TILE SHOP HOLDINGS, INC.
Form 424B3
March 20, 2013

FORM 424B3

FILED PURSUANT TO RULE 424(B)(3)

File No. 333-182482

TILE SHOP HOLDINGS, INC.

SUPPLEMENT NO. 4 TO

PROSPECTUS DATED NOVEMBER 16, 2012

THE DATE OF THIS SUPPLEMENT IS MARCH 20, 2013

This prospectus supplement (this "Supplement No. 4") is part of the prospectus of Tile Shop Holdings, Inc. (the "Company"), dated November 16, 2012 (the "Prospectus"), as supplemented by Supplement No. 1, dated December 10, 2012 ("Supplement No. 1"), Supplement No. 2, dated December 13, 2012 ("Supplement No. 2"), and Supplement No. 3 ("Supplement No. 3"), dated February 21, 2013. This Supplement No. 4 supplements, modifies or supersedes certain information contained in the Prospectus, Supplement No. 1, Supplement No. 2 and Supplement No. 3. Any statement in the Prospectus, Supplement No. 1, Supplement No. 2 or Supplement No. 3 that is modified or superseded is not deemed to constitute a part of the Prospectus, Supplement No. 1, Supplement No. 2 or Supplement No. 3, except as modified or superseded by this Supplement No. 4. Except to the extent that the information in this Supplement No. 4 modifies or supersedes the information contained in the Prospectus, as previously supplemented, this Supplement No. 4 should be read, and will be delivered, with the Prospectus, Supplement No. 1, Supplement No. 2 and Supplement No. 3.

The purpose of this Supplement No. 4 is to update and supplement the information in the Prospectus, as previously supplemented, with the information contained in the Company's Quarterly Report on Form 10-Q/A for the quarter ended September 30, 2012, as filed with the Securities and Exchange Commission on March 18, 2013, and which is attached hereto.

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission File Number: 001-35629

TILE SHOP HOLDINGS, INC.

(Exact Name Of Registrant As Specified In Its Charter)

Delaware	**45-5538095**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**

14000 Carlson Parkway, Plymouth Minnesota 55441

(Address of principal executive offices)(Zip Code)

(763) 852-2901

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

As of November 7, 2012, there were 42,981,985 shares of the registrant's common stock, par value $0.0001 per share, outstanding.

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Explanatory Note

This Amendment No. 1 (“Amendment”) to our Quarterly Report on Form 10-Q for the period ended September 30, 2012, as filed with the Securities and Exchange Commission (“SEC”) on November 9, 2012 (the “Form 10-Q”), is being filed to reflect a restatement to our unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2012. As disclosed on our Form 8-K filed with the SEC on February 20, 2013, the restatement relates to the classification of the Company’s outstanding common stock purchase warrants (the “warrants”) as derivative liabilities and the recognition of a non-cash charge related to the change in the fair value of the warrants from August 21, 2012 to September 30, 2012, pursuant to Accounting Standards Codification (“ASC”) Subtopic 815-40, *Contracts in Entity’s Own Equity*.

We have also amended and restated in its entirety Management’s Discussion and Analysis of Financial Condition and Results of Operations, solely to reflect the effect of the restatement.

In addition, pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, the certifications required by Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002, filed and furnished, respectively, as exhibits to the Form 10-Q, have been re-executed as of the date of this Amendment and are filed and furnished, respectively, as exhibits hereto, as set forth in Item 6 of this Amendment.

No other changes have been made to the Form 10-Q other than as described above; accordingly, only those items affected by the restatement have been filed herein. This Amendment does not reflect subsequent events occurring after the original filing date of the Form 10-Q.

TILE SHOP HOLDINGS, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Tile Shop Holdings, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets
as of September 30, 2012, and December 31, 2011

(unaudited)

	September 30, 2012 Restated	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$5,960,648	$6,283,477
Restricted cash	1,000,000	-
Trade receivables, net	1,096,958	738,814
Inventories	40,662,276	43,743,872
Prepaid expenses	7,450,564	3,838,402
Note receivable from member	-	1,205,134
Deferred tax asset - current	5,216,960	-
Other current assets	428,766	381,631
Total current assets	61,816,172	56,191,331
Property, plant and equipment, net	71,302,603	62,065,287
Note receivable from member	-	-
Deferred tax asset	27,906,640	-
Other assets	804,466	748,876
TOTAL ASSETS	161,829,881	$119,005,493
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$15,639,145	$10,317,497
Current portion of long term debt	360,000	559,286
Accrued wages and salaries	2,541,262	2,617,219
Other accrued liabilities	4,350,768	3,399,474
Current portion of capital lease obligation	225,399	194,200
Current portion of promissory note including accrued interest	3,805,846	-
Deferred compensation	6,014,470	-
Distributions payable to members	-	4,251,346

Total current liabilities	32,936,890	21,339,022
Long-term debt	1,085,000	2,445,000
Capital lease obligation	1,479,460	1,654,448
Deferred rent	17,751,439	15,583,409
Promissory note	66,271,111	-
Warrant liability	56,690,230	
Deferred compensation and other liabilities	-	2,836,683
TOTAL LIABILITIES	176,214,130	43,858,562
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value 0.0001; authorized: 100,000,000 shares; issued: 42,891,985 shares	4,289	3,200
Preferred stock, par value $.0001; authorized: 10,000,000 shares; issued 0 shares	-	-
Additional paid-in-capital	4,000,359	8,174,685
Treasury units	-	(261,168)
Retained earnings (deficit)	(18,388,897)	67,230,214
Total stockholders' equity (deficit)	(14,384,249)	75,146,931
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	161,829,881	$119,005,493

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Tile Shop Holdings, Inc. and Subsidiaries

Condensed Consolidated Statements of Income
for the three months and nine months ended September 30, 2012 and 2011

(Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2012 Restated	2011	2012 Restated	2011
Net sales	$44,288,400	$37,083,846	$136,463,028	$115,014,677
Cost of sales	12,196,858	9,872,598	37,025,108	30,297,496
Gross profit	32,091,542	27,211,248	99,437,920	84,717,181
Selling, general and administrative expenses	23,899,183	19,992,329	68,605,613	58,224,776
Deferred compensation expense	2,623,739	373,542	3,896,799	966,439
Income from operations	5,568,620	6,845,377	26,935,508	25,525,966
Interest expense	450,406	97,498	626,023	296,839
Change in fair value of warrants	41,706,599	-	41,706,599	-
Other income (expense)	1,386	6,961	23,052	36,116
Income (loss) before income taxes	(36,586,999)	6,754,840	(15,374,062)	25,265,243
Benefit (provision) for income taxes	4,722,486	(153,172)	4,298,866	(578,603)
Net income (loss)	$(31,864,513)	$6,601,668	$(11,075,196)	$24,686,640
Weighted-average shares outstanding – basic and diluted	36,581,888	32,000,000	33,544,079	32,000,000
Earnings (loss) per shares - basic and diluted	$(0.87)	$0.21	$(0.33)	$0.77
Pro forma computation related to conversion to C Corporation for income tax purposes				
Historical income (loss) before income taxes	$(36,586,999)	$6,754,840	$(15,374,062)	$25,265,243
Pro forma benefit (provision) for income taxes	(2,150,232)	(2,837,033)	(11,059,666)	(10,611,402)
Pro forma net income (loss)	$(38,737,231)	$3,917,807	$(26,433,728)	$14,653,841
Pro forma weighted average shares outstanding - basic and diluted	42,536,387	42,534,884	42,535,391	42,534,884
Pro forma earnings (loss) per share - basic and diluted	$(0.91)	$0.09	$(0.62)	$0.34

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Tile Shop Holdings, Inc. and Subsidiaries

Condensed Consolidated Statements of Stockholders' Equity (Deficit)
for the year ended December 31, 2011 and the nine months ended September 30, 2012

(unaudited)

	Common stock		**Restated** Additional paid-in-capital	Treasury units	Restated Retained earnings (deficit)	Restated Total
	Shares	Amount				
Balance at January 1, 2011	32,000,000	$ 3,200	$ 8,258,685	$ (261,168)	$ 61,436,401	$ 69,437,118
Redemption of common units of Tile Shop LLC	-	-	(84,000)	-	(1,400,200)	(1,484,200)
Distributions to members of Tile Shop LLC	-	-	-	-	(24,165,867)	(24,165,867)
Net income	-	-	-	-	31,359,880	31,359,880
Balance at December 31, 2011	32,000,000	3,200	8,174,685	(261,168)	67,230,214	75,146,931
Merger of JWC Acquisition Corp	10,534,884	1,054	(13,908,531)	-	-	(13,907,477)
Issuance of promissory note	-	-	(17,282,304)	-	(52,488,806)	(69,771,110)
Distributions to members of Tile Shop LLC	-	-	-	-	(22,055,109)	(22,055,109)
Cancellation of treasury units	-	-	(261,168)	261,168	-	-
Issuance of restricted shares	295,000	30	(30)	-	-	-
Exercise of warrants	52,101	5	765,358	-	-	765,363
Stock based compensation	-	-	835,515	-	-	835,515
Expenses for business combination	-	-	(2,146,766)	-	-	(2,146,766)
Deferred income taxes	-	-	27,823,600	-	-	27,823,600
Net loss	-	-	-	-	(11,075,196)	(11,075,196)
Balance at September 30, 2012	42,881,985	$ 4,289	$ 4,000,359	$ 0	(18,388,897)	(14,384,249)

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Tile Shop Holdings, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows
for the nine months ended September 30, 2012 and 2011

(unaudited)

	Nine months ended September 30, 2012 Restated	**Nine months ended September 30, 2011**
Cash Flows From Operating Activities		
Net income (loss)	$(11,075,196)	$24,686,640
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Change in fair value of warrants	41,706,599	
Depreciation and amortization	7,542,914	6,158,196
Loss on disposals of property, plant and equipment	6,261	60,695
Deferred rent	2,168,030	1,466,284
Stock based compensation	263,347	-
Deferred compensation expense	3,896,799	966,439
Deferred income taxes	(5,300,000)	-
Changes in operating assets and liabilities:		
Trade receivables	(358,144)	32,588
Inventories	3,081,596	(7,346,578)
Prepaid expenses and other current assets	(3,714,886)	(2,310,552)
Accounts payable	4,721,780	(973,693)
Accrued expenses and other liabilities	(1,399,007)	856,687
Net cash provided by operating activities	41,540,092	23,596,706
Cash Flows From Investing Activities		
Purchases of property, plant and equipment	(16,186,622)	(11,371,746)
Restricted cash	(1,000,000)	-
Net cash used in investing activities	(17,186,622)	(11,371,746)
Cash Flows From Financing Activities		
Repayments of long-term debt and capital lease obligations	(1,703,074)	(617,964)
Borrowings on long-term debt		-
Distributions to members of Tile Shop LLC	(26,306,455)	(13,470,697)
Redemption of common units		
Proceeds from exercise of warrants	599,161	-
Cash received in merger with JWC Acquisition Corp (refer note 2)	62,904,424	-
Proceeds from issuance of common shares to JWC Acquisition Corp's shareholders	15,000,000	-
Payment to members of Tile Shop LLC for contribution	(75,000,000)	-
Expenses for business combination	(1,075,489)	-
Payment towards special cash distribution units	(300,000)	-

Receipt on note from member	1,205,134	-
Net cash used in financing activities	(24,676,299)	(14,088,661)
Net change in cash	(322,829)	(1,863,701)
Cash and cash equivalents beginning of period	6,283,477	14,116,594
Cash and cash equivalents end of period	$5,960,648	$12,252,893
Supplemental disclosure of cash flow information		
Cash paid for interest	$297,312	$296,839
Cash paid for income taxes	$437,688	$586,362
Non cash items		
Issuance of promissory note as a part of merger transaction	$69,771,111	$-
Increase in accrued expenses and APIC through merger transactions	$1,662,068	$-
Increase in APIC for transaction costs	$2,146,766	$-
Increase in APIC for warrant liability	$15,149,833	$-
Conversion of warrants from equity to liability	$1,567,904	$-

The accompanying notes are an integral part of these condensed consolidated financial statements.

Tile Shop Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
(unaudited)

Note 1: Organization and Nature of Business

The Tile Shop, LLC ("The Tile Shop") was formed on December 30, 2002, as a Delaware limited liability company (LLC) and began operations on January 1, 2003. Tile Shop Holdings, Inc. (the "Company") was incorporated under the laws of the state of Delaware in 2012 as a wholly-owned subsidiary of The Tile Shop. The Company was formed for the purpose of consummating the transactions contemplated by the Contribution and Merger Agreement (the "Contribution and Merger Agreement"), dated June 27, 2012, by and among JWC Acquisition Corp., a Delaware corporation ("JWCAC"), The Tile Shop, the member of The Tile

Shop other than ILTS, LLC, a Delaware limited liability company ("ILTS"), Nabron International, Inc., a Bahamas corporation ("Nabron"), Tile Shop Merger Sub, Inc., a Delaware corporation ("Merger Sub"), and Peter J. Jacullo III, as representative ("Business Combination"), which was completed on August 21, 2012 and is fully discussed in Note 2 below. JWCAC was incorporated under the laws of the state of Delaware in 2010 for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization, or similar business combination involving JWCAC and one or more businesses.

The Company and subsidiaries are engaged in the sale of tile and flooring products. The Company also fabricates or manufactures certain products in Michigan and Wisconsin. The Company's primary market is retail sales to consumers; however, the Company does have sales to contractors. As of September 30, 2012, the Company had 62 stores and an on-line retail operation. The retail stores are located in Minnesota, Wisconsin, Kansas, Illinois, Michigan, Ohio, Indiana, Maryland, Missouri, Kentucky, New York, Virginia, Iowa, North Carolina, New Jersey, Tennessee, Nebraska, Delaware, Georgia, and Pennsylvania. The Company also has distribution centers located in Wisconsin, Michigan, and Virginia.

Note 2: Business Combination

On August 21, 2012, pursuant to the terms of the Contribution and Merger Agreement, the Business Combination was consummated. The members of The Tile Shop other than ILTS contributed their membership interests in The Tile Shop to the Company, and Nabron contributed its membership interest in ILTS to the Company (the "Contribution"), in exchange for (i) a cash payment of $75 million, (ii) 32,000,000 shares of the Company's common stock valued at $320 million, and (iii) promissory notes issued by the Company in the aggregate principal amount of $69.8 million. As a result of the Contribution, all ownership interests in The Tile Shop were contributed to the Company.

Prior to the Business Combination, certain JWCAC shareholders exercised their redemption rights with respect to 5.5 million shares of JWCAC public stock, which were redeemed at the closing of the Business Combination. Immediately thereafter and concurrently with the Contribution, Merger Sub merged with and into JWCAC, with JWCAC surviving (the "Merger"). In connection with the Merger, (i) each remaining outstanding share of JWCAC common stock was exchanged for one share of the Company's common stock and (ii) each outstanding JWCAC warrant (17,833,333) that was formerly exercisable for one share of JWCAC common stock became exercisable for one share of the Company's common stock.

In connection with the Business Combination, certain members of the JWC Acquisition LLC, an affiliate of JWCAC, purchased 1,500,000 shares of the Company's common stock from the Company in a private placement at a purchase price of $10.00 per share, and the members of The Tile Shop withdrew $12.9 million of cash from The Tile Shop by way of dividend.

As result of the Business Combination, the Company owns, directly or indirectly, all of the equity in The Tile Shop, ILTS, and JWCAC. Immediately following closing of the Business Combination, the former members of The Tile Shop and the former JWCAC stockholders hold 75.2% and 24.8%, respectively, of the issued and outstanding shares of common stock of the Company.

Tile Shop Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
(unaudited)

Note 2: Business Combination (continued)

The number of shares of common stock of the Company issued and outstanding immediately following the consummation of the Business Combination is summarized as follows:

	Number of Shares
JWCAC public shares outstanding prior to the Business Combination	12,500,000
JWCAC founder shares	2,034,884
Total JWCAC shares outstanding prior to the Business Combination	14,534,884
Less: redemption of JWCAC public shares	(5,500,000)
Total JWCAC shares outstanding immediately prior to the effective date of the Business Combination	9,034,884
Common shares issued as consideration to members of The Tile Shop	32,000,000
Common shares issued to sponsor of JWCAC	1,500,000
Total common shares outstanding at closing, August 21, 2012	42,534,884

Basis of presentation and accounting treatment of Business Combination:

The Tile Shop is considered the acquirer for accounting purposes, and has accounted for the Business Combination as a recapitalization because it obtained effective control of JWCAC. The Tile Shop did not have a change in control since The Tile Shop's operations comprises the ongoing operations of the combined entity, its senior management became the senior management of the combined entity, and its former owners own a majority voting interest in the combined entity and are able to elect a majority of the combined entity's board of directors. Accordingly, the Business Combination does not constitute the acquisition of a business for purposes of Financial Accounting Standards Board's Accounting Standard Codification 805, "Business Combinations," (ASC 805). As a result, the assets and liabilities of The Tile Shop and JWCAC are carried at historical cost and the Company has not recorded any step-up in basis or any intangible assets or goodwill as a result of the Business Combination. All direct costs of the Business Combination are offset to additional paid-in-capital. The historical financial statements presented herein are that of The Tile Shop for all periods.

In the condensed consolidated financial statements, the recapitalization of the number of shares of common stock attributable to The Tile Shop members is reflected retroactive to January 1, 2011. Accordingly, the number of shares of common stock presented as outstanding as of January 1, 2011 totaled 32,000,000 consisting of the number of shares of common stock issued to The Tile Shop members other than ITLS and Nabron as consideration for the Contribution. This number of shares was also used to calculate the Company's earnings per share for all periods prior to the Business Combination.

The cash flows related to the Business Combination, as reported in the Condensed Consolidated Statement of Cash Flow is summarized as follows:

	Amount
Cash in trust at JWCAC	$124,950,000
Add: proceeds from issue of shares	15,000,000
Less: redemption of JWCAC public shares	(54,960,400)
Less: cash paid to The Tile Shop members	(75,000,000)
Less: payment of deferred offering cost by JWCAC	(7,085,176)
Remaining cash received by the Company in the merger	$2,904,424

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Tile Shop Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
(unaudited)

Note 2: Business Combination (continued)

Because the former members of The Tile Shop retained a significant ownership interest in the Company following the Business Combination, a portion of the $69.8 million of notes payable issued to former members of The Tile Shop members as part of the Business Combination is treated as a leveraged dividend. Accordingly $52.5 million has been reflected as a distribution of retained earnings in the accompanying financial statements. The remainder of these notes payable have been deducted from additional paid in capital.

Pro Forma Information:

Actual results of operations are included in the unaudited condensed consolidated interim financial statements from the date of the applicable business combination. The unaudited pro forma computation related to the conversion to a C Corporation for income tax purposes assumes that such conversion occurred as of January 1, 2011. These amounts are not necessarily indicative of the consolidated results of operations for future years or actual results that would have been realized had the change in tax status occurred as of the beginning of each such year.

Note 3: Summary of Selected Significant Accounting Polices

Basis of preparation:

The accompanying condensed consolidated financial statements have been prepared on the accrual basis of accounting in accordance with United States generally accepted accounting principles ("US GAAP") to reflect the financial position, results of operations and cash flows of the Company. These financial statements have been prepared on a going concern basis, which assumes the realization of assets and satisfaction of liabilities in the normal course of business.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with US GAAP have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the Company’s most recent audited consolidated financial statements and related notes for the fiscal year ended December 31, 2011, which are included in the Company’s prospectus filed with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended, on August 3, 2012. The same accounting policies are followed in preparing nine month financial data as are followed in preparing annual data. See the notes in the audited financial statements for the year ended December 31, 2011 for those policies. In the opinion of management, all adjustments necessary for the fair presentation of nine month operating results are reflected herein and are of a normal, recurring nature.

Use of estimates:

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. The Company bases its estimates and judgments on historical experience and on various other assumptions that it believes are reasonable under the circumstances. The amount of assets and liabilities reported on the Company's balance sheets and the amounts of income and expenses reported for each of the periods presented are affected by estimates and assumptions, which are used for, but not limited to, the accounting for revenue recognition and related reserves for sales returns, useful lives of property, plant and equipment, allowance for trade receivables, determining impairment on long-lived assets, valuation of inventory, determining compensation expense on stock based compensation plans and accruals for incentive compensation. Actual results may differ from these estimates.

Cash and cash equivalents:

The Company considers all highly liquid investments with initial maturities of three months or less to be cash equivalents.

Tile Shop Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
(unaudited)

Note 3: Summary of Selected Significant Accounting Polices (continued)

Trade receivables:

Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables. Management determines the allowance for doubtful accounts on a specific identification basis as well as by using historical experience applied to an aging of accounts. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

Inventories:

Inventories are stated at the lower of cost (determined on the first-in, first-out method) or market. Inventories consist primarily of merchandise held for sale. Inventories comprised of the following as September 30, 2012 and December 31, 2011:

	September 30, 2012	December 30, 2011
Finished goods	$36,978,269	$38,380,074
Raw materials	1,061,169	1,219,951
Finished goods in transit	2,622,838	4,143,847
Total	$40,662,276	$43,743,872

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 condensed 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 Tile Shop, due to minimum fees in several states and income tax in the state of Michigan.

The change in status to a taxable entity and the transactions consummated as part of the Business Combination resulted in the recognition of deferred tax assets and liabilities based on the expected tax consequences of temporary differences between the book and tax basis of The Tile Shop's assets and liabilities at the date of the Business

Combination including the following: (i) historical outside basis difference at December 31, 2011, (ii) outside basis differences occurring in 2012 prior to the Business Combination, and (iii) the tax basis increase of The Tile Shop membership interests directly held by the Company related to the Business Combination. At September 30, 2012, outside basis differences prior to the Business Combination relating primarily to temporary basis differences in inventory, fixed assets, accruals, and outside basis differences, totaled approximately \$5.3 million, which have been tax-effected at a 40% rate. This deferred tax asset of \$5.3 million was recognized and included in the tax benefit for the three and nine months ended September 30, 2012. The tax provision for three and nine months ended September 30, 2012, also includes a tax expense of \$0.5 million which was determined using a projected effective tax rate of 42.0% on income for the period August 21, 2012 (the date on which the tax status changed to a C Corporation) to December 31, 2012.

In addition, deferred tax assets of \$27.8 million were recognized in connection with the Business Combination transactions (related to item (iii) above), which enables the Company to utilize future tax deductions for the step-up in basis of The Tile Shop members ownership interests that have been contributed to the Company. These basis differences have been tax-effected at a rate of 40% and were credited directly to additional paid in capital as of the closing of the Business Combination. Total deferred tax assets recognized in connection with the Business Combination of \$33.1 million have been analyzed and classified as current (\$5.2 million) or long term (\$27.9 million) on the balance sheet as of September 30, 2012.

Tile Shop Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
(unaudited)

Note 3: Summary of Selected Significant Accounting Polices (continued)

These amounts represent the preliminary determination of the deferred tax assets and liabilities recognized in the Business Combination because the Company has not filed its final tax return. We do not expect any potential adjustments made to be material in relation to the preliminary values.

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.

The Company has adopted FASB ASC 740-10 relating to “Accounting for uncertainty in income taxes”. As a result of the implementation of FASB ASC 740-10, the Company recognized no adjustment for uncertain tax positions. As of September 30, 2012, the Company did not recognize any reserves for uncertain tax positions nor has it accrued interest and penalties related to uncertain tax positions.

Revenue recognition:

Sales are recognized upon pick up or delivery of products, which is when transfer of title to a customer occurs, the sales price is fixed or determinable, and collection is reasonably assured. The Company is required to charge and collect sales and other taxes on sales to its customers and remit the taxes back to the government authorities. Sales and other taxes are recorded in the consolidated balance sheets but excluded from the consolidated statements of income. Shipping costs charged to customers are included in sales and shipping costs charged to the Company are included in cost of sales.

The Company accrues a liability for sales returns and exchanges in the period that the related sales are recognized. 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. The Company regularly assesses and adjusts the estimated liability for updated return rates based on actual trends and projected claim costs. A revision of estimated claim rates and claim costs or revisions to the Company's exchange policies may have a material effect on future results of operations.

Stock based compensation:

The Company has given equity linked incentives to certain employees. The Company accounts 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 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.

The Company has granted cash settled and equity settled awards. Until 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 the consolidated statements of income.

Upon consummation of Business Combination, the Company has only equity settled awards. The Company measures compensation cost for equity settled awards at fair value on the date of grant and recognizes compensation cost in the Condensed Consolidated Statements of income over the requisite service or performance period the award is expected to vest. Compensation cost is determined by using option pricing models.

Tile Shop Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
(unaudited)

Note 3: Summary of Selected Significant Accounting Polices (continued)

Accrued Warrant Liability

Outstanding warrants are accounted for as derivative instruments in accordance with the Accounting Standards Codification (“ASC”) Subtopic 815-40, *Contracts in Entity’s Own Equity.* As such, changes in the fair value of the warrants are recorded in the statements of operations as “Change in fair value of warrant liability.”

Concentration of risk:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and bank deposits. By their nature, all such instruments involve risks including credit risks of non-performance by counterparties. A substantial portion of the Company's cash and cash equivalents and bank deposits are invested with banks with high investment grade credit ratings.

Segments:

The Company’s operations consist primarily of the retail sale of tile and flooring products in various metropolitan areas in the United States through company-operated stores or online through its website. The Company’s chief operating decision maker only reviews the consolidated results of the Company and accordingly the Company has concluded it has one reportable segment.

Recent Accounting Pronouncements:

There were no new accounting pronouncements that would have a significant impact on The Tile Shop's results of operations, financial condition or liquidity.

Note 4: Debt

The Tile Shop had a $3 million commercial credit facility with a bank. Borrowings under this arrangement bore interest at 2.0 percent above the daily one-month LIBOR rate and were secured by substantially all The Tile Shop assets. On September 28, 2012, the Company paid the $1.1 million outstanding balance in full and terminated the credit facility agreement (See Note 10).

Note 5: Promissory Notes

As part of the Business Combination, promissory notes were issued by the Company in the aggregate principal amount of $69.8 million (the "Promissory Notes"). The Promissory Notes had a three year term, could be prepaid at any time without penalty, and bore interest at a rate of 4% per annum, payable quarterly. Upon the issuance of senior indebtedness where the proceeds of such indebtedness were used to repay not less than 50% of the aggregate principal amount of the Promissory Notes, the term of the Promissory Notes would be extended to the date 180 days following the term of such senior indebtedness and the interest rate on the outstanding principal amount of the Promissory Notes will increase to 10% per annum. If the Promissory Notes were not repaid by the Company in full by the third anniversary of the consummation of the Business Combination, up to an aggregate of $20,000,000 of the then-outstanding principal amount of the Promissory Notes would have been convertible into shares of the Company's common stock at a conversion price of $10.00 per share.

Subsequent to the balance sheet date, the Company obtained a $100 million senior secured credit facility which was utilized, in part, to repay the Promissory Notes in full (See Note 10).

Note 6: Fair Value of Financial Instruments:

These condensed consolidated financial statements include the following financial instruments: cash and cash equivalents, trade receivables, accounts payable, accrued expenses, capital leases, notes payable and debt. At September 30, 2012 and December 31, 2011, the carrying amount of the Company's cash and cash equivalents, trade receivables, approximated their fair values due to their short maturities. The carrying value of the Company's borrowings and capital lease obligation approximates fair value based upon the market interest rates available to the Company for debt and capital lease obligations with similar risk and maturities.

As of September 30, 2012 common stock warrants, which are classified as liabilities, are recorded at their fair market value.

The measurement of fair value requires the use of techniques based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. The inputs create the following fair value hierarchy:

- Level 1 – Quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations where inputs are observable or where significant value drivers are observable.
- Level 3 – Instruments where significant value drivers are unobservable to third parties.

Our common stock warrants are listed for trading on the OTC market. As of September 30, 2012, we had approximately $56.6 million, in an accrued liability classified as a Level 1 security, related to warrants to purchase common stock. Warrant expense related to the change in fair value of the warrant liability was $41.7 million for the period ending September 30, 2012.

Tile Shop Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
(unaudited)

Note 7: Related Party Transactions

The Special Cash Distribution Units issued by The Tile Shop were owned by Mr. Robert Rucker, the President and CEO. The units received annual payments of $300,000 for a term of 10 years through 2012 and were fully paid as of June 30, 2012.

The Tile Shop had a note receivable from Robert Rucker, the President and CEO. The note was due in annual installments of $300,000 of principal and interest at a rate of 2.6% per annum with a final installment due in 2012 which was fully received as of June 30, 2012.

The Company has issued Promissory Notes to members of The Tile Shop for an aggregate principal amount of $69.8 million in connection with the Business Combination which were outstanding at September 30, 2012. The Company has recorded interest expense of $305,846 for the three and nine months ended September 30, 2012 related to these notes.

During the three months ended September 30, 2012, the Company obtained an unsecured short term loan of $5.5 million from Nabron. The loan was obtained to provide short term working capital and liquidity for the Company. The loan was paid off during the three months ended September 30, 2012 with interest of $20,777.

Note 8: Earnings (Loss) Per Share

Basic earnings(loss) per share is calculated by dividing net income (loss) by the weighted-average number of shares outstanding during the period. Diluted earnings (loss) per share is calculated by dividing net income (loss) by the weighted-average number of common shares outstanding, after giving effect to all dilutive potential common shares outstanding during the period . Common stock issued to The Tile Shop members other than ILTS and to Nabron in exchange for their direct or indirect ownership interests in The Tile Shop are retroactively reflected from January 1, 2011 as the number of shares outstanding in all periods prior to August 21, 2012 for the purpose of the earnings (loss) per share calculation. The additional shares issued as part of the Business Combination have been reflected as outstanding shares from August 21, 2012. All outstanding warrants and stock options have been excluded from the calculation for the three and nine months ended September 30, 2012, and 2011, as their effect would have been anti-dilutive for all periods.

Basic and diluted earnings (loss) per share were calculated as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30		September 30	
	2012	2011	2012	2011
Net income (loss)	$(31,864,513)	$6,601,668	$(11,075,196)	$24,686,640
Weighted-average shares outstanding – basic and diluted	36,581,888	32,000,000	33,544,079	32,000,000
Earnings (loss) per share -basic and diluted	$(.87)	$.21	$(.33)	$0.77

Note 9: Equity Incentive Plans

2006 Plan

In 2006, The Tile Shop created an equity incentive deferred compensation plan for certain key employees. The plan provisions called for granting participation units to key employees to allow them to participate in the increased value of The Tile Shop. Under the plan, the units granted are payable in cash on the 10^{th} or 15^{th} anniversary of the award, except in the event of death or a change in control in The Tile Shop, in which case settlement would occur on date of death of employee or date of change or control. On the settlement date, the participants will be paid cash equal to the difference between Fair Market Value as determined in accordance with the plan (“FMV”) of The Tile Shop’s common units as of the valuation date immediately preceding the exercise date less the initial FMV multiplied by the number of units.

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Tile Shop Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
(unaudited)

Note 9: Equity Incentive Plans (continued)

In June 2006, 600,000 units were granted, which are exercisable on the 10 th anniversary of the award. The initial FMV of the units was set at $1.203 per unit. The second grant of 200,000 units occurred on May 25, 2007 at an initial FMV of $2.1245 per unit which are exercisable on the 15 th anniversary of the award. The final grant under the plan was on January 1, 2009 for 200,000 units, which are exercisable on the 15 th anniversary of the award. The initial FMV for these units was set at $3.1725 per unit. All the units vested immediately. These awards were accounted for under ASC 718 and classified as liabilities. The Company measured the liability at intrinsic value at each reporting period. Fluctuations in the intrinsic value of the liability award were recorded as increases or decreases in compensation expense immediately as the awards were fully vested at the grant date. The intrinsic value was calculated based on the difference between FMV of the Company’s common unit, based on an analysis of enterprise value at each valuation date, and the initial FMV determined in accordance with the plan.

Effective immediately prior to the consummation of the Business Combination, The Tile Shop terminated the 2006 Plan and agreed to make a lump-sum cash payment to each holder of the equity units one day following the first anniversary of the effective date of the Business Combination. The Company recognized compensation expense of $2.1 million, and $3.3 million and $.3 and $1 million for the three and nine months ended September 30, 2012 and 2011, respectively, related to this plan.

In 2008, two participants having a total of 200,000 units separated from the Company and their settlement amount of $.2 million was fixed using the FMV on the date of their separation.

As of September 30, 2012, the Company has a deferred compensation liability of $6.0 million related to this terminated 2006 Plan.

January 2012 Restricted Stock Units

On January 1, 2012, The Tile Shop granted and issued 233,500 Series 2012 Participating Capital Appreciation Common Units (“Restricted Stock Units”) to two members of its board of managers (the “Series 2012 Holders”). The

Restricted Stock Units were a new series of common units designated by the Tile Shop's board of managers. These awards vested equally over a four year period on the anniversary of issuance, except on occurrence of a significant event in that would cause acceleration of vesting in full. The Restricted Stock Units were subject to a recapture amount of $300 million as of the issue date, reduced from time to time by the aggregate amount of distributions (not including tax distributions) made, from and after the issue date, by The Tile Shop to the holders of its common unit with respect to such units. No distributions were to be paid to the Series 2012 Holders with respect to their Series 2012 units until the date that the common holders collectively have received distributions (not including tax distributions) of $300 million.

These awards were accounted for under ASC 718 and were classified as liabilities and measured at intrinsic value. Effective immediately prior to the consummation of the Business Combination, the Restricted Stock Units fully vested. As a result, the Company recorded a $0.5 million charge to the income statement to record the deferred compensation expense resulting from the accelerated vesting of the Restricted Stock Units. The Company has recognized compensation cost of $0.5 million and $0.6 million for the three and nine months ended September 30, 2012 related to these units. As a part of Business Combination transaction, the Restricted Stock Units were exchanged for shares of the Company's common stock.

2012 Plan

Under the 2012 Equity Award Plan (the "2012 Plan"), 2,500,000 shares of the Company's common stock were initially reserved for issuance pursuant to a variety of stock-based compensation awards, including stock options, and restricted stock awards. The number of shares initially reserved for issuance or transfer pursuant to awards under the 2012 Plan will be increased on the first day of each calendar year beginning in 2013 and ending in 2022, in an amount equal to the lesser of (A) 2,500,000 shares, (B) six percent (6%) of the shares of common stock outstanding (on an as-converted basis) on the last day of the immediately preceding calendar year, and (C) such smaller number of shares of stock as determined by the Company's board of directors.

On August 21, 2012, the Company granted 1,755,500 stock options to its employees. Two-thirds of the total number of stock options granted will vest in equal annual installments over four years from the date of grant, based upon such employee's continued service to the Company ("Time Based Awards"). One-third of the total number of stock options granted will vest in equal annual installments over four years from the date of grant, based both on the appreciation in the price of the Company's common stock by 20% annually and continued service to the Company ("Performance Based Awards"). The grant-date fair values of Time Based Awards and Performance Based Awards is determined by using the Black-Scholes option pricing model and Monte Carlo Simulation, respectively. Compensation

Tile Shop Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
(unaudited)

Note 9: Equity Incentive Plans (continued)

expense is recognized on a straight-line basis over the requisite service period. Through September 30, 2012, a total of 1,755,500 stock options had been granted under the Plan; no stock options were exercised, vested, or forfeited during the period. The weighted average exercise price as of September 30, 2012 was $10. The weighted average life of options outstanding is 9.9 years. Intrinsic value as of September 30, 2012 is based on the stock price of $14.38, which would have been received by the option holders had all in-the-money option holders exercised their options as of that date. The total number of shares of in-the-money options outstanding as of September 30, 2012 was 1,755,500 with an intrinsic value of $7.7 million. As of September 30, 2012, the Company had $5.6 million of unrecognized stock compensation related to unvested options under the 2012 Plan.

Also on August 21, 2012, the Company granted an executive officer an award of 250,000 shares of restricted common stock of the Company, which vests and become unrestricted as to one-third of the total number of shares of common stock on each of December 31, 2013, 2014, and 2015, subject to continued service as an employee, officer, or director of the Company. The grant-date fair value of these awards, as determined by the fair market value on date of grant, is being recognized as stock based compensation expense on a straight-line basis over the requisite service period

Furthermore, the Company also granted an aggregate of 45,000 shares of restricted common stock to its directors which vest at the end of one year from date of grant subject to continued service as director of the Company. The grant-date fair value of these awards, as determined by the fair market value on date of grants is being recognized as stock based compensation expense on a straight-line basis over the requisite service period.

At September 30, 2012, there was approximately $2.9 million of unrecognized stock-based compensation expense associated with the non-vested restricted stock granted. Stock-based compensation expense relating to these restricted shares is being recognized over a weighted-average period of 1.58 years. The total fair value of shares vested during the period ending September 30, 2012 was $.1 million.

The total compensation cost recognized for the 2012 plan was $.3 million during the three and nine months ended September 30, 2012.

Note 10: Warrants

In connection with the Merger, each outstanding JWCAC warrant that was formerly exercisable for one share of JWCAC common stock became exercisable for one share of the Company's common stock. Total warrants outstanding as of the merger date was 17,833,333 warrants at an exercise price of $11.50 per share, and an expiration date of August 21, 2017.

The warrants are listed for trading on the OTC market. The terms of the warrants include a provision (the "Price Reduction Provision") that requires the Company to reduce the exercise price by a stated formula if (i) the Company completes a transaction involving a reclassification or reorganization of the outstanding shares of its common stock, a merger or consolidation in which it is not the surviving company, or a sale of its assets and (ii) at least 30% of the consideration payable to common stockholders as a result of that transaction is not common stock listed on a national securities exchange or the OTC Bulletin Board.

The Company evaluated the warrants under Accounting Standards Codification ("ASC") Subtopic 815-40, *Contracts in Entity's Own Equity*. ASC Section 815-40-15 addresses equity versus liability treatment and classification of equity-linked financial instruments, including common stock purchase warrants, and states that a warrant may be classified as a component of equity only if, among other things, the warrant is indexed only to the issuer's common stock. Under ASC Section 815-40-15, a warrant is not indexed to the issuer's common stock if the terms of the warrant require an adjustment to the exercise price upon a specified event and that event is not an input to the fair value of the warrant. Based on its evaluation, the Company concluded that the warrants are not indexed to the Company's common stock in the manner contemplated by ASC Section 815-40-15 because the transactions that will trigger the Price Reduction Provision are not inputs to the fair value of the warrants. Accordingly, the existence of the Price Reduction Provision in the warrants requires us to classify the warrants as a derivative liability. The change in the fair value of the warrants at the end of each reporting period is recognized in other income (loss).

As of September 30, 2012, the Company had outstanding warrants to purchase an aggregate of 17,771,232 shares of common stock at a exercise price of $11.50 per share, and an expiration date of August 21, 2017.

Tile Shop Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements
(unaudited)

Note 11: Subsequent Events

On October 3, 2012, the Company and its subsidiaries entered into a credit agreement with Bank of America, N.A. and The Huntington National Bank. The credit agreement 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 the Company's 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. 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. In connection with the credit agreement, the Company and its subsidiaries also (i) entered into a security agreement pursuant to which the Company and each of its subsidiaries granted to the lenders under the credit agreement a first priority security interest in certain accounts, inventory, equipment, general intangibles, chattel paper, letters of credit, and other assets to secure the Company's obligations and those of its subsidiaries under the credit agreement and (ii) agreed to guaranty the Company's obligations and those of its subsidiaries under the credit agreement.

The Company has used borrowings pursuant to the credit agreement to pay all outstanding obligations pursuant to the Promissory Notes issued in connection with the Business Combination. Due to the fact that the Company effectively refinanced the Promissory Notes with borrowings under its credit facility, the Company has classified the Promissory Notes obligation as of September 30, 2012 in accordance with our payment obligations under its credit facility. Accordingly, the portion of the term loan provided by the credit facility that is required to be repaid within a year, along with the accrued interest on the Promissory Notes have been included in current liabilities on the September 30, 2012 balance sheet.

Additional borrowings pursuant to the credit facility may be used to support our growth and for working capital purposes.

Note 12: Restatement of Condensed Consolidated Financial Statements (Unaudited)

The Company has restated its previously issued unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2012 because of a misstatement relating to the Company's accounting for its outstanding common stock purchase warrants (the "warrants").

The warrants were exchanged during a Business Combination on August 21, 2012 and are listed for trading on the OTC market. The terms of the warrants include a provision (the "Price Reduction Provision") that requires the Company to reduce the exercise price by a stated formula if (i) the Company completes a transaction involving a reclassification or reorganization of the outstanding shares of its common stock, a merger or consolidation in which it is not the surviving company, or a sale of its assets and (ii) at least 30% of the consideration payable to common stockholders as a result of that transaction is not common stock listed on a national securities exchange or the OTC Bulletin Board. Since the exchange, the Company had accounted for the warrants as equity instruments.

The warrants were further evaluated under Accounting Standards Codification ("ASC") Subtopic 815-40, *Contracts in Entity's Own Equity*. ASC Section 815-40-15 addresses equity versus liability treatment and classification of equity-linked financial instruments, including common stock purchase warrants, and the Company restated the warrants as a derivative liability, beginning with the quarter ended September 30, 2012.

The restatement reflected below resulted in a non-cash charge related to the change in fair value of the warrants from August 21, 2012 to September 30, 2012. The restatement will have no impact on the Company's cash flows, and will not affect previously reported amounts of cash and cash equivalents, operating expenses or operating income. The effects of the restatement are as summarized in the tables below (in thousands):

	As Previously Reported	Adjustments	As restated
Condensed Balance Sheet as of September 30, 2012			
Warrant liability	$ -	$ 56,690	$ 56,690
Total liabilities	$ 119,524	$ 56,690	$ 176,214
Common Stock	$ 4		$ 4
Additional paid-in capital	$ 18,984	$ (14,984)	$ 4,000
Accumulated retained earnings	$ 23,318	$ (41,706)	$ (18,388)
Total stockholders' equity	$ 42,306	$ (56,690)	$ (14,384)
Condensed Consolidated Statement of Income for the three months ended September 30, 2012			
Change in fair value of warrant liability	$ -	$ (41,706)	$ (41,706)
Net Income (loss)	$ 9,842	$ (41,706)	$ (31,864)
Net income (loss) per common share, basic and diluted	$ 0.27	$ (1.14)	$ (0.87)
Condensed Consolidated Statement of Income for the nine months ended September 30, 2012			
Change in fair value of warrant liability	$ -	$ (41,706)	$ (41,706)
Net income (loss)	$ 30,631	$ (41,706)	$ (11,075)
Net income (loss) per common share, basic and diluted	$ 0.91	$ (1.24)	$ (0.33)
Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2012			
Net Income (loss)	$ 30,631	$ (41,706)	$ (11,075)
Change in fair value of warrants	$ -	$ 41,706	$ 41,706
Supplemental disclosure of cash flow information:			
Non cash items:			
Increase in APIC for warrant liability	$ -	$ 15,150	$ 15,150
Conversion of warrants from equity to liability	$ -	$ 1,568	$ 1,568

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q /A and our prospectus filed with the Securities and Exchange Commission pursuant to Rule 424(b)(3) under the Securities Act of 1933, as amended, on August 3, 2012. Management's Discussion and Analysis of Financial Condition and Results of Operations has been revised for the effects of the restatement discussed in Note 12 to the condensed consolidated financial statements appearing elsewhere in this Quarterly Report on Form 10-Q/A.

Forward-Looking Statements

This Quarterly Report on Form 10-Q/A contains "forward-looking statements" that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Quarterly Report on Form 10-Q/A that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act. Forward-looking statements are often identified by the use of words such as, but not limited to, "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "will," "plan," "project," "seek," "should," "target," "will," "would," and similar expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included in this Quarterly Report on Form 10-Q/A. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

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"), 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 (the "Exchange Act").

Overview

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 62 stores in 20 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 nine new stores in the U.S. in 2012 and plan to open an additional four stores during the remainder of 2012 and no fewer than 15 stores in 2013. We believe that there will continue to be additional expansion opportunities in the United States and Canada. We expect store base growth will drive productivity and operational efficiencies.

For the year ended December 31, 2011 and the nine months ended September 30, 2012, we reported net sales of $152.7 and $136.5 million, respectively, and income from operations of $32.6 million and $26.9 million, respectively. From December 31, 2007 to December 31, 2011, our net sales and income from operations increased at compounded annual growth rates of 8.2% and 14.0%, respectively. During that period, we opened 14 new retail locations and focused on cost control and implementing selected price increases in order to maintain its gross profit and income from operations. We plan to continue to focus on store growth and controlling costs.

Net cash flows provided by operating activities were $34.7 million, $32.5 million, and $41.5 million for the years ended December 31, 2011 and 2010 and the nine months ended September 30, 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 September 30, 2012, we had cash of $6.0 million and working capital of $28.9 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 continues to 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 2011, approximately 50% of our net sales were from repeat customers.

As a result of our becoming a public company in connection with the Business Combination, we anticipate incurring incremental general and administrative expenses of approximately $2 million annually. These expenses will include annual and quarterly reporting; Sarbanes-Oxley compliance expenses; expenses associated with listing on the Nasdaq Stock Market; chief financial officer and 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. The effect of these incremental general and administrative expenses are not reflected in our historical consolidated financial statements.

Our business is subject to seasonal fluctuations and generally has experienced more sales and a greater portion of income from operations during the first two quarters of our fiscal year and slower activity in the fourth quarter due to holidays. We expect this trend to continue for the foreseeable future.

Recent Developments

On October 3, 2012, we and our subsidiaries entered into a credit agreement with Bank of America, N.A. and The Huntington National Bank. The credit agreement 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. 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. In connection with the credit agreement, we and our subsidiaries also (i) entered into a security agreement pursuant to which we and each of our subsidiaries granted to the lenders under the credit agreement a first priority security interest in certain accounts, inventory, equipment, general intangibles, chattel paper, letters of credit, and other assets to secure our obligations and those of our subsidiaries under the credit agreement and (ii) agreed to guaranty the our obligations and those of subsidiaries under the credit agreement.

We have used borrowings pursuant to the credit agreement to pay all outstanding obligations pursuant to the approximately $70 million of promissory notes that we issued in connection with the Business Combination. Additional borrowings pursuant to the credit agreement may be used to support our growth and for working capital purposes.

Key Components of our Consolidated Statements of Income

Net sales

Net sales represent total charges to customers 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. From 2009 to 2011, our net sales grew 31.4% to $152.7 million.

The table below sets forth information about our same store sales growth from 2009 to September 30, 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 13 th month of operation.

	Three Months Ended September 30,		**Nine Months Ended September 30,**		**Years Ended December 31,**		
	2012	2011	2012	2011	2011	2010	2009
Same store sales growth	5.9%	5.1 %	5.5%	6.1 %	6.4%	11.4%	(4.6%)

We opened five, five, and one new stores in 2011, 2010, and 2009, respectively, as well as nine new stores in the nine months ended September 30, 2012. 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 to 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 (excluding depreciation and amortization) consists primarily of costs associated with purchasing products and livering them to customers, as well as costs associated with manufacturing of maintenance 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.

In 2011, 2010, and 2009 our gross margin was 73.6%, 73.3%, and 72.7%, respectively. For the nine months ended September 30, 2012 and 2011 our gross margin was 72.9% and 73.7%, respectively. We have been able to maintain stable gross margins as a result of product cost control and expect that our gross margin will continue in the same range.

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. In 2011, 2010, and 2009, our selling, general, and administrative expenses as a percentage of net sales was 52.2%, 50.7%, and 51.8%, respectively. For the nine months ended September 30, 2012 and, 2011 selling, general, and administrative expenses as a percentage of net sales was 50.3% and 50.6%, respectively. We expect to continue making investments in our corporate infrastructure commensurate with our growth strategy.

Since the consummation of the Business Combination, we have incurred, and expect to continue to incur, increased incremental general and administrative expenses attributable to operating as a publicly traded company. These costs include those associated with Securities and Exchange Commission reporting, Sarbanes-Oxley compliance, and listing on the Nasdaq Stock Market, as we ll as increased compensation to our financial personnel, professional fees, insurance costs, 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 and nine months ended September 30, 2012 are not necessarily indicative of the effective tax rate that may be expected for fiscal year 2012 or future periods.

Adjusted *EBITDA*

We calculate Adjusted EBITDA by taking net income (loss) 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, non-cash warrant related expense, 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.

Adjusted EBITDA for the three and nine months ended September 30, 2012 and 2011 is as follows:

	Three months ended September 30,		**Nine months ended September 30,**	
	2012	**2011**	**2012**	**2011**
(dollars in thousands)				
Net income (loss)	$(31,864)	$6,602	$(11,075)	$24,687
Interest expense	450	97	626	297
Income taxes	(4,722)	153	(4,299)	579
Depreciation and amortization	2,750	2,121	7,543	6,158
Deferred compensation expense	2,624	374	3,898	966
Change in fair value of warrants	41,706		41,706	-
Stock-based compensation	263	-	263	-
Adjusted EBITDA	$11,207	$9,347	$38,662	$32,687

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States, or 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.

We consider the assumptions and estimates associated with recognition of revenue, stock-based compensation, property plant and equipment and warrant liability to be our critical accounting policies and estimates. There have been no material changes to our critical accounting policies since December 31, 2011. For further information on our critical and other significant accounting policies, see the notes to the condensed consolidated financial statements appearing elsewhere in this Quarterly Report on Form 10-Q/A and our prospectus filed with the Securities and Exchange Commission pursuant to Rule 424(b)(3) under the Securities Act of 1933, as amended (the "Securities Act"), on August 3, 2012.

Comparison of the Three Months Ended September 30, 2012 and the Three Months Ended September 30, 2011

The major components of sales, cost of sales, operating expenses and other income, and benefit (provision) for income taxes are discussed below.

	Three months ended September 30			
	2012	% of sales	2011	% of sales
Net sales	$44,288,400		$37,083,846	
Cost of sales	12,196,858	27.5 %	9,872,598	26.6%
Gross profit	32,091,542	72.5 %	27,211,248	73.4%
Selling, general and administrative expenses	23,899,183	54.0 %	19,992,329	53.9%
Deferred compensation expense	2,623,739	5.9 %	373,542	1.0 %
Income from operations	5,568,620	12.6 %	6,845,377	18.5%
Interest expense	450,406	1.0 %	97,498	0.3 %
Change in fair value of warrants	41,706,599	94.2 %	-	0.0 %
Other income (expense)	1,386	0.0 %	6,961	0.0 %
Income (loss) before income taxes	(36,586,999)	-82.6%	6,754,840	18.2%
Benefit (provision) for income taxes	4,722,486	10.7 %	(153,172)	-0.4 %
Net income (loss)	$(31,864,513)	-71.9%	$6,601,668	17.8%

Net sales

Net sales increased by $7.2 million, or 19.4%, for the three months ended September 30, 2012 compared to the three months ended September 30, 2011. This increase is primarily due to net sales of $4.8 million from 11 new stores, and an increase of $2.4 million from same store sales growth.

Gross profit

Gross profit increased $4.9 million, or 17.9%, for the three months ended September 30, 2012 compared to the three months ended September 30, 2011, primarily due to the increase in net sales. Gross margin decreased 0.3% for the three months ended September 30, 2012 from the three months ended September 30, 2011, primarily due to slightly higher product related costs and transportation expenses.

Selling, general, and administrative expenses

Selling, general, and administrative expenses increased $3.9 million, or 19.5%, for the three months ended September 30, 2012 compared to the three months ended September 30, 2011. Selling, general, and administrative expenses as a percentage of net sales did not change by a material amount for the three months ended September 30, 2012 compared to three months ended September 30, 2011. The increase in selling, general, and administrative expenses was primarily due to increased payroll costs of $2.4 million, increased rent and occupancy costs of $0.6 million, and increased depreciation and amortization of $0.6 million, as a result of opening new stores. Selling, general and administrative expense also included an increase in stock compensation expense of $0.3 million.

Deferred compensation expense

Deferred compensation expenses increased $2.3 million, or 303%, for the three months ended September 30, 2012 compared to the three months ended September 30, 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 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 decreased by $1.3 million, or 18.7%, for the three months ended September 30, 2012 compared to the three months ended September 30, 2011. Operating income margin decreased from 18.5% to 12.6% for the three months ended September 30, 2012 compared to the three months ended September 30, 2011. Excluding the non-recurring deferred compensation expenses in each period, income from operations would have been $8.2 million and $7.2 million for the three months ended September 30, 2012 and 2011, respectively, which represents a 13.9% increase in the 2012 period from the 2011 period.

Interest expense

Interest expense increased $0.4 million, or 78%, for the three months ended September 30, 2012 compared to the three months ended September 30, 2011. The increase is primarily due to interest on the promissory notes issued in connection with the Business Combination, which have been repaid in full. In future periods, we expect interest expense to be consistent with or slightly higher than the expense for the three months ended September 30, 2012 as a result of borrowings under our credit facility.

Change in fair value of warrant liability

The increase in change in fair value of warrant liability of $41.7 million, relates to a non-cash charge for the change in the fair value of the outstanding warrants for the three months ended September 30, 2012. The warrants were assumed by the Company in connection with the Business Combination on August 21, 2012 and are listed for trading on the OTC market. This non-cash expense is expected to increase with the trading price of the warrants until the warrants are exercised, and at that time the liability will be reclassified to equity.

Income tax (provision) benefit

Income tax benefit increased $4.8 million for the three months ended September 30, 2012 compared to the three months ended September 30, 2011 as a result of our becoming a taxable entity rather than a pass-through entity. In connection with becoming a taxable entity as a result of the Business Combination, we recognized $5.3 million of net deferred tax assets, which was offset by a tax expense of $0.5 million for the period from August 21, 2012 through September 30, 2012. We expects that our effective tax rate in future periods will approximate 42%, as permanent differences related to stock based compensation will increase the normal expected statutory tax rate.

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 $31.9 million for the three months ended September 30, 2012 compared to net income of $6.6 million in the previous year. Excluding the change in fair value of warrants, net income was $9.8 million for the three months ended September 30, 2012, which represented an increase of $3.2 million, or 49.1% 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, comparisons to past operating performance.

Comparison of the Nine Months Ended September 30, 2012 and the Nine Months Ended September 30, 2011:

	Nine months ended September 30			
	2012	% of sales	2011	% of sales
Net sales	$136,463,028		$115,014,677	
Cost of sales	37,025,108	27.1 %	30,297,496	26.3 %
Gross profit	99,437,920	72.9 %	84,717,181	73.7 %
Selling, general and administrative expenses	68,605,613	50.3 %	58,224,776	50.6 %
Deferred compensation expense	3,896,799	2.9 %	966,439	0.8 %
Income from operations	26,935,508	19.7 %	25,525,966	22.2 %
Interest expense	626,023	0.5 %	296,839	0.3 %
Change in fair value of warrants	41,706,599	30.6 %	-	0.0 %
Other income (expense)	23,052	0.0 %	36,116	0.0 %
Income (loss) before income taxes	(15,374,062)	-11.3 %	25,265,243	22.0 %
Benefit (provision) for income taxes	4,298,866	3.2 %	(578,603)	-0.5 %
Net income (loss)	$(11,075,196)	-8.1 %	$24,686,640	21.5 %

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Gross profit

Gross profit increased $14.7 million, or 17.4%, for the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011, primarily due to the increase in net sales. Gross margin decreased 0.9% for the nine months ended September 30, 2012 from the nine months ended September 30, 2011, primarily due to slightly higher product related costs and transportation expenses.

Selling, general, and administrative expenses

Selling, general, and administrative expenses increased $10.4 million, or 17.8%, for the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011. Selling, general, and administrative expenses as a percentage of net sales decreased from 50.6% to 50.3% for the nine months ended September 30, 2012 compared to nine months ended September 30, 2011. The increase in selling, general, and administrative expenses was primarily due to increased payroll costs of $5.5 million, increased rent and occupancy costs of $1.5 million, and increased depreciation and amortization of $1.4 million, primarily as a result of opening new stores. Selling, general and administrative expense also included an increase in stock compensation expense of $0.3 million.

Deferred compensation expense

Deferred compensation expenses increased $2.9 million, or 303%, for the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011. The increase in deferred compensation expense was primarily due to the termination of The Tile Shop's 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 $1.4 million, or 5.5%, for the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011. Operating income margin decreased from 22.2% to 19.7% for the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011. Excluding the non-recurring deferred compensation costs in each period, income from operations would have been $30.8 million and $26.5 million for the nine months ended September 30, 2012 and 2011, respectively, which represents a 16.2% increase in the 2012 period from the 2011 period.

Interest expense

Interest expense increased $0.3 million, or 53%, for the nine months ended September 30, 2012 compared to the nine months ended September 30, 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. In future periods, we expect interest expense to be consistent with or slightly higher than the expense for the three months ended September 30, 2012 as a result of borrowings under our credit facility.

Change in fair value of warrant liability

The increase in change in fair value of warrant liability of $41.7 million, relates to a non-cash charge for the change in the fair value of the outstanding warrants for the nine months ended September 30, 2012. The warrants were assumed by the Company in connection with the Business Combination on August 21, 2012 and are listed for trading on the OTC market. This non-cash expense is expected to increase with the trading price of the warrants until the warrants are exercised, and at that time the liability will be reclassified to equity.

Income tax provision (benefit)

Income tax benefit increase $4.8 million for the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011 as a result of our becoming a taxable entity rather than a pass-through entity. In connection with becoming a taxable entity as a result of the Business Combination, we recognized $5.3 million of net deferred tax assets, which was offset by a tax expense of $0.5 million for the period from August 21, 2012 through September 30, 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 $11.1 million for the nine months ended September 30, 2012 compared to net income of $24.7 million in the previous year. Excluding the change in fair value of warrants, net income was $30.6 million for the nine months ended September 30, 2012, which represented an increase of $5.9 million, or 24% 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, comparisons to past operating performance.

Liquidity and Capital Resources

Our principal liquidity requirements have been for working capital and capital expenditures. Our principal sources of liquidity are $6.0 million of cash and cash equivalents at September 30, 2012, 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. and The Huntington National Bank. The credit agreement 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. 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.

We have used borrowings pursuant to the credit agreement to pay all outstanding obligations pursuant to the approximately $70 million of promissory notes that we issued in connection with the Business Combination, or the Business Combination Notes. Due to the fact that we effectively refinanced the Business Combination Notes with borrowings under our credit facility, we have classified the Business Combination Notes obligation as of September 30, 2012 in accordance with our payment obligations under our credit facility. Accordingly, the portion of the term loan provided by the credit facility that is required to be repaid within a year, along with the accrued interest on the Business Combination Notes have been included in current liabilities on the September 30, 2012 balance sheet. Additional borrowings pursuant to the credit facility may be used to support our growth and for working capital purposes.

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.

In 2012, we expect to make capital expenditures of approximately $26 million. In addition to general capital requirements, we intend to open 13 new stores during 2012, nine of which have been opened to date, with an expected aggregate cost of approximately $18 million. We also plan to spend $1.3 million to renovate our existing in-store displays and $2.4 million to expand one of our distribution centers. We have made capital expenditures of approximately $4.1 million and $16.2 during the three and nine months ended September 30, 2012, respectively. We intend to open no fewer than 15 stores at an expected aggregate cost of approximately $21 million in 2013.

As a result of our becoming a public company in connection with the Business Combination, we anticipate incurring incremental general and administrative expenses of approximately $2 million annually. These expenses will include annual and quarterly reporting; Sarbanes-Oxley compliance expenses; expenses associated with listing on the Nasdaq Stock Market; chief financial officer and 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. The effect of these incremental general and administrative expenses are not reflected in our historical consolidated financial statements.

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 chooses 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.

Cash flows

The following table summarizes our cash flow data for the nine months ended September 30, 2012 and 2011

	Nine Months Ended September 30,	
	2012	**2011**
	(dollars in thousands)	
Net cash provided by operating activities	$41,540	$23,597
Net cash used in investing activities	(17,187)	(11,372)
Net cash used in financing activities	(24,676)	(14,089)

Operating activities

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

In the nine months ended September 30, 2012, cash provided by operating activities was $41.5 million, driven primarily by our net income of $30.6 million, which was reduced by non-cash charges of $49.4 million, including $41.7 due to the change in warrant liability, $7.5 million of depreciation and amortization, $0.3 million of stock-based compensation, $2.2 million of deferred rent, and $3.8 million of deferred compensation costs, offset by a non-cash income tax benefit of $5.3 million. In addition, these cash inflows were increased by a reduction in working capital of $2.9 million, which included a $0.4 million increase in trade receivables, a $3.1 million decrease in inventories, a $3.7 million increase in prepaid expenses and other current assets, a $4.7 million increase in accounts payable, and a $1.4 million decrease in accrued expenses and other liabilities.

In the nine months ended September 30, 2011, cash provided by operating activities was $23.6 million, driven primarily by our net income of $24.7 million, which was reduced by non-cash charges of $8.7 million, including $6.2 million of depreciation and amortization, $1.0 of deferred compensation, and $1.5 million of deferred rent. These cash inflows were offset by an increase in working capital of $9.7 million, which included a $7.3 million increase in inventories, a $2.3 million increase in prepaid expenses and other current assets, a $1 million decrease in accounts payable, and a $0.9 million increase in accrued expenses and other liabilities.

Investing activities

Net cash used in investing activities was $17.2 million and $11.4 million in the nine months ended September 30, 2012 and 2011, respectively. Net cash used in investing activities in each period included capital purchases of store fixtures, equipment and leasehold improvements for stores opened or remodeled, and routine capital purchases of computer hardware and software.

Financing activities

Net cash used in financing activities was $24.6 million and $14.1 million in the nine months ended September 30, 2012 and 2011, respectively. These cash uses were primarily due to distributions to members and principal payments on long-term debt.

Off-balance sheet arrangements

As of September 30, 2012 and December 31, 2011, we did not have any “off-balance sheet arrangements” (as such term is defined in Item 303 of Regulation S-K) that could have a current or future effect on our financial condition, changes in financial condition, net sales or expenses, results of operations, liquidity, capital expenditures or capital resources.

Contractual arrangements

As of September 30, 2012, there were no significant changes to our contractual obligations.

New Accounting Pronouncements

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

ITEM 6. EXHIBITS

Exhibit No.	Description
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certifications of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certifications of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS+	XBRL Instance Document.
101.SCH+	XBRL Taxonomy Extension Schema Document.
101.CAL+	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF+	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB+	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE+	XBRL Taxonomy Extension Presentation Linkbase Document.

* These certificates are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference in any filing we make under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, regardless of any general incorporation language in any filings.

+ In accordance with Rule 406T of Regulation S-T, these XBRL (eXtensible Business Reporting Language) documents are furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, nor are they otherwise subject to liability under those sections.

SIGNATURES

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

	TILE SHOP HOLDINGS, INC.
Dated: March 18, 2013	By: /s/ Robert A. Rucker Robert A. Rucker Chief Executive Officer
Dated: March 18, 2013	By: /s/ Timothy C. Clayton Timothy C. Clayton Chief Financial Officer