that we choose to renovate, and the number and size of any acquisition that we choose to make. Our decisions regarding opening, relocating, or renovating stores, and whether to engage in strategic acquisitions, will be based in part on macroeconomic factors and the general state of the U.S. economy, as well as the local economies in the markets in which our stores are located. As of the date of this prospectus, we intend to open no fewer than 12 additional stores at an expected aggregate cost of approximately $16.8 million in the remainder of 2013.

33

TABLE OF CONTENTS

As a result of our becoming a public company in connection with the Business Combination, and in consideration of our growth strategy, we anticipate incurring general and administrative expenses of approximately $2.0 to $3.0 million annually. These expenses will include annual and quarterly SEC reporting; Sarbanes-Oxley compliance expenses; expenses associated with listing on The NASDAQ Global Market; additional staff compensation; legal fees; independent auditor fees; investor relations expenses; registrar and transfer agent fees; director and officer liability insurance costs; director compensation, and additional staff costs in the areas of purchasing, distribution, sales management, information technology, human resources, and accounting to support our growth initiatives.

Cash Flows

The following table summarizes our cash flow data for the three months ended March 31, 2013 and 2012 and for the years ended December 31, 2012, 2011, and 2010.

	(unaudited) Three months ended March 31,		(in thousands) Years ended December 31,		
	2013	2012	2012	2011	2010
Net cash provided by operating activities	$18,260	$19,836	$47,222	$34,722	$32,461
Net cash used in investing activities	(11,143)	(6,468)	(29,064)	(18,561)	(14,376)
Net cash provided by (used in) financing activities	5,659	(4,293)	(21,454)	(23,995)	(21,818)

Operating Activities

Cash flows from operating activities are significantly influenced by net income, depreciation and amortization of property, plant and equipment, amortization of deferred rent, changes in warrant liability, and changes in working capital.

During the three months ended March 31, 2013 and 2012, the Company had a net loss of $44.7 million driven primarily by our non-cash charge of $51.8 million for the change in the fair value of warrants, and net income of $10.1 million, respectively. Cash provided by operations during the three months ended March 31, 2013 was $18.3 million, compared to $19.8 million during the three months ended March 31, 2012. A significant addition in inventory and a reduction in prepaid expenses contributed to the decrease in cash from operations.

In 2012, cash provided by operating activities was $47.2 million, driven primarily by our net loss of $46.9 million, which was reduced by non-cash charges of $98.3 million, including $82.1 million of change in fair value of warrants, $10.5 million of depreciation and amortization, $1.4 million of stock-based compensation, $3.0 million of deferred rent, and $3.9 million of deferred compensation costs, offset by a non-cash income tax benefit of $2.6 million. In addition, these cash inflows were decreased by an increase in working capital of $4.2 million, which included a $0.3 million increase in trade receivables, a $0.3 million increase in inventories, a $4.6 million increase in prepaid expenses, prepaid inventory and other current assets, a $1.1 million increase in accounts payable, and a $3.4 million decrease in accrued expenses and other liabilities, and a $2.5 million increase in income tax receivable.

In 2011, cash provided by operating activities was $34.7 million, driven primarily by our net income of $31.4 million, which was reduced by non-cash charges of $12.8 million, including $8.7 million of depreciation and amortization, $2.5 million of deferred rent, $1.4 million of deferred compensation expense, and a $0.2 million loss on disposal of property, plant, and equipment. These cash inflows were offset by an increase in working capital of $9.4 million, which included a $0.2 million decrease in trade receivables, an $8.4 million increase in inventories, a $0.4 million increase in prepaid expenses and other current assets, a $1.8 million decrease in accounts payable, and a $1.0 million increase in accrued expenses and other liabilities.

In 2010, cash provided by operating activities was $32.5 million, driven primarily by our net income of $29.7 million, which was reduced by non-cash charges of $9.3 million, including $7.2 million of depreciation and amortization, $1.5 million of deferred rent, $0.1 million of accretion of special cash distribution units, $0.1 million loss on disposal of property, plant, and equipment, and $0.5 million of stock-based compensation.

TABLE OF CONTENTS

These cash inflows were offset by an increase in net working capital of $6.6 million, which included a $0.2 million increase in trade receivables, a $9.0 million increase in inventories, a $1.1 million increase in prepaid expenses and other current assets, a $3.4 million increase in accounts payable, and a $0.3 million increase in accrued expenses and other liabilities.

Investing Activities

Net cash used in investing activities totaled $11.1 million for the three months ended March 31, 2013, compared to $6.5 million for the three months ended March 31, 2012. All investing activities were for leasehold improvements and the purchase of property and equipment for new stores, our new distribution and manufacturing plant, improvements to existing stores, and corporate expenditures including software and hardware purchases.

Net cash used in investing activities was $29.1 million, $18.6 million, and $14.4 million in 2012, 2011, and 2010, respectively. Net cash used in investing activities in each period included purchases of store fixtures, equipment and leasehold improvements for stores opened or remodeled, purchase of a new distribution center and improvements of existing distribution centers, and routine capital purchases of computer hardware and software.

Financing Activities

Net cash provided by financing activities was $5.7 million for the three months ended March 31, 2013, compared to a use of cash in financing activities of $4.3 million for the three months ended March 31, 2012. Cash used during the three months ended March 31, 2013 consisted of payments on long term debt and capital lease obligations of $6 million. Principal payments on long-term debt and capital lease obligations over the next 12 months are expected to total approximately $4.1 million. At March 31, 2013, the Company was in compliance with its debt covenants. The Company intends to pay the principal payments via cash from operations. During the quarter ended March 31, 2013, the Company received $41.8 million in cash proceeds from the exercise of warrants, and utilized $30.1 million of that cash to repurchase warrants. Also, subsequent to March 31, 2013, the Company received notice to exercise 3.2 million warrants, and received $37.2 million in cash. To date, we have received a total of $86.4 million of cash to convert the warrants into shares.

Cash and cash equivalents totaled $15.8 million at March 31, 2013, versus $3.0 million at December 31, 2012. The Company has working capital of $45.2 million at March 31, 2013, compared to working capital of $36 million at December 31, 2012. Current liabilities include deferred compensation of $6.2 million that the Company intends to pay in third quarter of 2013.

Net cash used in financing activities was $21.5 million, $23.9 million, and $21.8 million in 2012, 2011, and 2010, respectively. These cash uses were primarily due to distributions to members of The Tile Shop and principal payments on long-term debt.

On May 24, 2013, we entered into the Stock Purchase Agreement with Nabron for the Post-offering Nabron Stock Purchase, whereby we agreed to repurchase a number of shares of our common stock having an aggregate value of $46.0 million at a price per share equal to the public offering price less the underwriters discount. The closing of the Post-offering Nabron Stock Purchase is conditioned upon the completion of this offering. The closing of this offering is not conditioned upon the completion of the Post-offering Nabron Stock Purchase. We expect to fund the purchase price for the Post-offering Nabron Stock Purchase with the proceeds from the warrant exercise as described above.

Off-balance Sheet Arrangements

There were no significant changes to our contractual obligations since December 31, 2012.

As of March 31, 2013 and December 31, 2012, we did not have any off-balance sheet arrangements (as such term is defined in Item 303 of Regulation S-K) that could have a current or future effect on our financial condition, changes in financial condition, net sales or expenses, results of operations, liquidity, capital expenditures or capital resources.

TABLE OF CONTENTS

Contractual Obligations

The following table summarizes certain of our contractual obligations at December 31, 2012 and the effect such obligations are expected to have on our liquidity and cash flows in future periods:

	Payment Due by Period				
	Total	Less than 1 Year	1 3 Years	4 5 Years	5+ Years
	(in thousands)				
Long-term debt including principal and interest(1)	$81,152	$5,698	$10,585	$64,157	$712
Operating lease obligations(2)	265,755	14,950	30,504	30,562	189,740
Capital lease obligations(3)	2,742	472	890	428	952
Total contractual obligations(4)	$349,649	$21,120	$41,979	$95,146	$191,404

(1) Includes total interest of $7.9 million, comprised of $1.8 million of interest for the period of less than 1 year, $3.4 million of interest for the period of 1 3 years, $2.7 million of interest for the period of 4 5 years, and $6,000 of interest for the period of 5+ years.

(2) Includes the base or current renewal period for our operating leases, which contain varying renewal provisions.

(3) Includes total interest of $1.0 million, comprised of $238,000 of interest for the period of less than 1 year, $360,000 of interest for the period of 1 3 years, $235,000 of interest for the period of 4 5 years, and $255,000 of interest for the period of 5+ years.

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with GAAP. The preparation of our financial statements and related disclosures requires us to make estimates, assumptions, and judgments that affect the reported amount of assets, liabilities, revenues, costs and expenses, and related disclosures. We base our estimates and assumptions on historical experience and other factors that we believe to be reasonable under the circumstances, but all such estimates and assumptions are inherently uncertain and unpredictable. We evaluate our estimates and assumptions on an ongoing basis. Actual results may differ from those estimates and assumptions, and it is possible that other professionals, applying their own judgment to the same facts and circumstances, could develop and support alternative estimates and assumptions that would result in material changes to our operating results and financial condition. Our most critical accounting policies are summarized below. For further information on our critical and other significant accounting policies, see the notes to the consolidated financial statements appearing elsewhere in this prospectus.

Recognition of Revenue

We recognize sales at the time that the customer takes possession of the merchandise. We recognize service revenue, which consists primarily of freight charges for home delivery, when the service has been rendered. We are required to charge and collect sales and other taxes on sales to our customers and remit these taxes back to government authorities. Sales and other taxes are recorded net in the consolidated balance sheets but excluded from the consolidated statements of income. Net sales are reduced by an allowance for anticipated sales returns that we estimate based on historical sales trends and experience. Any reasonably likely changes that may occur in the assumptions underlying our allowance estimates would not be expected to have a material impact on our financial condition or operating performance.

Our revenue recognition accounting methodology contains uncertainties because it requires management to make assumptions and to apply judgment to estimate future sales returns and exchanges and the associated costs. The customer may receive a refund or exchange the original product for a replacement of equal or similar quality for an indefinite period of time after the original purchase. Products received back under this policy are reconditioned pursuant to state laws and resold.

Stock-based Compensation

We have granted equity-linked incentives to certain of our employees. We account for equity-linked incentives in accordance with ASC 718 *Stock Compensation*. ASC 718 addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for equity

TABLE OF CONTENTS

instruments of the enterprise or liabilities that are based on the fair value of the enterprise s equity instruments or that may be settled by the issuance of such equity instruments.

We have granted cash-settled and equity-settled awards. Prior to the consummation of the Business Combination, the cash-settled awards were classified as liabilities as required under ASC 718. At each reporting date, the liability was measured at intrinsic value with resulting changes recognized in our consolidated statements of income.

As of the consummation of Business Combination, we have only equity-settled awards. We measure compensation cost for equity-settled awards at fair value on the date of grant and recognize compensation cost in our consolidated statements of income over the service or performance period through which the award is expected to vest. We determine compensation cost by using option pricing models.

Property, Plant, and Equipment

Property, plant and equipment is carried at cost less accumulated depreciation, which is amortized over the useful life of the assets. Leasehold improvements are amortized over the shorter of their estimated useful lives or lease period (including expected renewal periods). Property, plant, and equipment are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Our investment in store leasehold improvements, including fixtures and equipment, is the most significant component of property, plant, and equipment.

When evaluating property, plant, and equipment for potential impairment, if certain impairment indicators exist, we first compare the carrying value of the asset s undiscounted estimated future cash flows. If the estimated future cash flows are less than the carrying value of the asset, we calculate an impairment loss. The impairment loss calculation compares the carrying value of the asset to the asset s estimated fair value, which is based on estimated future discounted cash flows. We recognize impairment if the amount of the asset s carrying value exceeds the asset s estimated fair value. Based upon the impairment review, there were no impairment losses to report in the financial statements.

We have not made any material changes in the policy that we use to assess impairment losses.

We have not incurred any material impairment losses in the past and do not believe that a reasonable likelihood exists that there will be a material change in the estimates or assumptions used to calculate property, plant, and equipment asset impairment losses. However, if actual results are not consistent with our estimates and assumptions used in estimating future cash flows and asset fair values, we may be exposed to losses that could be material.

Income Taxes

As a result of the Business Combination, beginning August 21, 2012, the Company s results of operations are taxed as a C Corporation. Prior to the Business Combination, The Tile Shop s operations were taxed as a limited liability company, whereby The Tile Shop elected to be taxed as a partnership and the income or loss was required to be reported by each respective member on their separate income tax returns. Therefore, no provision for federal income taxes has been provided in the accompanying consolidated financial statements for periods prior to August 21, 2012. The provision recorded prior to August 21, 2012, represents income taxes primarily payable by the LLC, due to minimum fees in several states and income tax in the state of Michigan.

Since August 21, 2012 and prospectively, the Company will recognize deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax liabilities and assets are determined based on the difference between the financial statement basis and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company estimates the degree to which tax assets and credit carryforwards will result in a benefit based on expected profitability by tax jurisdiction. A valuation allowance for such tax assets and loss carryforwards is provided when it is determined to be more likely than not that the benefit of such deferred tax asset will not be realized in future periods. If it becomes more likely than not that a tax asset will be used, the related valuation allowance on such assets would be reduced.

TABLE OF CONTENTS

New Accounting Pronouncements

There have been no new accounting pronouncements that we would expect to have a significant impact on our results of operations, financial condition or liquidity.

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks in the ordinary course of our business. These risks include primarily inflation, interest rate risk, and credit concentration risk.

Inflation

Inflationary factors such as increases in the cost of our products and overhead costs may adversely affect our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross margin and selling, general, and administrative expenses as a percentage of revenues if the selling prices of our products do not increase with these increased costs.

Interest Rate Risk

We are exposed to interest rate risk through the investment of our cash and cash equivalents and in connection with borrowings under our $100 million credit facility. Borrowings under our revolving credit facility bear interest at either a base rate or a LIBOR-based rate, at our option. The LIBOR-based rate ranges from LIBOR plus 1.75% to 2.25%, depending on The Tile Shop s leverage ratio. The base rate will be 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. The base rate was 2.615% at March 31, 2013. We invest in short-term investments with maturities of three months or less. Changes in interest rates affect the interest income that we earn in connection with these investments, and therefore impact our cash flows and results of operations.

Based upon balances and interest rates as of March 31, 2013, holding other variables constant, a one percentage point increase in interest rates for the next 12-month period would decrease pre-tax earnings and cash flow by approximately $0.6 million. Conversely, a one percentage point decrease in interest rates for the next 12-month period would result in an increase to pre-tax earnings and cash flow of approximately $0.6 million.

We currently do not engage in any significant interest rate hedging activity. However, we may do so in the future to mitigate market risk rate. We do not, and do not intend to, engage in the practice of trading derivative securities for profit.

Credit Concentration Risk

Financial instruments, which may subject us to concentration of credit risk, consist principally of cash deposits. We maintain cash balances at financial institutions with strong credit ratings. However, the amounts invested with financial institutions are generally in excess of FDIC insurance limits.

TABLE OF CONTENTS

Selected Quarterly Financial Data

The following tables set forth selected unaudited quarterly statements of operations data for the last nine fiscal quarters. The unaudited interim financial statements for each of these quarters have been prepared on the same basis as the audited financial statements included elsewhere in this prospectus and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to a fair statement of our results of operations and financial position for these periods. This data should be read in conjunction with the audited financial statements and accompanying notes included elsewhere in this prospectus. These quarterly operating results are not necessarily indicative of our operating results for any future period.