

IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN RE TILE SHOP HOLDINGS, INC.) Consol. C.A. No. 2019-0892-SG
LITIGATION)
)
)

NOTICE OF PROPOSED SETTLEMENT OF CLASS AND DERIVATIVE ACTION, SETTLEMENT HEARING, AND RIGHT TO APPEAR

The Delaware Court of Chancery authorized this Notice. This is not a solicitation from a lawyer.

TO: (1) All record and beneficial holders of Tile Shop Holdings, Inc. (“Tile Shop” or the “Company”) common stock as of October 18, 2019 (the “Settlement Class”)¹ and (2) all holders of Tile Shop common stock as of June 30, 2020 (“Current Stockholders”).

PLEASE READ THIS NOTICE CAREFULLY. THIS NOTICE EXPLAINS IMPORTANT RIGHTS YOU MAY HAVE, INCLUDING THE POSSIBLE RECEIPT OF A CASH PAYMENT FROM THE SETTLEMENT OF THIS ACTION.

Plaintiffs K-Bar Holdings LLC and Wynnefield Capital, Inc. (together, “Plaintiffs”), on behalf of themselves and each of the Class Members and derivatively on behalf of the Company, have reached a proposed settlement of the above-captioned consolidated class and derivative action (the “Action”) in exchange for a cash payment of \$12 million (the “Cash Settlement Amount”) and certain non-monetary benefits as described in paragraphs 31-38 below (the “Settlement”).² If approved by the Delaware Court of Chancery (the “Court”), the Settlement will resolve all claims in the Action.

¹ Members of the Settlement Class are referred to herein as “Class Members.” Excluded from the Settlement Class are defendants Cabell Lolmaugh, Robert A. Rucker, Peter J. Jacullo III, Peter H. Kamin, Todd Krasnow and Philip B. Livingston (collectively, the “Individual Defendants”) and nominal defendant Tile Shop (together with the Individual Defendants, “Defendants”); any affiliate (as defined in 17 C.F.R. § 230.405) of the Individual Defendants; any parents, affiliates, or subsidiaries of the Company; any officer or director of the Company; members of the immediate families of the Individual Defendants and of any officer or director of the Company; Defendants’ directors’ and officers’ liability insurance carriers and any parents, affiliates, or subsidiaries thereof; persons who held shares of Tile Shop common stock that were borrowed as part of a short sale transaction (only with respect to their holdings in such borrowed shares); and the legal representatives, agents, heirs, successors, and assigns of any such excluded Person.

² The terms and conditions of the Settlement are set forth in the Stipulation of Settlement dated August 7, 2020, entered into by and among Plaintiffs, on behalf of themselves and each of the Class Members and derivatively on behalf of the Company, the Individual Defendants, and Nominal Defendant Tile Shop. All capitalized terms used in this Notice that are not otherwise defined herein shall have the meanings ascribed to them in the Stipulation, which is available for review at www.TileShopStockholderLitigation.com.

Questions? Visit www.TileShopStockholderLitigation.com, call toll-free at 1-877-313-0184, or email info@TileShopStockholderLitigation.com

If you are a nominee who held Tile Shop common stock for the benefit of another, please read the section below entitled “Notice to Persons or Entities Holding Record Ownership on Behalf of Others.”

PLEASE NOTE: As set forth in paragraph 42 below, in order to be eligible to receive a payment from this Settlement, Class Members must complete and return a Proof of Claim Form (“Claim Form”) with adequate supporting documentation postmarked no later than January 8, 2021. A Claim Form is included with this Notice.

WHAT IS THE PURPOSE OF THIS NOTICE?

1. The purpose of this Notice is to inform Class Members and Current Stockholders of the existence of this Action and how they are affected by the litigation. It is also being sent to inform Class Members and Current Stockholders of the terms of the proposed Settlement, and of a hearing to be held by the Court to consider the fairness, reasonableness, and adequacy of the Settlement, the proposed plan of allocation for the proceeds of the Settlement (the “Plan of Allocation”), and the application by Lead Counsel for an award of attorneys’ fees and litigation expenses (the “Settlement Hearing”). See paragraphs 58-60 below for details about the Settlement Hearing, including the date and location of the hearing.

2. The Court directed that this Notice be mailed to you because you may be a member of the Settlement Class or a Current Stockholder. The Court has directed us to send you this Notice because, as a Class Member or Current Stockholder, you have a right to know about your options before the Court rules on the proposed Settlement. Additionally, you have the right to understand how this Action and the proposed Settlement generally affects your legal rights.

3. The issuance of this Notice is not an expression by the Court of any findings of fact or any opinion concerning the merits of any claim in the Action, and the Court has not yet decided whether to approve the Settlement. If the Court approves the Settlement, then payments to eligible Class Members will be made after any appeals are resolved.

4. Receipt of this Notice does not mean that you qualify as a Class Member or Current Stockholder or that you will be entitled to a payment from the Settlement. If you are a Class Member and you wish to be eligible to receive a payment from the Settlement, you are required to submit the Claim Form that is being distributed with this Notice and the required supporting documentation as set forth therein **postmarked no later than January 8, 2021**.

WHAT IS THIS CASE ABOUT?

THE DESCRIPTION OF THE ACTION AND SETTLEMENT WHICH FOLLOWS HAS BEEN PREPARED BY COUNSEL FOR THE PARTIES. THE COURT HAS MADE NO FINDINGS WITH RESPECT TO SUCH MATTERS, AND THIS NOTICE IS NOT AN EXPRESSION OR STATEMENT BY THE COURT OF FINDINGS OF FACT.

5. On October 22, 2019, before the opening of the NASDAQ market, Tile Shop announced that it would voluntarily delist its common stock from the NASDAQ Stock Market and deregister it from United States Securities and Exchange Commission reporting requirements. It

also announced that its Board of Directors had decided to suspend the Company's quarterly cash dividend and cancel the Company's share repurchase program. The Company also announced that Christopher T. Cook had resigned from the Board of Directors effective October 19, 2019 and the Company's financial results for its third quarter of 2019.

6. Between October 23, 2019 and November 8, 2019, a trust for Defendant Peter Jacullo's children purchased over 2.3 million shares of Tile Shop common stock on the open market while Defendant Peter Kamin and trusts and entities associated with him bought over 4.2 million shares of Tile Shop common stock on the open market (collectively, all such shares purchased by Defendants Kamin and Jacullo or entities affiliated with them between October 23 and November 8, 2019, shall be referred to herein as the "Kamin and Jacullo Post-Announcement Shares").

7. Plaintiff K-Bar Holdings LLC ("K-Bar") commenced this class and derivative action and moved for a temporary restraining order ("TRO") and expedited proceedings on November 5, 2019, to restrain Defendants from: (i) purchasing further shares of the Company on the open market and (ii) completing the deregistration of Tile Shop's common stock. On November 13, 2019, the Court consolidated the K-Bar action and the related Wynnefield actions.

8. At the conclusion of the November 8, 2019 hearing, the Court granted K-Bar's request for the TRO, expedited proceedings, and scheduled a hearing on K-Bar's application for a preliminary injunction.

9. Defendants have denied the allegations of wrongdoing in the K-Bar action and the Wynnefield action and asserted affirmative defenses.

10. In response to this litigation, on January 10, 2020, the Individual Defendants delivered Director Standstill Commitments to the Company. Each Individual Defendant committed not to, directly or through any affiliate, purchase any shares of the Company's common stock if, as a result of such purchase, (i) the Individual Defendant would beneficially own in the aggregate more than five percent of the issued and outstanding shares of the Company's common stock, or (ii) to the knowledge of the Individual Defendant, all of the then-serving directors of the Company would together in the aggregate beneficially own in excess of 50 percent of the issued and outstanding shares of the Company's common stock. The Company's future grants of equity compensation to the Individual Defendants are not covered by these commitments as long as such grants are substantially consistent with the past practices of the Company and are made in connection with the Individual Defendant's role as a member of the Board of Directors of the Company. The Director Standstill Commitments are binding and irrevocable and extend until the later of (i) two years and (ii) the date upon which the Individual Defendant's service as a member of the Board ends.

11. Between November 8, 2019 and February 7, 2020, the parties conducted expedited discovery. Defendants and Plaintiffs produced over 66,000 and over 1,200 documents, respectively. The parties also served 12 third party subpoenas and reviewed over 2,000 documents produced by third parties. Plaintiffs deposed Defendants Kamin, Jacullo, Rucker, former director Christopher T. Cook and the Company's former Chief Financial Officer, Kirk Gadelmann. Defendants also deposed representatives from Plaintiffs K-Bar, Wynnefield, and third-party, Brian Kahn.

12. Plaintiffs and Defendants submitted expert reports in connection with Plaintiffs' application for preliminary injunction on February 3 and February 5, 2020, respectively.

13. On February 7, 2020, Plaintiffs filed their brief in support of their motion for preliminary injunction. On February 14, 2020, Defendants filed their brief in opposition of Plaintiffs' motion for preliminary injunction and consented to "continuing the terms of" the TRO "pending the trial of this matter."

14. Thereafter, the parties engaged in trial discovery. Defendants produced another 1,352 documents and Plaintiffs again deposed Defendants Kamin, Jacullo, and Rucker. Plaintiffs also obtained discovery from Defendant Kamin and Jacullo's brokers, Interactive Brokers and Vanguard, respectively.

15. On February 12, 2020, Defendant Rucker submitted his resignation from the Board via letter. On March 24, 2020, Defendant Krasnow submitted his resignation from the Board via letter. On April 14, 2020, Defendant Livingston notified the Board of his intention not to stand for reelection at the 2020 Annual Meeting of Stockholders.

16. On February 24, 2020, Plaintiffs filed a motion for class certification. The parties completed briefing on the motion for class certification on June 12, 2020.

17. On March 24, 2020, the Court accepted the parties' request for a mediation to be conducted by Vice Chancellor Kathaleen St. Jude McCormick ("Vice Chancellor McCormick"). The parties and Vice Chancellor McCormick scheduled a full day mediation for June 17, 2020.

18. Plaintiffs and Defendants submitted additional expert reports on April 3 and April 30, 2020, respectively.

19. On May 11, 2020, Defendants filed a motion to amend their answer to the complaint. Plaintiffs' filed a brief in opposition to the motion to amend on June 11, 2020, and the Court granted the motion to amend on June 11, 2020.

20. On July 15, 2020, the Court scheduled the trial in this action for August 11-14, 2020.

21. Between March 24, 2020 and June 17, 2020, the parties engaged in numerous telephone conversations with each other and with Vice Chancellor McCormick concerning settlement negotiations.

22. On June 17, 2020, the parties participated in a full day mediation conducted by Vice Chancellor McCormick.

23. Between June 17, 2020 and June 30, 2020, the parties continued settlement negotiations overseen by Vice Chancellor McCormick.

24. On June 30, 2020, the Parties participated in another half-day mediation conducted by Vice Chancellor McCormick, during which the Parties and Defendants' insurers reached agreement on the principal terms of the Settlement.

25. In settlement negotiations in the matter, Plaintiffs sought the appointment of new independent directors of Tile Shop, who would also be able to sit on an Independent Transaction Committee of the Board evaluating such matters as related party transactions and any future deregistration of Tile Shop's common stock. In selecting a slate of new directors to join the Board following the annual meeting of Tile Shop stockholders in 2020, the Board considered the

independence of potential new directors as well as the experience and skills that the potential new directors could bring to the Board to meet the evolving needs of the Company. In order to address the independence concerns raised by the Plaintiffs in this litigation, the Board identified its potential slate of new directors to Lead Counsel and Plaintiffs to assess the independence and qualifications of the new directors and, in conjunction with the process of settling the case and in an effort to provide service to the Company, Lead Counsel and Plaintiffs investigated and interviewed each of the potential new directors and determined that the Company's slate included two directors who met Plaintiffs' independence and qualifications requirements and that those two directors would be able to sit on the Independent Transaction Committee.

26. The Company, Defendants' counsel and Lead Counsel have agreed to consult on an appropriate online course, session or seminar relating to the fiduciary duties and responsibilities of public company directors. The Company has agreed to recommend to each new director elected at its 2020 Stockholders Meeting who does not have prior experience serving on a public company board that the director participate in such educational session or its equivalent prior to the end of 2020 at the expense of the Company.

27. Prior to reaching agreement on the principal terms of the Settlement on June 30, 2020, the Parties did not discuss the amount of any potential application by Lead Counsel for attorneys' fees and expenses.

28. On August 7, 2020, the Parties entered into the Stipulation. The Stipulation reflects the final and binding agreement between the Parties, subject to the approval of the Court.

29. On August 12, 2020, the Court entered a Scheduling Order in connection with the Settlement which, among other things, authorized this Notice to be provided to Class Members and Current Stockholders and scheduled the Settlement Hearing to, among other things, consider whether to grant final approval of the Settlement.

WHAT ARE THE TERMS OF THE SETTLEMENT?

30. **Cash Settlement Fund:** Pursuant to the Settlement, a total of \$12 million in cash (the "Cash Settlement Amount") will be deposited into an escrow account (the "Settlement Escrow Account"). The Cash Settlement Amount, plus all interest earned thereon (the "Cash Settlement Fund"), less (i) any Taxes; (ii) any Administration Costs; and (iii) any Cash Settlement Fund Award (the "Net Cash Settlement Fund") will be distributed to eligible Class Members pursuant to the proposed Plan of Allocation set forth in paragraphs 44-47 below or such other plan of allocation as may be ordered by the Court.

31. **Supplement to the Standstill Commitments:** As a supplement to the Standstill Commitments, Defendants Jacullo, Kamin, and Rucker commit not to, directly or through any family member, Individual Defendant and/or affiliate, purchase any shares of the Company's common stock. However, the Company's future grants of equity compensation to the Individual Defendants and members of the Company's Board of Directors are not covered by the Standstill Commitments and this supplement as long as such grants are substantially consistent with the past practices of the Company and are made in connection with the director's role as a member of the Board of Directors of the Company. Defendants agree that the Standstill Commitments and their supplemental commitments herein shall be binding and irrevocable and extend until the later of

(i) June 1, 2023 and (ii) the date upon which each director's service as a member of the Board ends. Notwithstanding the Director Standstill Commitments and the promises herein, nothing shall preclude the Individual Defendants, the Company's directors, their immediate family members, or their affiliates and associates from presenting a non-coercive acquisition proposal, whether by tender offer or otherwise, so long as any such proposal is approved by the Independent Transaction Committee of the Board of Directors of the Company and a majority of the public stockholders.

32. **Continuing Public Disclosures:** Until the earliest of (i) such time as none of the Individual Defendants serve on the Board of Directors of the Company and (ii) three (3) years after the Effective Date of the Settlement, the Company will commit to providing OTC disclosure at or above the level characterized as "Pink Sheet: Current Tier." This disclosure obligation shall include, at a minimum, quarterly financial reporting with a narrative explanation of the financial statements that the Company believes will enhance a readers' understanding of its financial condition, changes in financial condition and results of operation, quarterly conference calls for investors, reporting within two business days of any transactions in common stock of the Company by any Individual Defendant, the Company's Management, members of its Board of Directors, or affiliated entities they control, and quarterly disclosure of stockholders holding greater than 5% of the Company's common stock to the extent known by the Company.

33. **Mirror Voting/Disposition:** Unless the Kamin and Jacullo Post Announcement Shares are disposed of in open market transactions to non-affiliated persons, for a period of three (3) years from the date of purchase all Kamin and Jacullo Post-Announcement Shares shall be voted in any vote of stockholders in the same proportion as the vote of shares held by Outside Stockholders. For purposes of this mirror voting provision, any shares sold by Defendants Kamin or Jacullo in open market transactions with non-affiliated persons will be deemed, respectively, Kamin and Jacullo Post-Announcement Shares until all such shares have been disposed of.

34. **Modification of the Insider Trading Policy:** The Company shall modify its Insider Trading Policy such that after a public announcement of material information, a period of not less than two full trading days must elapse before persons with prior knowledge of the material information may initiate trades in the securities of the Company. In addition, the Company's Insider Trading Policy will require that the Company's Chief Financial Officer: (i) maintain written records of requests by Designated Persons (as defined in the Insider Trading Policy and which includes all members of the Board of Directors) for confirmation of a trading window, including the time such confirmation is provided; and (ii) limit any confirmation of a trading window to a maximum of two business days following such confirmation.

35. **"Majority of the Public Stockholder" Vote:** Subject to stockholder approval (for which Defendants and Plaintiffs shall vote in favor), the Company's Certificate of Incorporation and Bylaws shall be amended as necessary to include, a "majority of the public stockholders" vote (meaning a vote of a majority of the Outside Stockholders) that applies to any subsequent change to the Certificate of Incorporation or Bylaws of the Company, which affects the rights or interests of any directors (unless to an immaterial degree) differently from the stockholders of the Company who are not directors, including without limitation any reduction in the scope of the responsibilities of the Independent Transaction Committee (described below), or modifies the membership of the Independent Transaction Committee.

36. **Creation of Independent Transaction Committee:** Subject to stockholder approval (for which Defendants and Plaintiffs shall vote in favor), the Certificate of Incorporation shall also be amended to establish an Independent Transaction Committee of the Board of Directors empowered to review, assess, and negotiate Company transactions requiring Board approval, involving any of the following:

(1) a material change in the Company's capitalization or corporate structure, including any recapitalization, material share issuance or repurchase, and any stock split or reverse stock split, to the extent such transaction affects the rights or interests of directors differently from the Outside Stockholders;

(2) any proposed change to the structure of the Board of Directors of the Company, including (i) the number of members on the Board; (ii) the terms served by any member of the Board; or (iii) the staggered structure of the Board;

(3) any "Related Party Transaction," which shall be defined as any transaction with a value in excess of \$500,000.00 between the Company and any director or officer of the Company or their respective family members or affiliates. Related Party Transactions shall also include any transaction between the Company and any Individual Defendant or their respective family members or affiliates with a value in excess of \$500,000.00, excluding those transactions that are offered to all stockholders on identical terms and routine transactions authorized by the Company's current bylaws (*e.g.*, the payment of reasonable expenses relating to Board service);

(4) any deregistration of the Company's securities.

The approval of the Independent Transaction Committee shall be required for any of the above-specified transactions or actions, but shall not replace or supersede any requirement that a majority of the entire Board of Directors must also approve a given transaction or action. For a period of at least three (3) years, the member(s) of the Independent Transaction Committee shall not include any of the Individual Defendants, affiliates, or their immediate family members. The Independent Transaction Committee shall be initially comprised of Mark Bonney and Linda Solheid, and such directors may not be involuntarily removed from the Independent Transaction Committee during their term as directors.

37. The Individual Defendants and the Plaintiffs agree to vote in favor of the election of Mark Bonney and Linda Solheid as new directors, each of whom the Parties have determined is independent and qualified for Board service. The Individual Defendants currently serving on the Board and Plaintiffs agree that: (i) Mark Bonney shall serve as the chair of the Board's Audit Committee and Independent Transaction Committee for a period of three (3) years; and (ii) Linda Solheid shall serve as a member of the Board's Audit Committee and Nominating and Corporate Governance Committee, and Independent Transaction Committee for a period of one year.

38. The Tile Shop Board of Directors shall be no larger than six (6) total members over the next three (3) years. In the event any of the new directors referenced in paragraph 37 above become unable or unwilling to serve out the duration of their term, any replacement directors (whether deemed permanent or temporary) shall only be elected by a vote of stockholders that includes both a majority of all stockholders and majority of the voting Outside Stockholders.

WHAT ARE THE PARTIES' REASONS FOR THE SETTLEMENT?

39. Plaintiffs and Lead Counsel thoroughly considered the facts and law underlying the claims asserted in the Action. Although Plaintiffs and Lead Counsel believe that the claims asserted have merit, the Court could have adopted Defendants' view of the applicable legal standards or of the underlying evidence, and could enter judgment for Defendants, either dismissing the Action prior to trial or after trial. Plaintiffs and Lead Counsel also considered the expense and length of continued proceedings necessary to pursue their claims against Defendants through trial, the uncertainty of appeals, and the collectability of any potential judgment.

40. In light of the substantial monetary recovery and the non-monetary benefits achieved, and based upon their investigation, prosecution, and mediation of the case, and the information available to them through discovery, Plaintiffs and Lead Counsel have concluded that the terms and conditions of the Stipulation are fair, reasonable, and adequate to Plaintiffs, the Settlement Class, and the Company, and in their best interests. The Settlement provides an immediate and substantial benefit in the form of a \$12 million cash payment and significant non-monetary benefits without the risk that continued litigation could result in obtaining similar or lesser relief after continued extensive and expensive litigation, including trial and the appeals that were likely to follow.

41. Defendants are entering into the Stipulation solely to eliminate the uncertainty, burden and expense of further protracted litigation. Each of the Defendants denies any wrongdoing, and the Stipulation shall in no event be construed or deemed to be evidence of or an admission or concession on the part of any of the Defendants with respect to any claim or allegation of any fault or liability or wrongdoing or damage whatsoever, or any infirmity in the defenses that the Defendants have, or could have, asserted. Defendants expressly deny that Plaintiffs have or could have asserted any valid claims as to any of them, and expressly deny any and all allegations of fault, liability, wrongdoing, or damages whatsoever.

WHAT DO CLASS MEMBERS NEED TO DO TO RECEIVE A PAYMENT FROM THE SETTLEMENT?

42. To be eligible for a payment from the Settlement, you must be a member of the Settlement Class and you must timely complete and return the Claim Form with adequate supporting documentation **postmarked no later than January 8, 2021**. A Claim Form is included with this Notice, or you may obtain one from the website maintained by the Claims Administrator for the Settlement, www.TileShopStockholderLitigation.com. You may also request that a Claim Form be mailed to you by calling the Claims Administrator toll free at 1-877-313-0184 or by emailing the Claims Administrator at info@TileShopStockholderLitigation.com. Please retain all records of your ownership of and transactions in Tile Shop common stock, as they will be needed to document your Claim.

HOW MUCH WILL MY PAYMENT BE?

43. If the Settlement and proposed Plan of Allocation are approved by the Court, payments to Class Members will be determined as follows:

PLAN OF ALLOCATION

44. **Overview of Plan of Allocation**

- (A) The Net Cash Settlement Fund will be distributed on a pro rata basis to all Settlement Class Members who submit valid claims (“Authorized Claimants”), subject to a cap on the per-share payout to Authorized Claimants that is based on Plaintiffs’ damages model, and subject to a waterfall distribution method as explained below.
- (B) The basic formula governing the payout of the Net Cash Settlement Fund will be “ $N/S=P$ ”, subject to the damages cap and waterfall provisions set forth below.

45. **Eligibility Requirements to Participate in Cash Distribution**

- (A) To receive a payment from the Net Cash Settlement Fund, all Claimants must show that they: (i) owned Tile Shop common stock as of October 18, 2019 and (ii) *either* sold their shares during the period from October 22, 2019 through and including November 8, 2019 *or* continued to own shares of Tile Shop common stock as of June 30, 2020, the date that the parties accepted the mediator’s settlement proposal and reached their agreement in principle to settle the Action. Each such share that satisfies the requirements in the preceding sentence shall eligible for recovery under the Settlement (each, an “Eligible Share”).
- (B) The Claims Administrator will be instructed to make reasonable judgments to accept Claims based on information provided by Claimants.

46. **Allocation of Net Cash Settlement Fund**

- (A) Primary Level Allocation, *i.e.*, \$1.44 Cap on Payouts.
 - (1) First, the Claims Administrator will calculate “N” or the “Net Cash Settlement Fund,” which will be the remaining balance of the Cash Settlement Fund after deducting (i) any Taxes; (ii) any Administration Costs; and (iii) any Cash Settlement Fund Award.
 - (2) Second, the Claims Administrator will calculate “S” or the total “Shares,” which will be the total number of Eligible Shares based on the valid Claims submitted by Authorized Claimants.
 - (3) Third, the Claim Administrator will calculate “P” or the “Per-Share Payout,” which will be calculated by dividing the Net Cash Settlement Fund by the total number of Shares.

- (4) If the Per-Share Payout equals \$1.44 per share or less, the entire Net Cash Settlement Fund will be distributed to Authorized Claimants and there will be no remaining funds to allocate among Authorized Claimants. In this event, each Authorized Claimant will receive a pro rata distribution from the Net Settlement Cash Fund equal to the product of (i) the Per-Share Payout; and (ii) the Claimant's total number of Eligible Shares, subject to the \$5.00 minimum payment threshold for payments stated below.
 - (5) If the Per Share Payout is greater than \$1.44 per share, then the Secondary Level Allocation under Section B below will be applied to payments from the Net Cash Settlement Fund.
- (B) Secondary Level Allocation, *i.e.*, \$1.83 Cap on Payouts for Sellers on October 22, 2019.
- (1) **IF AND ONLY IF**, the "Per-Share Payout" for all Authorized Claimant exceeds \$1.44 per eligible share, then the Claims Administrator will be entitled to allocate up to \$1.44 per share to Authorized Claimants, except that Authorized Claimants who reasonably document sales on October 22, 2019 shall be eligible to receive pro rata payments of up to \$1.83 per share sold on October 22, 2019.
 - (2) Under the Secondary Level Allocation, the Claims Administrator shall first determine the total amount of the Net Cash Settlement Fund available for distribution to Authorized Claimants (the "Capped Distributable Amount") by multiplying the total number of Eligible Shares by \$1.44. Each Authorized Claimant will be entitled to receive a pro rata share of the Capped Distributable Amount equal to the product of (i) \$1.44; and (ii) the Claimant's total number of Eligible Shares, subject to the \$5.00 minimum payment threshold for payments stated below.
 - (3) In addition, Authorized Claimants who reasonably document sales on October 22, 2019 shall be allocated a pro rata share of the excess amount in the Net Cash Settlement Fund above the Capped Distributable Amount, up to a cap \$1.83 per each Eligible Share sold on October 22, 2019, and subject to the \$5.00 minimum payment threshold for payments stated below.
- (C) Derivative Claim Distribution, *i.e.*, if funds remain after paying a Per-Share Payout of up to \$1.83 per share to Eligible Shares sold on October 22, 2019 and up to \$1.44 for all other Eligible Shares.

- (1) **IF AND ONLY IF**, funds remain in the Net Cash Settlement Fund after distributing all monies pro rata to Authorized Claimants (subject to the per-share payout caps set forth above), and after conducting any re-distribution(s) of funds remaining from uncashed checks, returned checks, or otherwise, to Authorized Claimants who have cashed their prior checks, then any remaining funds in the Net Cash Settlement Fund shall be deemed a recovery with respect to Plaintiffs' derivative claims and will be paid to the Company.

47. **Additional Provisions**

- (A) If an Authorized Claimant's allocated payment from the Net Cash Settlement Fund calculates to less than \$5.00, it will not be included in the calculation and no distribution will be made to that Authorized Claimant. The funds otherwise available for distribution to any such Authorized Claimant who falls under the \$5.00 minimum payment will be re-allocated among Authorized Claimants who are eligible to receive payments of \$5.00 or more from the Net Cash Settlement Fund in accordance with the allocation provisions stated above.
- (B) Payment pursuant to the Plan of Allocation, or such other plan of allocation as may be approved by the Court, will be conclusive against all Claimants. No person or entity shall have any claim against Plaintiffs, Plaintiffs' Counsel, Plaintiffs' damages expert, the Claims Administrator, or any other agent designated by Plaintiffs' Counsel, Defendants, and/or their respective counsel, arising from distributions made substantially in accordance with the Stipulation, the plan of allocation approved by the Court, or any order of the Court. Plaintiffs and Defendants, and their respective counsel, and all other Released Person shall have no liability whatsoever for the investment or distribution of the Cash Settlement Fund or the Net Cash Settlement Fund, the plan of allocation, or the determination, administration, calculation, or payment of any claim or nonperformance of the Claims Administrator, the payment or withholding of taxes (including interest and penalties) owed by the Cash Settlement Fund, or any losses incurred in connection therewith.
- (C) The Plan of Allocation set forth herein is the plan that is being proposed to the Court for its approval by Plaintiffs after consultation with their damages expert. The Court may approve this plan as proposed or it may modify the Plan of Allocation without further notice to Settlement Class Members or Current Stockholders. Any Orders regarding any modification of the Plan of Allocation will be posted on the Settlement website, www.TileShopStockholderLitigation.com.

WHAT CLAIMS WILL THE SETTLEMENT RELEASE?

48. If the Settlement is approved, the Court will enter a final judgment (the “Judgment”). The Judgment will dismiss with prejudice the claims against Defendants and will provide that, upon the Effective Date of the Settlement, Plaintiffs and the Settlement Class will, to the fullest extent permitted by law, release and forever discharge the Released Defendants’ Persons (as defined in paragraph 50 below) from any and all Released Plaintiffs’ Claims (as defined in paragraph 49 below); provided, however, that the release of the Released Plaintiffs’ Claims shall not include the release of the right to enforce any confidentiality stipulation or other term agreed upon or referenced in the Settlement.

49. “Released Plaintiffs’ Claims” means, to the fullest extent permitted by law, any and all claims (including for costs, attorneys’ fees or expenses), including Unknown Claims (as defined in paragraph 51 below), (i) arising out of or based upon the allegations, transactions, facts, matters, representations, or omissions involved, set forth, or referred to in the Complaint and/or other pleadings, motions or orders filed in the Action or (ii) relating to Settlement Class Members’ ownership of Tile Shop common stock as of October 18, 2019, except for claims relating to the enforcement of the Settlement.

50. “Released Defendants’ Persons” means (i) Defendants; (ii) any person or entity who is, was or will be related to or affiliated with (as those terms are defined under 17 C.F.R. § 229.404 and 17 C.F.R. § 240.12b-2) Defendants; (iii) the past and present directors and officers of the Company; (iv) the entities owning the Kamin and Jacullo Post-Announcement Shares on November 8, 2019; and (v) the respective past, present or future family members, spouses, heirs, trusts, trustees, executors, estates, administrators, beneficiaries, distributees, parents, subsidiaries, divisions, affiliates, associated entities, principals, officers, directors, managing directors, members, managers, predecessors, predecessors in interest, successors, successors in interest, bankers, attorneys, and insurers of each and all of the foregoing.

51. “Unknown Claims” means claims that the Plaintiffs (and/or their counsel), for themselves and on behalf of the Settlement Class, and Defendants do not know or suspect to exist at the time of the releases contemplated herein. With respect to any of the Released Claims, Plaintiffs and Defendants stipulate and agree that upon the Effective Date, Plaintiffs and Defendants shall expressly and each of the Settlement Class Members shall be deemed to have, and by operation of the Judgment shall have, expressly waived, relinquished and released any and all provisions, rights and benefits conferred by or under Cal. Civ. Code § 1542 or any law of the United States or any state of the United States or territory of the United States, or principle of common law, which is similar, comparable or equivalent to Cal. Civ. Code § 1542, which provides:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE AND THAT, IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.

Plaintiffs and Defendants acknowledge, and the Settlement Class Members by operation of law shall be deemed to have acknowledged, that they may discover facts in addition to or different from those now known or believed to be true with respect to the Released Claims, but that it is the

intention of Plaintiffs and Defendants, and by operation of law the Settlement Class Members, to completely, fully, finally and forever extinguish any and all Released Claims without regard to the subsequent discovery of such additional or different facts. Plaintiffs and Defendants acknowledge, and the Settlement Class Members by operation of law shall be deemed to have acknowledged, that the inclusion of “Unknown Claims” in the definition of “Released Claims” was separately bargained for and was a material element of the Settlement and was relied upon by each and all of the Plaintiffs and Defendants in entering into this Settlement Agreement.

52. The Judgment will also provide that, upon the Effective Date of the Settlement, Defendants, on behalf of themselves and, to the fullest permitted by law, their respective successors in interest, predecessors, representatives, trustees, executors, administrators, heirs, assigns or transferees, and any person or entity acting for or on behalf of each of them, will release the Released Plaintiffs’ Persons (as defined in ¶ 54 below) from any and all Released Defendants’ Claims (as defined in ¶53 below); provided, however, that the release of the Released Defendants’ Claims shall not include the release of the right to enforce any confidentiality stipulation or other term agreed upon or referenced in this Settlement.

53. “Released Defendants’ Claims” means any and all claims (including for costs, attorneys’ fees or expenses), including Unknown Claims, arising out of or relating to the filing, prosecution, subject matter and settlement of the Action, except for claims relating to the enforcement of the Settlement.

54. “Released Plaintiffs’ Persons” means (i) Plaintiffs, Settlement Class Members, and Plaintiffs’ Counsel; (ii) any person or entity who is, was or will be related to or affiliated with (as those terms are defined under 17 C.F.R. § 229.404 and 17 C.F.R. § 240.12b-2) Plaintiffs, Settlement Class Members, and Plaintiffs’ Counsel; (iii) the past and present directors, officers, and partners of Plaintiffs, Settlement Class Members, and Plaintiffs’ Counsel; and (iv) the respective past, present or future family members, spouses, heirs, trusts, trustees, executors, estates, administrators, beneficiaries, distributees, parents, subsidiaries, divisions, affiliates, associated entities, principals, officers, directors, managing directors, members, managers, predecessors, predecessors in interest, successors, successors in interest, bankers, attorneys, and insurers of each and all of the foregoing.

**WHAT PAYMENT ARE THE ATTORNEYS FOR PLAINTIFFS SEEKING?
HOW WILL THE LAWYERS BE PAID?**

55. Plaintiffs’ Counsel have not received any payment for their services in pursuing claims asserted in the Action on behalf of the Settlement Class and the Company, nor have Plaintiffs’ Counsel been paid for their litigation expenses.

56. Before final approval of the Settlement, Lead Counsel will apply to the Court for an award of attorneys’ fees for Plaintiffs’ Counsel, reimbursement of Plaintiffs’ Counsel’s litigation expenses, and incentive awards for Plaintiffs in connection with achieving the Cash Settlement Fund (the “Cash Settlement Fund Award”). Lead Counsel’s application for a Cash Settlement Fund Award will consist of a request for attorneys’ fees in amount not to exceed 25% of the Cash Settlement Fund, reimbursement of Litigation Expenses in an amount not to exceed \$625,000, and incentive awards not to exceed \$25,000 for each Plaintiff. Any Cash Settlement

Fund Award will be paid out of the Cash Settlement Fund. Class Members are not personally liable for any such fee, expenses, or incentive awards.

57. Before final approval of the Settlement, Lead Counsel will also apply to the Court for an award of attorneys' fees in connection to achieving the non-monetary benefits identified in paragraphs 31-36 of this Notice (the "Non-Monetary Benefits Award"). Lead Counsel's application for a Non-Monetary Benefits Award will include a request for attorneys' fees in an amount not to exceed \$2,700,000. Any Non-Monetary Benefits Award will be paid by the Company's insurers. Class Members are not personally liable for any such fee award.

**WHEN AND WHERE WILL THE COURT DECIDE WHETHER TO APPROVE
THE SETTLEMENT? DO I HAVE TO COME TO THE HEARING?
MAY I SPEAK AT THE HEARING IF I DON'T LIKE THE SETTLEMENT?**

58. **Class Members and Current Stockholders do not need to attend the Settlement Hearing. The Court will consider any submission made in accordance with the provisions below even if a Class Member or Current Stockholder does not attend the hearing. Class Members and Current Stockholders can participate in the Settlement without attending the Settlement Hearing.**

59. Please Note: The date and time of the Settlement Hearing may change without further written notice to Class Members or Current Stockholders. In addition, the ongoing COVID-19 health emergency is a fluid situation that creates the possibility that the Court may decide to conduct the Settlement Hearing by video or telephonic conference, or otherwise allow Class Members and Current Stockholders to appear at the hearing by phone or video, without further written notice to Class Members or Current Stockholders. **In order to determine whether the date and time of the Settlement Hearing have changed, or whether Class Members and Current Stockholders must or may participate by phone or video, it is important that you monitor the Court's docket and the Settlement website, www.TileShopStockholderLitigation.com, before making any plans to attend the Settlement Hearing. Any updates regarding the Settlement Hearing, including any changes to the date or time of the hearing or updates regarding in-person or telephonic appearances at the hearing, will be posted to the Settlement website, www.TileShopStockholderLitigation.com. Also, if the Court requires or allows Class Members and Current Stockholders to participate in the Settlement Hearing by telephone or video conference, the information needed to access the conference will be posted to the Settlement website, www.TileShopStockholderLitigation.com.**

60. The Settlement Hearing will be held on **October 12, 2020 at 1:30 p.m.**, before Vice Chancellor Sam Glasscock III, either in person at the Court of Chancery of the State of Delaware, Sussex County Courthouse, 34 The Circle, Georgetown, DE 19947, or by telephone or videoconference (in the discretion of the Court), to determine, among other things: (i) whether the Action may be permanently maintained as a non-opt out class action and whether the Settlement Class should be certified permanently, for purposes of the Settlement, pursuant to Court of Chancery Rules 23(a), 23(b)(1) and 23(b)(2); (ii) whether Plaintiffs may be permanently designated as representatives for the Settlement Class and Lead Counsel as counsel for the Settlement Class, and whether Plaintiffs and Lead Counsel have adequately represented the

interests of the Settlement Class in the Action; (iii) whether the proposed Settlement on the terms and conditions provided for in the Stipulation is fair, reasonable, and adequate to the Settlement Class and the Company, and should be approved by the Court; (iv) whether a Judgment, substantially in the form attached as Exhibit B to the Stipulation should be entered dismissing the Action with prejudice against Defendants; (v) whether the proposed Plan of Allocation of the Net Cash Settlement Fund is fair and reasonable, and should therefore be approved; (vi) whether the application by Lead Counsel for an award of attorneys' fees, reimbursement of litigation expenses, and incentive awards for Plaintiffs should be approved; and (vii) to consider any other matters that may properly be brought before the Court in connection with the Settlement.

61. Any Class Member or Current Stockholder may object to the Settlement, the proposed Plan of Allocation, or Lead Counsel's application for attorneys' fees, expenses, and incentive awards ("Objector"). Objections must be in writing. To object, you must **(1)** file any written objection, together with copies of all other papers and briefs supporting the objection, with the Register in Chancery at the address set forth below **on or before October 2, 2020**; **(2)** serve the papers (electronically by File & ServeXpress, by hand, by first class U.S. mail, or by express service) on Lead Counsel and Defendants' Counsel at the addresses set forth below so that the papers are **received on or before October 2, 2020**; and **(3)** email a copy of your objection to markl@blbglaw.com, shinall@sperling-law.com, bpuls@foxrothschild.com, and knachbar@mnat.com, by **October 2, 2020**.

REGISTER IN CHANCERY	LEAD COUNSEL
<p style="text-align: center;">Register in Chancery Court of Chancery Leonard L. Williams Justice Center 500 North King Street Wilmington, DE 19801</p>	<p style="text-align: center;">Mark Lebovitch Bernstein Litowitz Berger & Grossmann LLP 1251 Avenue of the Americas New York, NY 10020</p>

DEFENDANTS' COUNSEL
<p>Greg Shinall Sperling & Slater, P.C. 55 West Monroe St., Suite 3200 Chicago, IL 60603</p> <p>Bret A. Puls Fox Rothschild LLP 222 South Ninth Street, Suite 2000 Minneapolis, MN 55402</p> <p>Kenneth J. Nachbar Morris, Nichols, Arsht & Tunnell LLP 1201 North Market Street Wilmington, DE 19801</p>

62. Any objections must: (i) state the name, address, and telephone number of the Objector and, if represented by counsel, the name, address, and telephone number of his, her, or its counsel; (ii) be signed by the Objector; (iii) contain a specific, written statement of the objection(s) and the specific reason(s) for the objection(s), including any legal and evidentiary support the Objector wishes to bring to the Court's attention, and if the Objector has indicated that he, she, or it intends to appear at the Settlement Hearing, the identity of any witnesses the Objector may call to testify and any exhibits the Objector intends to introduce into evidence at the hearing; (iv) state the objection is being filed with respect to "*In re Tile Shop Holdings, Inc. Litigation.*, Consol. C.A. No. 2019-0892-SG"; and (e) include documentation sufficient to prove that the Objector is a member of the Settlement Class (*i.e.*, owned shares of Tile Shop common stock as of October 18, 2019) and/or a Current Stockholder (*i.e.*, owned shares of Tile Shop common stock as of June 30, 2020). Documentation establishing that an Objector is a member of the Settlement Class and/or a Current Tile Shop Stockholder must consist of copies of monthly brokerage account statements or an authorized statement from the Objector's broker containing the transactional and holding information found in an account statement.

63. You may file a written objection without having to appear at the Settlement Hearing. You may not, however, appear at the Settlement Hearing to present your objection unless you first file and serve a written objection in accordance with the procedures described above, unless the Court orders otherwise.

64. If you wish to be heard orally at the hearing in opposition to the approval of the Settlement, the Plan of Allocation, or Lead Counsel's motion for an award of attorneys' fees and Litigation Expenses, assuming you timely file and serve a written objection as described above, you must also file a notice of appearance with the Register in Chancery and serve it on Lead Counsel and on Defendants' Counsel at the addresses set forth in paragraph 61 above so that it is **received on or before October 2, 2020**. Persons who intend to object and desire to present evidence at the Settlement Hearing must include in their written objection or notice of appearance the identity of any witnesses they may call to testify and exhibits they intend to introduce into evidence at the hearing. Such persons may be heard orally at the discretion of the Court.

65. You are not required to hire an attorney to represent you in making written objections or in appearing at the Settlement Hearing. However, if you decide to hire an attorney, it will be at your own expense, and that attorney must file a notice of appearance with the Court and serve it on Lead Counsel and Defendants' Counsel at the addresses set forth in paragraph 61 above so that the notice is **received on or before October 2, 2020**.

66. The Settlement Hearing may be adjourned by the Court without further written notice to Class Members or Current Stockholders. If you intend to attend the Settlement Hearing, you should confirm the date and time with Lead Counsel.

67. Unless the Court orders otherwise, any Class Member or Current Stockholder who does not object in the manner described above will be deemed to have waived any objection and shall be forever foreclosed from making any objection to the proposed Settlement, the proposed Plan of Allocation, or Lead Counsel's motion for an award of attorneys' fees, expenses, and incentive awards. Class Members and Current Stockholders do not need to appear at the Settlement Hearing or take any other action to indicate their approval.

WHAT IF I OWNED SHARES ON SOMEONE ELSE’S BEHALF?

68. If you owned shares of Tile Shop common stock as of October 18, 2019 or June 30, 2020 for the beneficial interest of persons or organizations other than yourself, you must either: (i) within seven (7) calendar days of receipt of this Notice, request from the Claims Administrator sufficient copies of the Notice and Claim Form (the “Notice Packet”) to forward to all such beneficial owners and within seven (7) calendar days of receipt of those Notice Packets forward them to all such beneficial owners; or (ii) within seven (7) calendar days of receipt of this Notice, provide a list of the names, addresses, and, if available, email addresses of all such beneficial owners to Tile Shop Stockholder Litigation, c/o JND Legal Administration, P.O. Box 91376, Seattle, WA 98111. If you choose the first option, you must send a statement to the Claims Administrator confirming that the mailing was made as directed and retain the list of names and addresses for use in connection with any possible future notice to the Settlement Class. If you choose the second option, the Claims Administrator will send a copy of the Notice Packet to the beneficial owners.

69. Upon full compliance with these directions, such nominees may seek reimbursement of their reasonable expenses actually incurred, by providing the Claims Administrator with proper documentation supporting the expenses for which reimbursement is sought. Copies of this Notice and the Claim Form may also be obtained from the Settlement website, www.TileShopStockholderLitigation.com, by calling the Claims Administrator toll-free at 1-877-313-0184, or by emailing the Claims Administrator at info@TileShopStockholderLitigation.com.

**CAN I SEE THE COURT FILE?
WHOM SHOULD I CONTACT IF I HAVE QUESTIONS?**

70. This Notice contains only a summary of the terms of the proposed Settlement. For more detailed information about the matters involved in this Action, you are referred to the papers on file in the Action, including the Stipulation, which may be inspected during regular office hours at the Office of the Register in Chancery in the Court of Chancery of the State of Delaware, Sussex County Courthouse, 34 The Circle, Georgetown, DE 19947. Additionally, copies of the Stipulation and any related orders entered by the Court will be posted on the Settlement website, www.TileShopStockholderLitigation.com.

All inquiries concerning this Notice and the Claim Form should be directed to:

Tile Shop Stockholder Litigation
c/o JND Legal Administration
P.O. Box 91376
Seattle, WA 98111
1-877-313-0184
info@TileShopStockholderLitigation.com
www.TileShopStockholderLitigation.com

and/or

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Questions? Visit www.TileShopStockholderLitigation.com, call toll-free at 1-877-313-0184, or email info@TileShopStockholderLitigation.com

Mark Lebovitch, Esq.
Bernstein Litowitz Berger & Grossmann LLP
1251 Avenue of the Americas, 44th Floor
New York, NY 10020
1-800-380-8496
settlements@blbglaw.com

**DO NOT CALL OR WRITE THE COURT OR THE OFFICE OF THE REGISTER IN
CHANCERY REGARDING THIS NOTICE.**

Dated: August 21, 2020

BY ORDER OF THE COURT OF
CHANCERY OF THE STATE OF
DELAWARE