
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2014

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 0-19658

TUESDAY MORNING CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

75-2398532
(I.R.S. Employer
Identification Number)

6250 LBJ Freeway
Dallas, Texas 75240
(Address of principal executive offices) (Zip code)

(972) 387-3562
(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 Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at January 27, 2015
Common Stock, par value \$0.01 per share	43,844,140

Table of Contents

<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>	3
<u>ITEM 1.</u>	<u>Financial Statements (Unaudited)</u>	3
	<u>Consolidated Balance Sheets as of December 31, 2014 and June 30, 2014</u>	3
	<u>Consolidated Statements of Income for the Three Months and Six Months Ended December 31, 2014 and 2013</u>	4
	<u>Consolidated Statements of Cash Flows for the Six Months Ended December 31, 2014 and 2013</u>	5
	<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	6
<u>ITEM 2.</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	10
<u>ITEM 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	20
<u>ITEM 4.</u>	<u>Controls and Procedures</u>	20
<u>PART II.</u>	<u>OTHER INFORMATION</u>	20
<u>ITEM 1.</u>	<u>Legal Proceedings</u>	20
<u>ITEM 1A.</u>	<u>Risk Factors</u>	20
<u>ITEM 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	21
<u>ITEM 6.</u>	<u>Exhibits</u>	22

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Tuesday Morning Corporation
Consolidated Balance Sheets
December 31, 2014 (unaudited) and June 30, 2014
(In thousands, except per share data)

	December 31, 2014	June 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 54,842	\$ 49,686
Inventories	208,455	207,663
Prepaid expenses	6,281	5,822
Deferred income taxes	42	42
Other current assets	937	1,094
Total Current Assets	270,557	264,307
Property and equipment, net	63,633	65,939
Deferred financing costs	1,118	1,416
Other assets	737	724
Total Assets	<u>\$ 336,045</u>	<u>\$ 332,386</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 67,114	\$ 86,284
Accrued liabilities	41,947	39,618
Income taxes payable	443	1
Total Current Liabilities	109,504	125,903
Deferred rent	2,100	2,721
Income tax payable — non current	419	410
Deferred income tax	42	42
Total Liabilities	112,065	129,076
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value \$0.01 per share, authorized 10,000,000 shares; none issued or outstanding	—	—
Common stock, par value \$0.01 per share, authorized 100,000,000 shares; 45,577,612 shares issued and 43,818,636 shares outstanding at December 31, 2014 and 45,417,397 shares issued and 43,663,091 shares outstanding at June 30, 2014	456	454
Additional paid-in capital	223,689	220,352
Retained earnings/(deficit)	6,451	(10,978)
Less: 1,758,976 common shares in treasury, at cost, at December 31, 2014 and 1,754,306 common shares in treasury, at cost, at June 30, 2014	(6,616)	(6,518)
Total Stockholders' Equity	223,980	203,310
Total Liabilities and Stockholders' Equity	<u>\$ 336,045</u>	<u>\$ 332,386</u>

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

Tuesday Morning Corporation
Consolidated Statements of Income (unaudited)
(In thousands, except per share data)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Net sales	\$ 301,401	\$ 285,771	\$ 503,609	\$ 469,449
Cost of sales	192,355	186,433	322,629	306,684
Gross profit	109,046	99,338	180,980	162,765
Selling, general and administrative expenses	84,824	81,053	162,512	156,947
Operating income	24,222	18,285	18,468	5,818
Other income/(expense):				
Interest expense, net	(362)	(383)	(723)	(754)
Other income, net	56	3	18	83
Other expense, net	(306)	(380)	(705)	(671)
Income before income taxes	23,916	17,905	17,763	5,147
Income tax provision (benefit)	258	231	334	(518)
Net income	<u>\$ 23,658</u>	<u>\$ 17,674</u>	<u>\$ 17,429</u>	<u>\$ 5,665</u>
Earnings Per Share				
Net income per common share:				
Basic	\$ 0.54	\$ 0.41	\$ 0.40	\$ 0.13
Diluted	\$ 0.54	\$ 0.41	\$ 0.40	\$ 0.13
Weighted average number of common shares:				
Basic	43,416	42,904	43,370	42,761
Diluted	43,777	43,221	43,691	43,139
Dividends per common share	\$ —	\$ —	\$ —	\$ —

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

Tuesday Morning Corporation
Consolidated Statements of Cash Flows (unaudited)
(In thousands)

	Six Months Ended December 31,	
	2014	2013
Net cash flows from operating activities:		
Net income	\$ 17,429	\$ 5,665
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,113	5,866
Amortization of financing fees	298	297
Deferred income taxes	—	1
Loss on disposal of assets	408	208
Share-based compensation	2,600	1,017
Change in operating assets and liabilities:		
Inventories	(705)	8,338
Prepaid and other current assets	(315)	2,080
Accounts payable	(19,170)	568
Accrued liabilities	2,329	5,714
Deferred rent	(621)	(118)
Income taxes payable	451	(153)
Net cash provided by operating activities	<u>8,817</u>	<u>29,483</u>
Net cash flows from investing activities:		
Proceeds from sale of assets	—	26
Capital expenditures	(4,215)	(8,690)
Net cash used in investing activities	<u>(4,215)</u>	<u>(8,664)</u>
Net cash flows from financing activities:		
Repayments under revolving credit facility	(1,500)	(25,100)
Proceeds under revolving credit facility	1,500	25,100
Change in cash overdraft	—	1,987
Purchase of treasury stock	(98)	(86)
Proceeds from the exercise of employee stock options	652	1,697
Net cash provided by financing activities	<u>554</u>	<u>3,598</u>
Net increase in cash and cash equivalents	5,156	24,417
Cash and cash equivalents, beginning of period	49,686	28,896
Cash and cash equivalents, end of period	<u>\$ 54,842</u>	<u>\$ 53,313</u>

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

Tuesday Morning Corporation
Notes to Condensed Consolidated Financial Statements (unaudited)

The terms “Tuesday Morning,” the “Company,” “we,” “us” and “our” as used in this Quarterly Report on Form 10-Q refer to Tuesday Morning Corporation and its subsidiaries.

1. Basis of presentation — The unaudited interim consolidated financial statements included herein have been prepared by us pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) have been condensed or omitted pursuant to such rules and regulations. These financial statements include all adjustments, consisting only of those of a normal recurring nature, which, in the opinion of management, are necessary to present fairly the results of the interim periods presented and should be read in conjunction with the audited consolidated financial statements and notes thereto in our Annual Report on Form 10-K for the fiscal year ended June 30, 2014. The balance sheet at June 30, 2014 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and notes required by GAAP for complete financial statements. For further information, refer to the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2014. The results of operations for the three and six month periods ended December 31, 2014 are not necessarily indicative of the results to be expected for the full fiscal year ending June 30, 2015.

The Company no longer presents a Consolidated Statement of Comprehensive Income as there are no other comprehensive income items in either the current or prior fiscal periods.

The preparation of unaudited interim consolidated financial statements, in conformity with GAAP, requires us to make assumptions and use estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to: inventory valuation under the retail method; and estimation of reserves and valuation allowances specifically related to insurance, income taxes, and litigation. Actual results could differ from these estimates. Our fiscal year ends on June 30 and we operate our business as a single operating segment.

Certain reclassifications were made to prior period amounts to conform to the current period presentation. None of the reclassifications affected our net income in any period.

2. Share-based incentive plans — **Stock Option Awards.** We have established the Tuesday Morning Corporation 1997 Long-Term Equity Incentive Plan, as amended (the “1997 Plan”), the Tuesday Morning Corporation 2004 Long-Term Equity Incentive Plan, as amended (the “2004 Plan”), and the Tuesday Morning Corporation 2008 Long-Term Equity Incentive Plan (the “2008 Plan”), which allow for the granting of stock options to directors, officers and key employees of the Company, and certain other key individuals who perform services for us and our subsidiaries. Equity awards may no longer be granted under the 1997 Plan, the 2004 Plan, or the 2008 Plan, but equity awards granted under the 1997 Plan, the 2004 Plan and the 2008 Plan are still outstanding.

On September 16, 2014, our Board of Directors adopted the Tuesday Morning Corporation 2014 Long-Term Incentive Plan (the “2014 Plan”), and the 2014 Plan was approved by our stockholders at the 2014 annual meeting of stockholders on November 12, 2014. The 2014 Plan became effective on September 16, 2014, and the maximum number of shares reserved for issuance under the 2014 Plan is 3,600,000 shares plus any awards under the 2008 Plan (i) that were outstanding on September 16, 2014 and, on or after September 16, 2014, are forfeited, expire or are canceled, and (ii) any shares subject to such awards that, on or after September 16, 2014, are used to satisfy the exercise price or tax withholding obligations with respect to such awards. Our Board of Directors also approved the termination of the 2008 Plan, effective upon the date of stockholder approval of the 2014 Plan, and no new awards will be made under the 2008 Plan. The 2014 Plan provides for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, dividend equivalent rights, and other awards which may be granted singly, in combination, or in tandem, and which may be paid in cash, shares of common stock, or a combination of cash and shares of common stock.

Stock options were awarded with a strike price at a fair market value equal to the average of the high and low trading prices of our common stock on the date of grant under the 1997 Plan and the 2004 Plan. Stock options were awarded with a strike price at a fair market value equal to the closing price of our common stock on the date of the grant under the 2008 Plan and the 2014 Plan.

Options granted under the 1997 Plan and the 2004 Plan typically vest over periods of one to five years and expire ten years from the date of grant, while options granted under the 2008 Plan and the 2014 Plan typically vest over periods of one to four years and expire ten years from the date of grant. Options granted under the 2004 Plan and the 2008 Plan may have certain performance

[Table of Contents](#)

requirements in addition to service terms. If the performance conditions are not satisfied, the options are forfeited. The exercise prices of stock options outstanding on December 31, 2014, range between \$1.24 per share and \$35.23 per share. At December 31, 2014, all shares available under the 1997 Plan and the 2004 Plan had been granted. The 1997 Plan, the 2004 Plan, and the 2008 Plan terminated pursuant to their terms as of December 29, 2007, May 17, 2014, and September 16, 2014, respectively. There were 5.4 million shares available for grant under the 2014 Plan at December 31, 2014.

Restricted Stock Awards. The 1997 Plan, the 2004 Plan, the 2008 Plan, and the 2014 Plan authorize the grant of restricted stock awards to directors, officers, key employees and certain other key individuals who perform services for us and our subsidiaries. Equity awards may no longer be granted under the 1997 Plan, the 2004 Plan, and the 2008 Plan, but restricted stock awards granted under the 2004 Plan and the 2008 Plan are still outstanding. Restricted stock awards are not transferable, but bear certain rights of common stock ownership including voting and dividend rights. Shares are valued at the fair market value of our common stock at the date of award. Shares may be subject to certain performance requirements. If the performance requirements are not met, the restricted shares are forfeited. At December 31, 2007, all shares under the 1997 Plan had been granted and the 1997 Plan terminated pursuant to its terms as of December 29, 2007. Under the 2004 Plan, the 2008 Plan and the 2014 Plan, as of December 31, 2014, there were 353,138 shares of restricted stock outstanding with award vesting periods of one to four years and a weighted average fair value of \$14.16 per share.

Performance Shares and Performance Units. As of December 31, 2014 there were 170,000 performance shares outstanding under the 2008 Plan.

Share-based Compensation Costs. Share-based compensation costs were recognized as follows (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Amortization of share-based compensation during the period	\$ 1,333	\$ 690	\$ 2,687	\$ 994
Amounts capitalized in ending inventory	(365)	(190)	(748)	(308)
Amounts recognized and charged to cost of sales	420	222	661	331
Amounts charged against income for the period before tax	<u>\$ 1,388</u>	<u>\$ 722</u>	<u>\$ 2,600</u>	<u>\$ 1,017</u>

3. Commitments and contingencies —The Company has been defending against a class action lawsuit filed in California Superior Court, Los Angeles County, on December 5, 2008—*Julia Randell, et. al., v. Tuesday Morning, Inc.*, No. BC403298 (Cal. Super. Ct.)—in which the original complaint alleged violations of California’s meal and rest period laws. The two named plaintiffs, who were former employees of the Company, subsequently amended the complaint three times. Narrowing their class allegations, the plaintiffs moved on March 14, 2012 to certify a class on the issue of whether the Company’s alleged practice of providing “on-duty” meal periods to Senior Sales Associates violates the California Labor Code. The Court granted that motion on June 20, 2012, certifying a class comprised of current and former Senior Sales Associates who worked for the Company in California, and who were required to take meal breaks “on duty” at any point from April 1, 2005 to the present. The Company filed motions to decertify the class and for summary judgment on January 4, 2013, which the Court denied on March 29, 2013. On March 20, 2014, the parties executed a settlement agreement and release which, subject to Court approval, resolved the matter on a class basis. On April 16, 2014, the Court granted preliminary approval of the settlement and authorized the parties to provide notice of the settlement and its terms to class members. On October 9, 2014, the Court granted final approval of the settlement. The terms of the settlement did not have a material adverse effect on the Company’s financial condition or results of operations.

[Table of Contents](#)

4. Income per common share - The following table sets forth the computation of basic and diluted income per common share (in thousands, except per share amounts):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Net income	\$ 23,658	\$ 17,674	\$ 17,429	\$ 5,665
Less: Income to participating securities	(200)	(99)	(147)	(34)
Net income attributable to common shares	\$ 23,458	\$ 17,575	\$ 17,282	\$ 5,631
Weighted average number of common shares outstanding basic	43,416	42,904	43,370	42,761
Effect of dilutive stock equivalents	361	317	321	378
Weighted average number of common shares outstanding dilutive	43,777	43,221	43,691	43,139
Net income per common share basic	\$ 0.54	\$ 0.41	\$ 0.40	\$ 0.13
Net income per common share diluted	\$ 0.54	\$ 0.41	\$ 0.40	\$ 0.13

For the quarters ended December 31, 2014 and December 31, 2013, options representing rights to purchase 86,517 weighted average shares and 876,521 weighted average shares, respectively, were not included in the diluted income per share calculation because the assumed exercise of such options would have been anti-dilutive. For the six months ended December 31, 2014 and December 31, 2013, options representing rights to purchase 223,016 weighted average shares and 705,165 weighted average shares, respectively, were not included in the diluted income per share calculation because the assumed exercise of such options would have been anti-dilutive.

5. Revolving credit facility — We have a credit agreement providing for an asset-based, five-year senior secured revolving credit facility in the amount of up to \$180.0 million which matures on November 17, 2016 (the “Revolving Credit Facility”). Our indebtedness under the Revolving Credit Facility is secured by a lien on substantially all of our assets. The Revolving Credit Facility contains certain restrictive covenants, which affect, among others, our ability to incur liens or incur additional indebtedness, change the nature of our business, sell assets or merge or consolidate with any other entity, or make investments or acquisitions unless they meet certain requirements. Our financial covenant requires that we maintain availability of 10% of our calculated borrowing base, but never less than \$15 million. Our Revolving Credit Facility may, in some instances, limit payment of cash dividends and repurchases of the Company’s common stock. In order to make a restricted payment, including payment of a dividend or a repurchase of shares, we must maintain availability of 17.5% of our lenders’ aggregate commitments under the Revolving Credit Facility for three months prior to, and on a pro forma basis for the six months immediately following, and after giving effect to, the restricted payment and we must satisfy a fixed charge coverage ratio requirement. As of December 31, 2014, we were in compliance with all required covenants.

At December 31, 2014, we had no amounts outstanding under the Revolving Credit Facility, \$6.4 million of outstanding letters of credit and availability of \$98.5 million under the Revolving Credit Facility. Letters of credit under the Revolving Credit Facility are primarily for self-insurance purposes. We incur commitment fees of up to 0.375% on the unused portion of the Revolving Credit Facility. Any borrowing under the Revolving Credit Facility incurs interest at LIBOR or the prime rate, plus an applicable margin, at our election (except with respect to swing loans, which incur interest solely at the prime rate plus the applicable margin). These rates are increased or reduced as our average daily availability changes. Interest expense for the second quarter of both the current fiscal year and prior fiscal year of \$0.4 million is due to commitment fees of \$0.2 million and the amortization of financing fees of \$0.2 million. Interest expense for the six months ended December 31, 2014 was \$0.7 million, due to \$0.4 million of commitment fees and \$0.3 million of amortized financing fees. Interest expense for the six months ended December 31, 2013 was \$0.8 million, due to \$0.4 million of commitment fees and \$0.4 million of amortized financing fees.

6. Depreciation — Accumulated depreciation of owned equipment and property at December 31, 2014 and June 30, 2014 was \$118.6 million and \$114.7 million, respectively.

7. Income taxes — Tuesday Morning Corporation or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. With a few exceptions, Tuesday Morning Corporation is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2009. The Internal Revenue Service has concluded an examination of the Company for all taxable years ended on or before June 30, 2010. The effective tax rates for the quarters ended December 31, 2014 and December 31, 2013 were 1.1% and 1.3%, respectively. The effective tax rates for the six months ended

[Table of Contents](#)

December 31, 2014 and December 31, 2013 were 1.9% and (10.1%), respectively. A full valuation allowance is currently recorded against the Company's deferred tax assets as the Company was in a three year cumulative loss position as of June 30, 2013 and June 30, 2014. A deviation from the customary relationship between income tax expense/(benefit) and pretax income/(loss) results from the valuation allowance. The Internal Revenue Service issued final regulations T.D. 9636 - Guidance Regarding Deduction and Capitalization of Expenditures Related to Tangible Property in September 2013 which are applicable to tax years beginning on or after January 1, 2014. The Company is currently reviewing the regulations which provide guidance on the application of sections 162(a) and 263(a) of the Internal Revenue Code to amounts paid to acquire, produce, or improve tangible property and anticipates an immaterial impact to our tax return and financial statements.

8. Cash and cash equivalents — Cash and cash equivalents are comprised of cash, credit card receivables and all highly liquid instruments with original maturities of three months or less. Cash equivalents are carried at cost, which approximates fair value. At December 31, 2014 and at June 30, 2014, credit card receivables from third party consumer credit card providers were \$3.0 million and \$3.8 million, respectively. Such receivables are generally collected within one week of the balance sheet date.

9. Recent accounting pronouncements — There were no accounting pronouncements issued during the second quarter of fiscal 2015 that affected the Company.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our unaudited interim consolidated financial statements and the notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended June 30, 2014.

Business Overview

- We are a leading retailer of off-price, upscale decorative home accessories, housewares, seasonal goods and famous-maker gifts that we generally sell below retail prices charged by department stores and specialty and on-line retailers in the United States. We operated 792 stores in 41 states as of December 31, 2014. Our strong everyday value proposition is also supported with periodic circulars that create a sense of urgency and excitement for our customer base.
- We recently completed execution of a business turnaround strategy to improve our store operations, merchandise offerings, sales productivity and overall profitability. The business turnaround phase was the initial part of our overall business transformation strategy. A number of specific costs related to our business turnaround have been incurred as we executed this strategy. To provide enhanced information regarding our business performance, we have shown the effects of these specific costs on the prior year in the Results of Operations section.
- Net sales for the second quarter of fiscal 2015 were \$301.4 million, an increase of \$15.6 million, or 5.5%, from \$285.8 million for the same period last year. Comparable store sales for the quarter ended December 31, 2014 increased by 7.6%, compared to the same period last year, which was due to a 7.7% increase in customer transactions, slightly offset by a 0.1% decrease in average ticket. Net sales for the first six months of fiscal 2015 were \$503.6 million, an increase of \$34.2 million, or 7.3%, from \$469.4 million for the same period last year. Comparable store sales for the six months ended December 31, 2014 increased by 9.1%, compared to the same period last year, which was due to an 8.9% increase in customer transactions along with a 0.2% increase in average ticket.
- Cost of sales, as a percentage of net sales, for the second quarter of fiscal 2015 was 63.8%, compared to 65.2% for the same period last year. Cost of sales, as a percentage of net sales, for the first six months of fiscal 2015 was 64.1%, compared to 65.3% for the same period last year.
- For the second quarter of fiscal 2015, selling, general and administrative expenses increased \$3.7 million to \$84.8 million, from \$81.1 million for the same quarter last year. For the first six months of fiscal 2015, selling, general and administrative expenses increased \$5.6 million to \$162.5 million, from \$156.9 million for the same quarter last year.
- We generated net income of \$23.7 million and net income per share of \$0.54 for the quarter ended December 31, 2014, compared to net income of \$17.7 million and net income per share of \$0.41 for the same period last year. We generated net income of \$17.4 million and net income per share of \$0.40 for the six months ended December 31, 2014, compared to net income of \$5.7 million and net income per share of \$0.13 for the same period last year.
- Inventory levels at December 31, 2014 increased \$0.8 million to \$208.5 million from \$207.7 million at June 30, 2014. Compared to the same date last year, inventories increased \$4.9 million from \$203.6 million at December 31, 2013.
- Cash and cash equivalents at December 31, 2014 increased \$5.1 million to \$54.8 million from \$49.7 million at June 30, 2014. Compared to the same date last year, cash and cash equivalents increased \$1.5 million from \$53.3 million at December 31, 2013.

Results of Operations

The following tables set forth certain financial information from our consolidated statements of operations for the second quarter and six months ended December 31, 2014 and the corresponding period in 2013. Our business is highly seasonal, with a significant portion of our net sales and most of our operating income generated in the quarter ending December 31. There can be no assurance that the trends in sales or operating results will continue in the future. In addition to our reported results, we have also provided below a summary of the reconciliation to the adjusted (non-GAAP) financial information for the second quarter and six months ended December 31, 2014 and the corresponding periods in 2013.

Summary and Reconciliation of GAAP to Non-GAAP Financial Measures

(in thousands, except for per share data, percentages and ratios)

	Three Months Ended December 31, 2014			Three Months Ended December 31, 2013		
	GAAP	Non-GAAP Adjustments	Adjusted (Non-GAAP)	GAAP	Non-GAAP Adjustments	Adjusted (Non-GAAP)
Net sales	\$ 301,401	—	\$ 301,401	\$ 285,771	—	\$ 285,771
Percent increase from prior year	5.5%	—	5.5%	0.2%	—	0.2%
Comparable store sales increase (1)	7.6%	—	7.6%	3.1%	—	3.1%
Gross profit	\$ 109,046	—	\$ 109,046	\$ 99,338	\$ 1,810	\$ 101,148
Selling, general and administrative expenses (2)	\$ 84,824	—	\$ 84,824	\$ 81,053	\$ (244)	\$ 80,809
Operating income (3)	\$ 24,222	—	\$ 24,222	\$ 18,285	\$ 2,054	\$ 20,339
Interest expense, net	\$ (362)	—	\$ (362)	\$ (383)	—	\$ (383)
Other income, net	\$ 56	—	\$ 56	\$ 3	—	\$ 3
Income tax provision	\$ 258	—	\$ 258	\$ 231	\$ 391	\$ 622
Net income (3)	\$ 23,658	—	\$ 23,658	\$ 17,674	\$ 1,663	\$ 19,337
Diluted income per share (3)	\$ 0.54	—	\$ 0.54	\$ 0.41	\$ 0.04	\$ 0.45
Ratios as a percent of net sales:						
Gross profit	36.2%	—	36.2%	34.8%	0.6%	35.4%
Selling, general and administrative expenses	28.1%	—	28.1%	28.4%	(0.1)%	28.3%
Operating income	8.0%	—	8.0%	6.4%	0.7%	7.1%

(1) Stores are included in the comparable store sales calculation at the beginning of the quarter following the anniversary date of the store opening. A store that relocates within the same geographic market or modifies its available retail space is still considered the same store for purposes of this computation.

(2) See "Non-GAAP Financial Measures" below for details on these adjustments. The adjustment to gross profit and the components of the adjustments to selling, general and administrative expenses are set forth in the first table under "Non-GAAP Financial Measures" below.

(3) See "Non-GAAP Financial Measures" below for a discussion of these non-GAAP measures and reconciliation to their most directly comparable GAAP financial measures and further information on their uses and limitations.

[Table of Contents](#)

(in thousands, except for per share data, percentages and ratios)

	Six Months Ended December 31, 2014			Six Months Ended December 31, 2013		
	GAAP	Non-GAAP Adjustments	Adjusted (Non-GAAP)	GAAP	Non-GAAP Adjustments	Adjusted (Non-GAAP)
Net sales	\$ 503,609	—	\$ 503,609	\$ 469,449	—	\$ 469,449
Percent increase from prior year	7.3%	—	7.3%	2.5%	—	2.5%
Comparable store sales increase (1)	9.1%	—	9.1%	5.4%	—	5.4%
Gross profit	\$ 180,980	—	\$ 180,980	\$ 162,765	\$ 1,810	\$ 164,575
Selling, general and administrative expenses (2)	\$ 162,512	—	\$ 162,512	\$ 156,947	\$ (2,637)	\$ 154,310
Operating income (3)	\$ 18,468	—	\$ 18,468	\$ 5,818	\$ 4,447	\$ 10,265
Interest expense, net	\$ (723)	—	\$ (723)	\$ (754)	—	\$ (754)
Other income, net	\$ 18	—	\$ 18	\$ 83	\$ —	\$ 83
Income tax provision/(benefit)	\$ 334	—	\$ 334	\$ (518)	\$ 733	\$ 215
Net income (3)	\$ 17,429	—	\$ 17,429	\$ 5,665	\$ 3,714	\$ 9,379
Diluted income per share (3)	\$ 0.40	—	\$ 0.40	\$ 0.13	\$ 0.09	\$ 0.22
Ratios as a percent of net sales:						
Gross profit	35.9%	—	35.9%	34.7%	0.4%	35.1%
Selling, general and administrative expenses	32.3%	—	32.3%	33.4%	(0.6)%	32.9%
Operating income	3.7%	—	3.7%	1.2%	0.9%	2.2%

(1) Stores are included in the comparable store sales calculation at the beginning of the quarter following the anniversary date of the store opening. A store that relocates within the same geographic market or modifies its available retail space is still considered the same store for purposes of this computation.

(2) See "Non-GAAP Financial Measures" below for details on these adjustments. The adjustment to gross profit and the components of the adjustments to selling, general and administrative expenses are set forth in the first table under "Non-GAAP Financial Measures" below.

(3) See "Non-GAAP Financial Measures" below for a discussion of these non-GAAP measures and reconciliation to their most directly comparable GAAP financial measures and further information on their uses and limitations.

[Table of Contents](#)

Non-GAAP Financial Measures

We report our financial information in accordance with United States generally accepted accounting principles (GAAP). However, we present certain financial measures identified as non-GAAP under the rules of the SEC to assess our results. We believe that the non-GAAP financial measures provide useful information to the Company's management, investors, and other interested parties because they allow them to understand and compare our core operating results during the second quarter and six months ended December 31, 2014 to the corresponding prior year periods in a more consistent manner. We believe this also facilitates the comparison of our results to the results of our peer companies. The non-GAAP financial measures presented in the tables below should not be viewed as an alternative or substitute for our reported GAAP results, but in addition to our GAAP results.

The following non-GAAP financial measures are adjusted to exclude the impact of the following business turnaround related charges and adjustments in the prior-year periods: our inventory write-down, management and board transition charges (including compensation and severance, consulting, legal, search and recruiting costs related to the transition), costs associated with exiting the e-Commerce business and changes in our deferred tax asset valuation allowance. The amount of the turnaround related inventory write-down excluded from cost of sales (and the calculation of gross profit on a non-GAAP basis) and the adjustments to selling, general and administrative expenses are included in the first table below.

Adjusted Operating Income: The following table reconciles operating income, the most directly comparable GAAP financial measure, to adjusted operating income, a non-GAAP financial measure:

(in thousands, except for percentages and ratios)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Operating income (GAAP)	\$ 24,222	\$ 18,285	\$ 18,468	\$ 5,818
As a percent of net sales	8.0%	6.4%	3.7%	1.2%
Non-GAAP adjustments:				
Adjustment reducing cost of sales:				
Inventory write-down	\$ —	\$ 1,810	\$ —	\$ 1,810
Adjustments reducing selling, general and administrative expenses:				
Compensation	—	—	—	1,554
Legal, consulting, and recruiting	—	244	—	1,083
Adjusted operating income (non-GAAP)	\$ 24,222	\$ 20,339	\$ 18,468	\$ 10,265
As a percent of net sales	8.0%	7.1%	3.7%	2.2%

[Table of Contents](#)

Adjusted Net Income from Continuing Operations: The following table reconciles net income from continuing operations, the most directly comparable GAAP financial measure, to adjusted net income from continuing operations, a non-GAAP financial measure:

(in thousands)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Net income from continuing operations (GAAP)	\$ 23,658	\$ 17,674	\$ 17,429	\$ 5,665
Non-GAAP adjustments:				
Inventory write-down, net of tax of \$—, (\$336), \$—, and (\$380)(1)(2)	—	2,146	—	2,190
Compensation, net of tax of \$—, \$—, \$—, and (\$326)(2)	—	—	—	1,880
Legal, consulting, and recruiting, net of tax of \$—, (\$45), \$—, and (\$210) (1)(2)	—	289	—	1,208
Disposal of systems, net of tax of \$—, \$—, \$—, and (\$18)(2)	—	—	—	103
Deferred tax asset valuation allowance	—	(772)	—	(1,667)
Adjusted net income from continuing operations (non-GAAP)	\$ 23,658	\$ 19,337	\$ 17,429	\$ 9,379

- (1) The effective tax rate utilized in this non-GAAP adjusted net income reconciliation is 1.1% for the three months ended December 31, 2014 and (18.5%) for the three months ended December 31, 2013. These rates are inclusive of a deferred tax asset valuation allowance of \$14.2 million as of December 31, 2014 and of \$18.1 million as of December 31, 2013.
- (2) The effective tax rate utilized in this non-GAAP adjusted net income reconciliation is 1.9% for the six months ended December 31, 2014 and (21.0%) for the six months ended December 31, 2013. These rates are inclusive of a deferred tax asset valuation allowance of \$14.2 million as of December 31, 2014 and of \$18.1 million as of December 31, 2013.

Adjusted Diluted Income per share from Continuing Operations: The following table reconciles diluted income per share from continuing operations, the most directly comparable GAAP financial measure, to adjusted diluted income per share from continuing operations, a non-GAAP financial measure:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Diluted income per share from continuing operations (GAAP)	\$ 0.54	\$ 0.41	\$ 0.40	\$ 0.13
Non-GAAP adjustments:				
Inventory write-down, net of tax (1)(2)	—	0.05	—	0.06
Compensation, net of tax(2)	—	—	—	0.04
Legal, consulting, and recruiting, net of tax(1)(2)	—	0.01	—	0.03
Disposal of systems, net of tax (2)	—	—	—	—
Deferred tax asset valuation allowance	—	(0.02)	—	(0.04)
Adjusted diluted income per share from continuing operations (non-GAAP)	\$ 0.54	\$ 0.45	\$ 0.40	\$ 0.22

- (1) The effective tax rate utilized in this non-GAAP adjusted net income reconciliation is 1.1% for the three months ended December 31, 2014 and (18.5%) for the three months ended December 31, 2013. These rates are inclusive of a deferred tax asset valuation allowance of \$14.2 million as of December 31, 2014 and of \$18.1 million as of December 31, 2013.
- (2) The effective tax rate utilized in this non-GAAP adjusted net income reconciliation is 1.9% for the six months ended December 31, 2014 and (21.0%) for the six months ended December 31, 2013. These rates are inclusive of a deferred tax asset valuation allowance of \$14.2 million as of December 31, 2014 and of \$18.1 million as of December 31, 2013.

[Table of Contents](#)

**Three Months Ended December 31, 2014
Compared to the Three Months Ended December 31, 2013**

Net sales for the second quarter of fiscal 2015 were \$301.4 million, an increase of \$15.6 million, or 5.5%, from \$285.8 million for the same period last year. Comparable store sales for the second quarter of fiscal 2015 increased by 7.6% compared to the second quarter of fiscal 2014. Stores are included in the same store sales calculation at the beginning of the quarter following the anniversary date of the store opening. A store that relocates within the same geographic market or modifies its available retail space is still considered the same store for purposes of this computation. Non-comparable store sales include sales from new stores not included in comparable store sales and sales from stores that have closed. The increase in comparable store sales for the second quarter of fiscal 2015 was comprised of a 7.7% increase in customer transactions, offset by a 0.1% decrease in average ticket. Our comparable store sales increase was partially offset by a decrease in our non-comparable store sales, which decreased a total of \$5.4 million, a 210 basis points negative impact on our sales increase. The non-comparable store sales decrease is driven by 35 store closures, partially offset by eight store openings, which have occurred since the end of the second quarter of fiscal 2014.

We closed ten existing stores and opened one new store during the second quarter of fiscal 2015. In addition, we relocated five existing stores during the second quarter of fiscal 2015. Our store base decreased by nine stores for the second quarter of fiscal 2015, while the store base decreased by one store for the same period in fiscal 2014.

Store Openings/Closings

	Three Months Ended December 31, 2014	Three Months Ended December 31, 2013	Fiscal Year Ended June 30, 2014
Stores open at beginning of period	801	820	828
Stores opened during the period	1	1	9
Stores closed during the period	(10)	(2)	(27)
Stores open at end of period	<u>792</u>	<u>819</u>	<u>810</u>

Gross profit for the second quarter of fiscal 2015 was \$109.0 million, an increase of 9.8% compared to \$99.3 million in gross profit for the same quarter in fiscal 2014. Gross profit as a percentage of net sales was 36.2% for the second quarter of fiscal 2015, an improvement compared to 34.8% for the second quarter of fiscal 2014. Improvement in gross profit was primarily driven by lower markdowns in the current period. In the prior year period, we recorded \$1.8 million of markdowns related to the strategic exit of apparel as part of our business turnaround.

Selling, general and administrative expenses increased \$3.7 million for the second quarter of fiscal 2015 to \$84.8 million, compared to \$81.1 million for the same quarter last year, due to higher stock compensation expense, higher rent expense and higher professional services and consulting fees. As a percent of net sales, selling, general and administrative expenses decreased to 28.1% for the second quarter of fiscal 2015 from 28.4% for the same quarter of fiscal 2014.

Our operating income was \$24.2 million for the second quarter of fiscal 2015 as compared to operating income of \$18.3 million for the second quarter of fiscal 2014.

Income tax expense for the second quarter of fiscal 2015 was \$0.3 million compared to income tax expense of \$0.2 million for the same period last year. The effective tax rates for the second quarter of fiscal 2015 and fiscal 2014 were 1.1% and 1.3%, respectively. A full valuation allowance is currently recorded against the Company's deferred tax assets as the Company was in a three year cumulative loss position as of June 30, 2013 and June 30, 2014. The deferred tax asset valuation allowance as of December 31, 2014 and December 31, 2013 was \$14.2 million and \$18.1 million, respectively. A deviation from the customary relationship between income tax expense/(benefit) and pretax income/(loss) results from the valuation allowance.

We had net income of \$23.7 million, or \$0.54 per share, for the second quarter of fiscal 2015 compared to net income of \$17.7 million, or \$0.41 per share, for the second quarter of fiscal 2014. Excluding the business turnaround charges in the prior year period, non-GAAP adjusted net income improved from \$19.3 million, or \$0.45 per share, for the second quarter of fiscal 2014 to \$23.7 million, or \$0.54 per share, for the second quarter of fiscal 2015.

[Table of Contents](#)

**Six Months Ended December 31, 2014
Compared to the Six Months Ended December 31, 2013**

Net sales for the first six months of fiscal 2015 were \$503.6 million, an increase of \$34.2 million, or 7.3%, from \$469.4 million for the same period last year. Comparable store sales for the first six months of fiscal 2015 increased by 9.1% compared to the same period in fiscal 2014. The increase in comparable store sales for the first six months of fiscal 2015 was comprised of an 8.9% increase in customer transactions along with a 0.2% increase in average ticket. Our comparable store sales increase was partially offset by a decrease in our non-comparable store sales, which decreased a total of \$7.0 million, a 170 basis points negative impact on our sales increase. The non-comparable store sales decrease is driven by 46 store closures, partially offset by 10 store openings, which have occurred since the beginning of the prior fiscal year.

We closed 19 existing stores and opened one new store during the first six months of fiscal 2015. In addition, we relocated 15 existing stores during the first six months of fiscal 2015. Our store base decreased by 18 stores for the first six months of fiscal 2015, while the store base decreased by nine stores for the same period in fiscal 2014.

Store Openings/Closings

	Six Months Ended December 31, 2014	Six Months Ended December 31, 2013	Fiscal Year Ended June 30, 2014
Stores open at beginning of period	810	828	828
Stores opened during the period	1	2	9
Stores closed during the period	(19)	(11)	(27)
Stores open at end of period	<u>792</u>	<u>819</u>	<u>810</u>

Gross profit for the first six months of fiscal 2015 was \$181.0 million, an increase of 11.2% compared to \$162.8 million in gross profit for the same period in fiscal 2014. Gross profit as a percentage of net sales was 35.9% for the first six months of fiscal 2015, an improvement compared to 34.7% for the same period in fiscal 2014. Improvement in gross profit was primarily driven by reductions in markdowns and improvements in supply chain efficiency partly offset by slightly lower initial merchandise mark-up. In the prior year period, we recorded \$1.8 million of markdowns related to the strategic exit of apparel as part of our business turnaround.

Selling, general and administrative expenses increased \$5.6 million for the first six months of fiscal 2015 to \$162.5 million, compared to \$156.9 million for the same period last year, due to higher stock compensation expense, higher payroll and employee expense, higher rent expense and higher professional services and consulting fees. As a percent of net sales, selling, general and administrative expenses decreased to 32.3% for the first six months of fiscal 2015 from 33.4% for the same period in fiscal 2014. In the first six months of the prior year, we incurred SG&A expenses of \$2.6 million related to our business turnaround.

Our operating income was \$18.5 million for the first six months of fiscal 2015 as compared to operating income of \$5.8 million for the same period in fiscal 2014.

Income tax expense for the first six months of fiscal 2015 was \$0.3 million compared to income tax benefit of \$0.5 million for the same period last year. The effective tax rates for the six months ended December 31, 2014 and December 31, 2013 were 1.9% and (10.1%) respectively. A full valuation allowance is currently recorded against the Company's deferred tax assets as the Company was in a three year cumulative loss position as of June 30, 2013 and June 30, 2014. The deferred tax asset valuation allowance as of December 31, 2014 and December 31, 2013 was \$14.2 million and \$18.1 million, respectively. A deviation from the customary relationship between income tax expense/(benefit) and pretax income/(loss) results from the valuation allowance.

We had net income of \$17.4 million, or \$0.40 per share, for the first six months of fiscal 2015 compared to net income of \$5.7 million, or \$0.13 per share, for the first six months of fiscal 2014. Our results were impacted by the effects of the items described above and a reduced effective tax rate due to the establishment of a deferred tax asset valuation allowance beginning in the second quarter of fiscal 2013. Excluding the business turnaround charges in the prior year period, non-GAAP adjusted net income improved from \$9.4 million, or \$0.22 per share, for the first six months of fiscal 2014 to \$17.4 million, or \$0.40 per share, for the first six months of fiscal 2015.

Liquidity and Capital Resources

Cash Flows from Operating Activities

Net cash provided by operating activities for the six months ended December 31, 2014 and 2013 was \$8.8 million and \$29.5 million, respectively. The \$8.8 million of cash provided by operating activities for the six months ended December 31, 2014 was primarily due to net income of \$23.5 million before depreciation, increased accrued liabilities of \$2.3 million, offset by a decrease in accounts payable of \$19.2 million. There were no significant changes to our vendor payment policy during the six months ended December 31, 2014. The \$29.5 million of cash provided by in operating activities for the six months ended December 31, 2013 was primarily due to net income of \$11.5 million before depreciation, a decrease in inventory of \$8.3 million, and increased accrued liabilities of \$5.7 million. The primary decrease in cash provided during the six months ended December 31, 2014 as compared to the corresponding prior year period is due to the decrease in accounts payable and timing of cash disbursements.

Cash Flows from Investing Activities

Net cash used in investing activities for the six months ended December 31, 2014 and 2013 relates to capital expenditures. Capital expenditures are primarily associated with store relocations, new store openings, capital improvements to existing stores, or enhancements to our distribution center facility, equipment, and systems along with improvements related to our corporate office and equipment. Cash used in investing activities totaled \$4.2 million and \$8.7 million for the six months ended December 31, 2014 and 2013, respectively.

Cash Flows from Financing Activities

Net cash provided by financing activities was \$0.6 million for the six months ended December 31, 2014, compared to net cash provided by financing activities of \$3.6 million for the six months ended December 31, 2013. The cash provided by financing activities in the current period was primarily due to stock option exercises. The cash provided by financing activities in the corresponding prior year period was primarily due to a favorable change in cash overdraft of \$2.0 million and a \$1.7 million favorable impact due to stock option exercises and related tax impacts.

Revolving Credit Facility

We have a credit agreement providing for an asset-based, five-year senior secured revolving credit facility in the amount of up to \$180.0 million which matures on November 17, 2016 (the "Revolving Credit Facility"). Our indebtedness under the Revolving Credit Facility is secured by a lien on substantially all of our assets. The Revolving Credit Facility contains certain restrictive covenants, which affect, among others, our ability to incur liens or incur additional indebtedness, change the nature of our business, sell assets or merge or consolidate with any other entity, or make investments or acquisitions unless they meet certain requirements. Our financial covenant requires that we maintain availability of 10% of our calculated borrowing base, but never less than \$15 million. Our Revolving Credit Facility may, in some instances, limit payment of cash dividends and repurchases of the Company's common stock. In order to make a restricted payment, including payment of a dividend or a repurchase of shares, we must maintain availability of 17.5% of our lenders' aggregate commitments under the Revolving Credit Facility for three months prior to, and on a pro forma basis for the six months immediately following, and after giving effect to, the restricted payment and we must satisfy a fixed charge coverage ratio requirement. As of December 31, 2014, we were in compliance with all required covenants.

At December 31, 2014, we had no amounts outstanding under the Revolving Credit Facility, \$6.4 million of outstanding letters of credit and availability of \$98.5 million under the Revolving Credit Facility. Letters of credit under the Revolving Credit Facility are primarily for self-insurance purposes. We incur commitment fees of up to 0.375% on the unused portion of the Revolving Credit Facility. Any borrowing under the Revolving Credit Facility incurs interest at LIBOR or the prime rate, plus an applicable margin, at our election (except with respect to swing loans, which incur interest solely at the prime rate plus the applicable margin). These rates are increased or reduced as our average daily availability changes. Interest expense of \$0.4 million for the three months ended December 31, 2014 was due to commitment fees of \$0.2 million and the amortization of financing fees of \$0.2 million.

Liquidity

We have financed our operations with funds generated from operating activities, available cash and cash equivalents and borrowings under our Revolving Credit Facility. Cash and cash equivalents were \$54.8 million as of December 31, 2014 and \$53.3 million at December 31, 2013. Our cash flows will continue to be utilized for the operation of our business and the use of any excess cash will be determined by our Board of Directors. Our borrowings have historically peaked during October as we build inventory levels prior to the holiday selling season. Given the seasonality of our business, the amount of borrowings under our Revolving Credit Facility may fluctuate materially depending on various factors, including the time of year, our needs and the opportunity to acquire

[Table of Contents](#)

merchandise inventory. Our primary uses for cash provided by operating activities relate to funding our ongoing business activities and planned capital expenditures. We may also use available cash to repurchase shares of our common stock. We believe funds generated from our operations, available cash and cash equivalents and borrowings under our Revolving Credit Facility will be sufficient to fund our operations for the next year. If our capital resources are not sufficient to fund our operations, we may seek additional debt or equity financing. However, we can offer no assurances that we will be able to obtain additional debt or equity financing on reasonable terms.

Off-Balance Sheet Arrangements and Contractual Obligations

We had no off-balance sheet arrangements as of December 31, 2014.

As of December 31, 2014, there have been no material changes outside the ordinary course of business from the disclosures relating to contractual obligations contained under “Contractual Obligations” in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2014.

Critical Accounting Policies

This Management’s Discussion and Analysis of Financial Condition and Results of Operations is based upon our unaudited interim consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of certain assets, liabilities, sales and expenses, and related disclosure of contingent assets and liabilities. On a recurring basis, we evaluate our significant estimates which are based on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Actual results may differ from these estimates.

There were no changes to our critical accounting policies during the second quarter of fiscal 2015.

Under the retail inventory method, permanent markdowns result in cost reductions in inventory at the time the markdowns are taken. We also utilize promotional markdowns for specific marketing efforts used to drive higher sales volume and customer transactions for a specified period of time. Promotional markdowns do not impact the value of unsold inventory and thus do not impact cost of sales until the merchandise is sold. Markdowns during the second quarter of fiscal 2015 were 3.5% of sales compared to 5.0% of sales for the same period last year. The reduced rate of markdowns is primarily due to improved quality of inventory and reduced levels of clearance inventory. If our sales forecasts are not achieved, we may be required to record additional markdowns that could exceed historical levels. The effect of a 0.5% markdown in the value of our inventory at December 31, 2014 would result in a decline in gross profit and earnings per share for the second quarter of fiscal 2015 of \$1.0 million and \$0.02, respectively.

For a further discussion of the judgments we make in applying our accounting policies, see Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, in our Annual Report on Form 10-K for the fiscal year ended June 30, 2014.

Recent Accounting Pronouncements

There were no accounting pronouncements issued during the second quarter of fiscal 2015 that affected the Company.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws and the Private Securities Litigation Reform Act of 1995, which are based on management's current expectations, estimates and projections. These statements may be found throughout this Quarterly Report on Form 10-Q, particularly in this "Management's Discussion and Analysis of Financial Condition and Results of Operations," among others. Forward-looking statements typically are identified by the use of terms such as "may," "will," "should," "expect," "anticipate," "believe," "estimate," "intend" and similar words, although some forward-looking statements are expressed differently. You should consider statements that contain these words carefully because they describe our current expectations, plans, strategies and goals and our current beliefs concerning future business conditions, our future results of operations, our future financial position, and our current business outlook or state other "forward-looking" information.

Readers are referred to Part I, Item 1A "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended June 30, 2014 for examples of risks, uncertainties and events that could cause our actual results to differ materially from the expectations expressed in our forward-looking statements. These risks, uncertainties and events also include, but are not limited to, the following:

- our ability to successfully implement our long-term business strategy;
- changes in economic and political conditions which may adversely affect consumer spending;
- our failure to identify and respond to changes in consumer trends and preferences;
- our ability to continuously attract buying opportunities for off-price merchandise and anticipate consumer demand;
- our ability to successfully manage our inventory balances;
- loss of or disruption in our centralized distribution center;
- loss or departure of one or more members of our senior management or other key management employees;
- increased or new competition;
- our ability to successfully execute our strategy of opening new stores and relocating or expanding existing stores;
- increases in fuel prices and changes in transportation industry regulations or conditions;
- our ability to generate strong cash flows from operations and to continue to access credit markets;
- increases in the cost or a disruption in the flow of our imported products;
- the success of our marketing, advertising and promotional efforts;
- our ability to attract and retain quality sales, distribution center and other associates in large numbers, as well as, experienced buying and management personnel;
- seasonal and quarterly fluctuations;
- our ability to maintain and protect our information technology systems and technologies;
- our ability to comply with various government regulations;
- our ability to manage litigation risks from our customers, employees and other third parties;
- our ability to manage risks associated with product liability claims and product recalls;
- the impact of adverse local conditions, natural disasters and other events; and
- our ability to manage the negative effects of inventory shrinkage.

The forward-looking statements made in this Form 10-Q relate only to events as of the date on which the statements are made. Except as may be required by law, we undertake no obligation to update our forward-looking statements to reflect events or circumstances after the date on which the statements were made or to reflect the occurrence of unanticipated events. Investors are cautioned not to place undue reliance on any forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to the Company's market risks as disclosed in our Annual Report on Form 10-K filed for the fiscal year ended June 30, 2014.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Based on our management's evaluation (with participation of our principal executive officer and our principal financial officer), our principal executive officer and our principal financial officer have concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) were effective as of December 31, 2014 to provide reasonable assurance that information required to be disclosed by us in this quarterly report on Form 10-Q was (1) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (2) accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that their objectives are met and, as set forth above, our chief executive officer and chief financial officer have concluded, based on their evaluation as of the end of the period covered by this report, that our disclosure controls and procedures were effective to provide reasonable assurance that their objectives were met.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2014 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company has been defending against a class action lawsuit filed in California Superior Court, Los Angeles County, on December 5, 2008—*Julia Randell, et. al., v. Tuesday Morning, Inc.*, No. BC403298 (Cal. Super. Ct.)—in which the original complaint alleged violations of California's meal and rest period laws. The two named plaintiffs, who were former employees of the Company, subsequently amended the complaint three times. Narrowing their class allegations, the plaintiffs moved on March 14, 2012 to certify a class on the issue of whether the Company's alleged practice of providing "on-duty" meal periods to Senior Sales Associates violates the California Labor Code. The Court granted that motion on June 20, 2012, certifying a class comprised of current and former Senior Sales Associates who worked for the Company in California, and who were required to take meal breaks "on duty" at any point from April 1, 2005 to the present. The Company filed motions to decertify the class and for summary judgment on January 4, 2013, which the Court denied on March 29, 2013. On March 20, 2014, the parties executed a settlement agreement and release which, subject to Court approval, resolved the matter on a class basis. On April 16, 2014, the Court granted preliminary approval of the settlement and authorized the parties to provide notice of the settlement and its terms to class members. On October 9, 2014, the Court granted final approval of the settlement. The terms of the settlement did not have a material adverse effect on the Company's financial condition or results of operations.

Item 1A. Risk Factors

We believe there have been no material changes from our risk factors previously disclosed in Part 1, Item 1A "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended June 30, 2014.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Information regarding our repurchases of equity securities during the three months ended December 31, 2014 is provided in the following table:

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (1)
October 1 through October 31	544	\$ 17.89	544	\$ 3,472,298
November 1 through November 30	2,304	\$ 21.46	2,304	\$ 3,422,854
December 1 through December 31	1,822	\$ 21.28	1,822	\$ 3,384,076
Total	<u>4,670</u>	<u>\$ 20.98</u>	<u>4,670</u>	<u>\$ 3,384,076</u>

- (1) On August 22, 2011, the Company's Board of Directors adopted a share Repurchase Program pursuant to which the Company is authorized to repurchase from time to time shares of Common Stock, up to a maximum of \$5.0 million in aggregate purchase price for all such shares (the "Repurchase Program"). On January 20, 2012, the Company's Board of Directors increased the authorization for stock repurchases under the Repurchase Program from \$5.0 million to a maximum of \$10.0 million. The Repurchase Program does not have an expiration date and may be amended, suspended or discontinued at any time. The Board will periodically evaluate the Repurchase Program and there can be no assurances as to the number of shares of Common Stock the Company will repurchase. During the three months ended December 31, 2014, 4,670 shares were repurchased under the Repurchase Program for a total cost (excluding commissions) of approximately \$98,000.

[Table of Contents](#)

Item 6. Exhibits

Exhibit Number	Description
3.1.1	Certificate of Incorporation of Tuesday Morning Corporation (the “Company”) (incorporated by reference to Exhibit 3.1 to the Company’s Registration Statement on Form S-4 (File No. 333-46017) as filed with the Securities and Exchange Commission (the “Commission”) on February 10, 1998)
3.1.2	Certificate of Amendment to the Certificate of Incorporation of the Company dated March 25, 1999 (incorporated by reference to Exhibit 3.3 to the Company’s Registration Statement on Form S-1/A (File No. 333-74365) as filed with the Commission on March 29, 1999)
3.1.3	Certificate of Amendment to the Certificate of Incorporation of the Company dated May 7, 1999 (incorporated by reference to Exhibit 3.1.3 to the Company’s Form 10-Q (File No. 000-19658) as filed with the Commission on May 2, 2005)
3.2	Amended and Restated Bylaws of the Company dated September 16, 2014 (incorporated by reference to Exhibit 3.2 to the Company’s Form 8-K (File No. 000-19658) as filed with the Commission on September 19, 2014)
10.1	Tuesday Morning Corporation 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company’s Form 8-K (File No. 000-19658) as filed with the Commission on November 14, 2014) †
10.2	Form of Nonqualified Stock Option Award Agreement for Employees under the Tuesday Morning Corporation 2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company’s Form 8-K (File No. 000-19658) as filed with the Commission on November 14, 2014) †
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31.1	Certification by the Chief Executive Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
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32.1	Certification of the Chief Executive Officer of the Company pursuant to 18 U.S.C §1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *
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101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

* The certifications attached hereto as Exhibit 32.1 and Exhibit 32.2 are furnished with this Quarterly Report on Form 10-Q and shall not be deemed “filed” by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

† Management contract or compensatory plan or arrangement

[Table of Contents](#)

SIGNATURE

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.

TUESDAY MORNING CORPORATION
(Registrant)

DATE: January 29, 2015

By: /s/ Jeffrey N. Boyer
Jeffrey N. Boyer, Executive Vice President,
Chief Administrative Officer and
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

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* The certifications attached hereto as Exhibit 32.1 and Exhibit 32.2 are furnished with this Quarterly Report on Form 10-Q and shall not be deemed “filed” by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

† Management contract or compensatory plan or arrangement

CERTIFICATION

I, R. Michael Rouleau, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Tuesday Morning Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 29, 2015

By: /s/ R. Michael Rouleau
R. Michael Rouleau
Chief Executive Officer

CERTIFICATION

I, Jeffrey N. Boyer, certify that:

- 1 I have reviewed this quarterly report on Form 10-Q of Tuesday Morning Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 29, 2015

By: /s/ Jeffrey N. Boyer

Jeffrey N. Boyer
Executive Vice President, Chief Administrative
Officer and Chief Financial Officer

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER OF TUESDAY MORNING CORPORATION PURSUANT TO
18 U.S.C. §1350

I, R. Michael Rouleau, the Chief Executive Officer of Tuesday Morning Corporation, hereby certify that to the best of my knowledge and belief:

1. The quarterly report on Form 10-Q of Tuesday Morning Corporation for the period ended December 31, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the above-mentioned report fairly presents, in all material respects, the financial condition and results of operations of Tuesday Morning Corporation.

Date: January 29, 2015

By: /s/ R. Michael Rouleau

R. Michael Rouleau
Chief Executive Officer

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER OF TUESDAY MORNING CORPORATION PURSUANT TO
18 U.S.C. §1350

I, Jeffrey N. Boyer, the Chief Financial Officer of Tuesday Morning Corporation, hereby certify that to the best of my knowledge and belief:

1. The quarterly report on Form 10-Q of Tuesday Morning Corporation for the period ended December 31, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the above-mentioned report fairly presents, in all material respects, the financial condition and results of operations of Tuesday Morning Corporation.

Date: January 29, 2015

By: /s/ Jeffrey N. Boyer

Jeffrey N. Boyer
Executive Vice President, Chief Administrative Officer
and Chief Financial Officer
